Bachelor Thesis

Organization & Strategy

What is the effect of cultural differences between the USA and China on the HRM practices in a Chinese subsidiary of a US multinational company in China?

Name: Claudy Slaats
ANR: 134531
Supervisor: T. Peeters
Academic Year: 2009-2010
Date: 10-06-2010
Number of Words: 7.265

Table of Contents

1. Introduction

1.1 Problem Indication

In an world that becomes more and more globalized, competitive advantage becomes more and more essential and many firms want to expand their activities overseas. A large number of international corporations wants to open subsidiaries in, for example, China and India, because their economy has grown rapidly over the past few years, and the growth has not been finished yet. The problem with such subsidiaries is, most of the time, the cultural differences between the two cooperating countries. National culture is essential for this study because of its effect on what sorts of HRM practices are effective in a given country (Boyacigiller & Adler, 1991). Hofstede (1980) argued that organizations are bound by nationality and that there are no universal answers to the dilemmas of organization and management, rather there are diverse nationalities and therefore, optimal management practices vary by country. Also institutions play an essential role. The institutional theory suggests that firms experience pressure to correspond to the customs for that environment to gain and retain legitimacy in relation to the environment (Powell & DiMaggio, 1991) and thus diverse institutions are likely to produce diverse pressures. North (1990) stated that the way foreign and national businesses need to handle their operations to be effective, depends on the restrictions imposed by the dominant institutions.

While there is a rising acceptance that optimal management practices are likely to differ country by country, because of cultural and institutional distinctions, there is a lack of cross-national research on the relationship between HRM practices and multinational corporations (MNC) subsidiary performance (Fey, Morgulis-Yakushev, Park, & Björkman, 2009). This results from the fact that most of the studies done to the relationship between HRM and firm performance are based only on US data.

Researchers like Barney (1991), Becker and Gerhart (1996) argued that human resources can be seen as a source of maintained competitive advantage for corporations. The underlying assumption, according to Barney (1991) and Becker and Gerhart (1996), is that human resources are exclusive to the degree that competitors cannot copy them.

Since it became clear that HRM practices can play an extreme role in competitive advantage, many research is done in the field of HRM implementation strategies. This bachelor thesis focuses merely on Chinese subsidiaries of a US company in China.
China has sought to attract foreign direct investment (FDI) since the late 1970s. The purpose of a FDI is that they do not offer only updated products, equipment and technology, but also advanced management know-how and HRM systems (Child, 1991). FDI in China has grown to U.S. $72 billion in 2005, compared to U.S. $4 billion in 1990 (United Nations Conference on Trade and Development [UNCTAD], 2006).
However, researchers like Ding, Goodall and Warner (2000), observed restrictions to the introduction of new HRM systems. They found out that such systems are not very successful when applying it to a Chinese company.

In summary, because of the existence of cultural and institutional differences and because effective firm performance and competitive advantage are crucial factors in the competitive market, implementing a human resource management system should be constant with the requirements of the external environment as well as with those of the internal environment. When this becomes clear, a better understanding of the impact on differences between national cultures on the management of human resources can be extended.

1.2 Problem Statement

The goal of this research is to investigate how cultural differences influence human resource management practices when deciding to open a subsidiary. Since the rapid growth of the globalization of market competition, it is very useful to know the differences and similarities between the different company cultures involved.

In order to get a specific topic for this research, this study is based on a Chinese subsidiary of a US company in China. The focus on China has various reasons as mentioned earlier. The most important reason is the fact that its economy has grown very rapidly over the past few decades and more and more US companies want to expand their businesses to China. The comparison is based on the USA, because many studies have already been done on the HRM practices in US companies. The central question in this research will be:

What is the effect of cultural differences between the USA and China on the HRM practices in a Chinese subsidiary of a US multinational company in China?

