



# HR practices from the perspective of managers and employees in multinational enterprises in China: Alignment issues and implications

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## ABSTRACT

China's significance as a destination for foreign direct investment (FDI) is a major factor in Asia-Pacific economic growth. This paper identifies important yet unexplored matters of human resource management (HRM) in multinational enterprise (MNE) subsidiaries in China. Specifically, the study explores the alignment issues between managers and employees with respect to their knowledge of HR practices, their experience of HR practices, and their perceived effectiveness of HR practices. Both interviews and a survey covering seven MNE subsidiaries operating in China finds a lack of alignment between managers and employees in each instance, for example, in their views of intended and actual HR practices and perceived effectiveness of these practices in the areas of performance assessment, recruitment and selection and career development. The implications of the differences for managers of MNEs operating in China are identified and discussed. The limitations of the study are acknowledged and areas for further study are also suggested.

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## 1. Introduction

With the shift in the balance of economic activity from the Atlantic to the Pacific and the rise of manufacturing centres in Asia, China has become the largest recipient of foreign direct investment (FDI) among all developing countries and the second in the world after the United States (Das, 2007; OECD, 2000). Over 480 of the *Fortune* 500 multinational enterprises (MNEs) have invested in China (Yao, 2008). This has occurred in a country still in transition from a planned to a market-driven economy with reforms spanning more than three decades. Many of the MNEs operating in China are from advanced market economies. Further, with the development of Asian markets and strength of Asian economic growth, there is increasing interdependence between Asia and the rest of the global economy (Peng, Bhagat, & Chang, 2010).

Much of our understanding of managing people in global markets is drawn from 'Atlantic' perspectives (Adler, Doktor, & Redding, 1986). Managing a local workforce in an institutional and

socio-political context like China raises significant new challenges for international human resource management (IHRM). These challenges relate to: the applicability of Western developed HRM policies and practices in emerging economies (Zhu, Thomson, & De Cieri, 2008); the effectiveness of subsidiaries' HR practices in less developed markets (Lawler, Chen, Wu, Bae, & Bai, 2010; Zhu & Dowling, 2000a); HR issues in transitional economies (Bruton, Ahlstrom, & Chan, 2000; Ferreira & Alon, 2008; Zhu, Cooper, De Cieri, & Dowling, 2005); simultaneous globalized and localised pressures on HRM roles (Chen & Wilson, 2003; Fardale et al., 2010); and the embeddedness of host country HRM characteristics (Gamble, 2006; Warner, 2008).

Since the 1980s, many researchers (e.g., Akhtar, Ding, & Ge, 2008; Björkman, Smale, Sumelius, Suutarib, & Lu, 2008; Child, 1994; Cooke, 2005; Ngo, Lau, & Foley, 2008; Warner, 1996, 2009; Zhu, 2005) have examined the transfer of western developed HRM theories and models to China. This research stream has shown that an increasing number of Chinese firms, especially subsidiaries of foreign MNEs (i.e., foreign invested enterprises or FIEs) have adopted, or converged to, western HRM best practices in order to increase firm performance. Many of these studies either report HRM policies and practices directly from HR managers (e.g., Braun & Warner, 2002) or use national statistical data (e.g., Warner, 1996). Some studies have explored Chinese firms' "mimetic isomorphic mechanisms" (e.g., Björkman, 2002, p. 51). While this body of research conducted in China has made important

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contributions to knowledge, it has neither investigated employee perceptions of HR practices, nor the possibility of differences between intended and actual HR practices from the perspective of managers and workers.

In other research contexts, it has been noted that there is often a lack of alignment between intended and actual HR practices (Khilji & Wang, 2006; Truss & Gratton, 1994) and also between managers and employees (typically referring to shopfloor workers) with respect to their knowledge and experience of HR practices intended or implemented (e.g., Gamble, 2006; Nishii & Wright, 2008). These differences are likely to impact employees' behaviours and their perception of the effectiveness of HR practices in use (Fulmer, Gerhart, & Scott, 2003; Nishii, Lepak, & Schneider, 2008). As Purcell and Kinnie (2006) and Guest (2011) have maintained employee responses to HR practices are at the heart of all HRM-performance models. It is proposed that identification of any lack of alignment is a critical precondition for measurement of the influence of HR practices on the performance of both individuals and organisations.

Nevertheless, there is little empirical evidence relating to the nature and extent of the lack of alignment between intention and practice and between the HRM knowledge and experience of managers and employees, especially in the context of China. There is a similar lack of evidence concerning how these differences could impact on managers' and employees' perceptions of the effectiveness of HR practices. To address this paucity of research and examine these aspects of HRM, Chinese subsidiaries of MNEs from advanced market economies were selected for the study.