Before continuing with the research questions, the most important concepts of this research are defined:

Culture	The homogeneity of characteristics that separates one human group from another and provides a society's characteristic profile with respect to norms and values that affords understanding of how societies manage relations (Hofstede, 2001).
HRM	Human resource management often is viewed as a set of decisions regarding the acquisition, allocation, utilization and development of human resources that affect organizational performance (Dyer, 1984).
Institutions	Institutions are shared collective understandings or accepted rules of conduct that are reflected in laws, rules, governance mechanisms and capital markets (North, 1990; Scott, 2001).
MNC	A multinational corporation is a corporation or enterprise that derives at least 25% of its annual sales from facilities outside its country of origin (Business Glossary).
National Culture	National culture can be defined as the values, beliefs, and assumptions learned as a child that differ from one country to another – "the software of the mind" (Hofstede, 1997).
Organizational Culture	Organizational culture is seen as a metaphor for understanding how organizations differ, how their members cohere, and how organizations and members interact (Adler & Jelinek, 1986).
Subsidiary	A company of which more than 50% of the voting shares are owned by another corporation, called the parent company (Business Glossary).

One important comment has to be made about the definition of human resource management. Because HRM includes many different practices, it is too many to mention all of them in this research. Therefore, I will go into further dept on the following three practices, the national education and training possibilities, the reward system and employee participation. I chose those practices of HRM because those were studied the most in previous studies as summarized by Fey et al. (2009).

1.3 Research Questions

To give an appropriate answer to my central research question, the concept of human resource management and the connected practices have to be investigated. Therefore, the first research question is:

How can we define human resource management and the practices that relate to it?

Furthermore, the most important characteristics of human resource management practices in the USA as well as the characteristics of the Chinese human resource management practices are discussed.
Therefore, the following research question becomes:

What are the characteristics of human resource management practices in the USA on the one hand and in China on the other?

Moreover, the most important similarities and differences have to be investigated. When opening a Chinese subsidiary of a US company in China, it is important to know what may become the most conflicting parts of HRM. Therefore, the third research question is:

What are the similarities and differences between USA HRM practices on the one hand and Chinese HRM practices on the other?

Finally, the differences discussed in the third research question, have to be linked to the problem of cultural differences. Therefore, the final research question becomes:

How to relate the concept of cultural differences to the differences found in the human resource management practices?

1.4 Research Design and Data Collection

The type of research design is exploratory. According to Sekaran & Bougie (2010), an exploratory study is used when not much is known about the situation or no information is available on how similar problems or research issues have been explained in the past. The best method for an exploratory research is a literature review. A literature review is a step-by-step process that contains the identification of published and unpublished work from secondary data sources on the topic of interest, the evaluation of this work in relation to the problem, and the documentation of this work (Sekaran & Bougie, 2010). Therefore, this research is done on the basis of a literature review.
The data used in this research is secondary data. According to Sekaran & Bougie (2010), secondary data contains of data that already exists and does not have to be collected by the researcher. Secondary data has been chosen, because doing intensive research or experiments to obtain additional data is far beyond the scope of this research. Different kinds of secondary data are used in this research like, textbooks,

journals, newspapers and the internet, to get a full insight of the characteristics and problems of HRM in the USA and China.
Also, electronic resources from Tilburg university were used. The biggest advantage of these sources is that most of them are published in high quality management journals, so the information tends to be reliable. The only disadvantage, was the enormous number of matches, when entering a topic in the search field. You had to be as specific as possible to get the best results out of it.

1.5 Structure

The structure of the remaining chapters of my research is based on the earlier formulated research questions. Chapter 2 consists of two parts, namely the evolution and definition of human resource management on the one hand, and the explanation of the three practices on the other hand. This chapter is mainly built upon textbooks and internet searching engines.

Chapter 3 describes the characteristics of HRM in US companies and the characteristics of HRM practices in Chinese companies. This chapter is based on journals, papers, textbooks and cases to get a full insight of both kinds of companies where I can further build my research on.

Chapter 4 deals with the similarities and differences of the HRM characteristics in both companies. The similarities and difference are compared and the most important findings are being summarized.

Chapter 5 links the practices of HRM to different dimensions of cultural differences.

Chapter 6 is about the solution for the problem statement mentioned earlier. Furthermore, some limitations of this research are provided and recommendations for further in-depth investigation are given.

At the end there is a list of references in alphabetical order.

2. Human Resource Management

In this chapter the concept of human resource management is defined and the evolution and internationalization of HRM is summarized. The second half of this chapter explains the three practices of interest in this research.

2.1 The Evolution of Human Resource Management

Human resource management has undergone an enormous change over the past decades. Many years ago, large companies used to turn to their Personnel Department to manage all the activities around hiring, firing and paying their employees. Nowadays, more and more organizations consider the human resource department as a key in all kinds of employee management issues. The personnel department is more and more replaced by the human resource department.
An important switch in the strategic thinking came to mind through the publications of Hamel & Prahalad (1994). They began to emphasize the inner strengths of the corporations with their core competencies. They found out that, because of the fast evolution in the environment, a corporation had to continue with their own strengths instead of seeking to find an analytical approach to the right situation.

Human resource management has been defined in a various of ways. The most commonly used definitions for HRM are the following:

- ‘Human resource management involves all management decisions that affect the relationship between the organization and their employees – its human resources’ (Beer, 1985).
- ‘The new HRM model is composed of policies that promote mutuality – mutual goals, mutual influence, mutual rewards, mutual responsibility. The theory is that policies of mutuality will elicit commitment which in turn will yield both better economic performance and greater human development’ (Walton, 1985).
- ‘The main dimensions of HRM involve the goal of integration, the goal of employee commitment, the goal of flexibility/adaptability and the goal of quality’ (Guest, 1987).
- ‘The notion of HRM is used… to refer to all those activities associated with the management of employment relationships in the firm’ (Boselie, 2002).

In general, human resource management is defined as a variety of activities associated with managing all kinds of relationships of the employees. It is all about the hiring, firing, recruiting and training of the best employees, making sure that they are high performers and enhance a great variability of work. Other activities include managing the approach to employee benefits, compensation and promotion.

2.2 The Internationalization of Human Resource Management

Because the focus is on the cultural differences between countries in their view of human resource management, a short overview of the internationalization of HRM systems is given.

Not until the 1980s, international differences between countries affecting human resource management were mentioned in the literature. Since this time, the area of HRM got a managerialist orientation, meaning that employees and managers are free in determining the structure and implementation of the human resource practices and policies themselves. The literature was convinced that one HRM model was superior. Such a model was seen as being universally applicable to all kinds of organizations and nations, resulting in the implementation of the research designed for one country, to other, very different, countries. According to Hofstede (1980), this research ignored the fact that information about societies, their languages, their thoughts, values and culture is fundamental to understand the behavior of people within organizations.

Besides this research, another stream was developed (i.e. Adler, 1984; Smith, 1992; Rosenzweig & Nohria, 1994), which notified the problems in taking the generalizability of models for granted, as this would assume the stability of factors across perspectives. Cross-national societal frameworks are likely to create management practices that differ between countries.

Different types of HRM practices may be determined to a considerable degree by the imperative of maintaining external credibility through adherence to institutional structures, rules and norms at the national level, and may differ as a result of different national contexts (Gooderham, Nordhaug, & Ringdal, 1999). Moreover, it has been argued that the limitations imposed upon human resource practices by societal factors are required for employers to make choices that are favorable to the long-run competitiveness of the organization and country (Dore, 1989; Streeck, 1989; Purcell, 1993).

2.3 The Practices of Interest for this Research

As stated before, it is clear that there are a lot of factors affecting the human resource management system in different countries. Like mentioned earlier in the first chapter, the focus is on three different aspects of HRM.

2.3.1 National Education and Training

Delery and Doty (1997) referred training systems to whether an organization offers widespread training opportunities for their employees or whether they depend on selection and socialization processes to gain required skills. Investments in employee training are valuable in improving the skills of human capital within the organization (Becker, 1975). As Becker (1975:19) wrote: “most on-the-job training presumably increases the future marginal productivity of workers in the firms providing it”. This practice turns out to be essential, because training has been suggested to be a high-performance HRM practice in research by many scholars, including Delaney and Huselid (1996) and MacDuffie (1995).