This paper has two objectives. First, to explore the differences between managers and employees in terms of their knowledge of the firm's HR practices, their experience of HR practices in operation, and their perceptions of HR practice effectiveness. This exploration will enable identification of the extent and nature of any lack of alignment. Secondly, to analyse the possible reasons for differences identified, and consider the implications and challenges for managing people in global markets in general and China in particular. Building upon previous research work, this study contributes to theory-building and practice by addressing deficiencies identified in research on the links between HRM and both individual and organisational performance. The study also responds to the calls of several researchers: (1) to study internal fit by distinguishing between managers and employees in terms of knowledge, experience and perceptions of HR practices (Lengnick-Hall, Lengnick-Hall, Andrade, & Drake, 2009), especially when "there is an urgent need for studies to capture the views" of employees in China (Cooke, 2009, p. 19); and (2) to examine the effects that the adoption of Western-style HRM practices by MNEs' Chinese subsidiaries may have on values held by present and future employees of these firms (Björkman, 2002; Cooke, 2009; Gamble, 2006).

The paper begins by discussing the transfer of HRM policies and practices from advanced market economy MNEs to China, and identifying deficiencies in knowledge related to the HRM-performance link in organisations. A conceptual framework for analysis follows, with three research questions and explanation of the research method. The findings of the field study conducted with managers and employees in seven MNEs in China are then discussed. The paper concludes with implications of the findings for MNEs in China, especially the potential challenges in managing a Chinese workforce.

## 2. Background to conceptual framework

### 2.1. Chinese inward FDI and transfer of HRM

FDI into China grew very slowly in the first decade of economic reforms, but increased rapidly in the 1990s (from about US\$3

billion in 1990 to US\$40 billion in 2000) when the central government introduced greater economic liberalization, and allowed greater flexibility for MNEs to transfer their home country management, including HR practices, to their subsidiaries. China's accession to the WTO in late 2001 further accelerated its market oriented economic reforms and witnessed a rapid increase in FDI into the nation from US\$40 billion in 2000 to US\$90 billion in 2009 (All China Data Centre, 2009).

Economic reform in the last three decades in China has led to impressive growth and significant integration of the country into the global economy. This, in turn, has had a profound impact on managerial practices. Zheng and Lamond (2009, p. 2203) in their review of three decades (1978–2007) of HRM studies in China, observe that the transfer of HRM from the West to China is a "predominant concern of the researchers studying HRM in China". How people are managed in MNE subsidiaries has thus become a key issue discussed in studies of FDI in China (Lau & Bruton, 2008). This is not only because the inward FDI has brought technical and managerial expertise, especially HRM expertise (Zhu et al., 2008), but also because of China's complex institutional factors. These include: ownership forms (Gong, Shenkar, Luo, & Nyaw, 2005); relationship (*guanxi*) networks (Chen, Chen, & Xin, 2004; Luo, 2007); the legacy of the old planned system (Warner, 2009; Zhang, Nyland & Zhu, 2010); and unique culture (Adler et al., 1986; Walsh & Zhu, 2007). The most commonly studied HRM activities in China include the core HRM activities of: recruitment and selection; training and development; compensation and rewards; and performance management (Zhu et al., 2008). Although the current recessionary climate in China has slowed down the high growth rates of MNEs, the dynamic competitive environment continues to present challenges for HRM (Hartmann, Feisel & Schober, 2010).

FDI has influenced the patterns of HR practices in China (e.g., Lau & Bruton, 2008; Liu, 2009; Warner, 2009, 2010), which has led to several research streams. These include: the reform of China's old labour and personnel management system (e.g., Warner, 1996; Zhu, 2005); changed schemas for managing a workforce in a transitional economy (Law, Tse, & Zhou, 2003); 'relative convergence' of Chinese HRM resulting from the state's attempt to 'westernize' its national economy (Warner, 2003); localisation of HR practices in MNE subsidiaries (Wong & Law, 1999); and the extent to which Sino-foreign joint ventures balance integrated and localised HR practices (Chen & Wilson, 2003).

Studies on the transfer of HRM from the West to China often claim that advanced economy MNEs have led HR practices in China. The explanations for this include: the role of MNEs as "teaching agents" (Fan, 1998, p. 217); MNE managers' belief in the effectiveness of Western high-performance HRM systems (Björkman & Fan, 2002); and convergence to MNEs' world-wide best practices in HRM (Björkman, 2002; Warner, 2003). However, within the research stream focussed on the transfer of HRM knowledge and practices from advanced economy MNEs to their Chinese subsidiaries (e.g., Björkman, 2002; Björkman et al., 2008; Gamble, 2010; Gamble & Huang, 2009; Walsh & Zhu, 2007; Yu & Wu, 2009), few researchers have examined issues in the period following knowledge transfer. Such issues include whether employees in subsidiaries all have the knowledge of intended HR practices transferred, whether they all have the same experience of actual HR practices, and how managers and employees perceive effectiveness of HR practices in operation. These omissions are apparent in recent reviews of HRM studies in China over the last three decades (Cooke, 2009; Zheng & Lamond, 2009; Zhu et al., 2008). The focus in our paper is on this little-understood yet crucial area of HRM in the context of Chinese subsidiaries of MNEs from advanced market economies. This is an important area of inquiry because the question of whether managers and employees are aligned in their knowledge,

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