2.3.2 Reward System

Appraisals are conceptualized in terms of outcome-based performance ratings and the extent to which subordinate views are taken into account in these ratings (Delery & Doty, 1997). Performance appraisal systems help employees in getting feedback on their actions and such systems help to find ways to increase their ability that turns out to be useful for the company (Fey et al., 2009). Feedback provided by performance-related pay systems is useful in creating a sense of competence, achievement and control in workers (Bandura, 1977).

2.3.3 Employee Participation

Delery and Doty (1997) defined employee participation as the process of taking part in decisions as well as obtaining opportunities to communicate ideas for improvement. This is an essential practice to investigate because of the differences across cultures about the hierarchy within a company.

3. Different HRM Styles

In this chapter the human resource management styles of the USA on the one hand and of China on the other hand are described. This is of particular interest because important changes took place in human resource management. Traditionally, this area is one in which large differences existed between communist and advanced market economies (Ding, Fields, & Akhtar, 1997; Warner, 1996).

3.1 HRM in the USA

3.1.1 The Evolution of HRM in the USA

For the beginning of human resource management in the USA, we have to go back to 1880. In this year, personnel became a business function in the USA. By the end of the first World War, the term personnel was well accepted by most large companies, merely because of labor shortages of that time. In 1920, the labor market became somewhat looser, relating in a reduction of the personnel’s power. When, in 1930, the unions came in, the personnel’s function got the responsibility for coordinating the administration of the union contracts. In 1940, personnel became more and more involved with management issues, such as selection, training and management development.

In the late 1960s, the name of personnel department of companies changed in human resource management. This new name was viewed as being more prestigious and future-oriented. Human resource management also includes topics like education, manpower and organizational behavior.
At this time, a series of laws regarding discrimination banning in the field of race, gender, religion, age and the like, as well as dealing with the health and insurances were generated. The net effect of such laws was to make the government a significantly greater threat to companies than were unions (Strauss, 2001). HRM’s main function became acting in compliance with those established laws. The status of human resource management increased considerably at that time. In the 1980s, the status of HRM increased even further. American managers began to worry about the apparent loss of competitive advantage to Japan. Among the causes of the Japanese success, generally believed, was their great skill in motivating their workforce (Strauss, 2001). As a consequence, employee involvement plans were implemented.

Kochan and Priore (1985) stated that in some organizations these new policies meant extensive replacement of traditional industrial relation experts who had ‘become increasingly isolated, conservative and less influential’ by ‘a new set of human resource management specialists who were more conversant with different types of planning, behavioral science-based innovations in work organization and personnel systems’. However, “when line managers began asserting greater control over industrial relations policy issues because industrial relations and human resources professionals were slow to change” (Kochan, McKersie, & Chalykoff, 1986:489), new initiatives came from top management itself. As a result of this, the status of HRM began to drop in the 1990s.

3.1.2 HRM Practices in the USA

Training and Education

In the USA, the number of universities that offer practically oriented business degrees, MBAs, are plentiful. “There is a long history of investments in developing institutions offering management training, where students were taught theory as well as applied cases showing how these theories play out in corporate settings” (Fey et al., 2009:698). Almost all USA corporations offer distinctive training programs for their employees to stay up to date or for further individual development.

Reward System
The bargaining system in the USA is one of the most decentralized in the world: single employer and single union at local level. Labor contract negotiations are at plant level rather than company level (Koen, 2005). In the USA, personnel departments normally take the initiative in matters of salary data, industry and regional variations and reward trends (Lawrence, 1996). In the USA, the compensation for a CEO is, on average, 160 times as much as the average plant worker. This is the greatest difference in developed countries. Not only their compensation differs enormously, CEOs are also offered a lot of extra ‘perks’ by the companies. The ‘perks’ offered by companies are often used as a competitive tool to attract and keep new and highly educated employees. Such perks include cars, executive dining rooms, travel on corporate jets and fancy offices. Other, lower-level managers and professionals are also offered perks which are not available to employees, including exclusive dining rooms and special parking places. The minimum wage law offered in the USA, fix the minimum wage industry-wide.
Historically, no significant relationship existed between individual, group and organizational performance and the payment of employees. Early in the 19th century, piece-rate systems were the most popular wage systems in plants. However, because of the changing manufacturing systems, the piece-rate systems declined substantially. From the beginning of the 1980s, an increasing interest in pay-for-performance systems arises.
“USA decentralized wage setting, with rent sharing between prosperous firms and their workers, and limited provision of social wages, puts the country at the top of the developed world in terms of wage inequality” (Rogers, 1995:17). All those aspects stimulated the introduction of performance-related reward systems in the USA.

Employee Participation
A firm’s internal communication practice can be expected to be highly correlated with power distance. Power distance involves the degree to which inequality is accepted within organizations and within society (Hofstede, 1980). The higher the power distance, the less employees expect to know what is going on in other parts of the firm or why they should do the tasks they have been asked to perform (House, Hanges, Javidan, Dorfman, & Gupta, 2004). Results from Hofstede (1980) showed that the USA has a low power distance, meaning that employees expect to know what is going on in all parts of the firm, not only the part they belong to. Furthermore, US employees know what kinds of tasks they should perform and why those tasks are essential for the firm to be performed. Much communication exists in US companies between top management, lower-level management and the other employees. Every employee in the company knows, at least to some extent, what is going on in the company.

3.1.3 Conclusion

The implementation of HRM in the USA goes back to 1880. Since that time, HRM passes through a lot of different stages and status’. The education and training possibilities in the USA are enormous. Almost all companies offer their employees the opportunity to further adapt themselves by traineeships and other kinds of trainings. The communication between top management, lower-level management and the other employees is informal. All levels of employees know, to some extent, what is going on in the company.

3.2 HRM in China

3.2.1 The Evolution of HRM in China

Before the economic reforms began in the late 1970s, the state-owned enterprises (SOE) highly dominated the industrial production in China. HRM practices among these enterprises were embedded in the so-called “iron rice bowl” that ensured centrally planned job allocation, life-time employment, egalitarian pay, and “cradle-to-grave” welfare (Ding et al., 1997; Warner, 2004). As stated in the first chapter, over the last two decades, China has experienced phenomenal growth in foreign direct investment (FDI). According to Warner (2004), those economic reforms increased revolting changes in human resource management practices in China. The personnel reform legislation of 1992 and the 1994 Labor Law have guided the “three systems reform” that involved the introduction of labor contracts, performance-related pay systems and the contribution to social security (Warner, 2004). A new HRM terminology has emerged in subsidiaries and multinational corporations that seemed to be distinguished from the personnel management terminology of the pre-reform era. Compared with the pre-reformed era, employment and selection have become more market-oriented, rewarding is increasingly linked to performance and life-time employment is being abolished (Rowley, Benson, & Warner, 2004).

On revisiting human resource management in China, Warner (2004:621) observed that: “whereas in a large number of SOEs conventional people management continued to be the norm, substantial changes were taking place with respect to HRM in large FIEs and wholly owned foreign enterprises”. In addition, strategic HRM practices have been introduced in enormous SOEs that are transformed and became publicly listed companies (Ding & Akhtar, 2001).

In conclusion, both local, as well as global competitive pressures are important features towards a move to convergence in strategic human resource practices in China.

3.2.2 HRM Practices in China

Training and Education

Education in China is compulsory till the age of 15. After that, they can chose to go to a middle-school and an university. The universities in China offer the students to get a MBA, which is closely related to the MBA graduation in the USA. The commonly spoken language at the universities is English, not Chinese. This because of the internationalization and because of the incoming students from all over the world.

In a cross-cultural study of managerial attitudes about HRM practices, Jennings, Cyr, and Moore (1995) found that training and development is seen as the most essential strategic HRM practice by managers. In China, the amount of investment in training employees differs extensively across firms with different types of ownership (Drost, Frayne, Lowe, & Geringer, 2002). Zhao (1999) noted in his empirical study that about half of the SOEs in his sample spent a minor amount of annual expenditure on training, less than RMB¥30 per employee (U.S.$1=RMB¥8.07). Training in most Chinese enterprises is limited by the lack of money, which puts training facilities at the bottom of the priority list. (Zhao, 1999).

In contrast, Björkman and Lu (1999), found that training programs of MNC in China are comparable to those used in other subsidiaries of the MNC. Multinationals like Motorola and Siemens, even opened their own internal management training centers in China. In those centers, courses are offered comparable to those offered in the home country. Such courses focus on standard business topics like management, marketing and finance. Another way of offering their employees a training is the possibility of a three to four weeks junior management development program, comparable to those offered in other countries.

As Björkman and Lu (1999) found out as well, these MNCs run into problems when offering these programs in China. The most crucial problems they encountered were the following. First of all, older employees, who did not attend any secondary or university school, frequently lack the basic verbal and quantitative skills needed to benefit from any additional training. Another problem deals with the communication problems when the English language is used in the training programs.

Reward System

In Chinese firms it becomes popular that every employee has its own, clearly defined duties, which are evaluated continuously to determine the level of compensation. "Job descriptions are the centerpiece for the so-called "post wage system" which developed from the reward system reform in Chinese enterprises" (Ding & Warner, 2001:320). This system consists of two independent components:

- The basic wage, which stems from the intensity and complexity of the job duties.
- A supplementary wage, which is determined by the accomplishment of job duties.

This system is accompanied by clear job descriptions and a strict performance appraisal system. In recent years, this post wage system has increasingly added elements of skills and capabilities (Ding & Warner, 2001; Warner 1995).

Performance appraisal in China has been undergone considerable changes since the economic reforms began in 1978 (Shen, 2004). It is used for the promotions of managers, as well as for line workers. Recent research conducted by the Development and Research Center of the China State Council (2008) reported that 67.3% of the sampled firms utilize performance appraisal.

"With the deepening reform of the reward system in China, a results-oriented appraisal system gradually has replaced the egalitarian pay system that existed in all Chinese enterprises in the pre-reform era" (Fey et al., 2009:699). The results-oriented appraisal system offers considerable incentives for employees to work hard to accomplish their performance objectives (Akhtar, Ding, & Ge, 2008). According to Akhtar, Ding and Ge (2008), however, this dynamic has led to "insufficient investment in new product and service development in Chinese enterprises". Therefore, they suggest, that firms that implement a profit-sharing program should base the bonuses not only on profitability, but also on other essential aspects, like new product development or customer satisfaction.

Employee Participation

The implementation of employee participation in Chinese enterprises may have been hindered by the traditional Chinese values. "The Confucian doctrine of "maintaining harmony" advises that people not cross their personal boundaries of responsibility or interfere in another's business" (Akhtar et al., 2008:27,28). As a consequence, Chinese managers concentrate their efforts on performing the features stated in their job description. Results from Hofstede (1980) showed that China has a high power distance, meaning that employees do not know what is going on in the firm. They just do their duties as stated in their job description.

"It is rare for Chinese employees to cross boundaries and to take the initiative to give critical feedback and suggest improvement" (Akhtar et al., 2008:28). Because of this, effective employee participation mechanisms have not yet been established in Chinese corporations. However, the situation may change increasingly, as more Chinese firms identify the benefits of introducing employee participation (Wang & Mobly, 1999). Because the training and education opportunities are rising, Chinese employees tend towards the mechanism of employee participation in management.

3.2.3 Conclusion

China's open-door economic policy, the huge growth in foreign direct investment, the proliferation of foreign-invested enterprises, the Labor Law of 1994, accession to the World Trade Organization and the like have created conditions conducive to adopting strategic HRM practices in the relatively developed coastal regions (Warner, 2004). The "three systems reform" that involves the introduction of labor contracts, performance-related reward systems and contributory social security is a good example of the introduction of these HRM practices (Warner, 2004). Also, employment and selection have become more market-oriented and lifetime employment is almost a thing of the distant past (Rowley et al., 2004).

4. Comparing HRM in the USA and China

In this chapter the differences and similarities of human resource practices between the USA and China are summarized.

4.1 The Similarities of HRM Practices

In this part, the similarities based on the information found in the previous chapter are mentioned.

4.1.1 Training and Education

Both the USA as well as China offer their citizens the possibility to go to a university and get a MBA in the field of their own interest. In both countries, the universities are under the control of the educational department of the national government. Furthermore, the language spoken at the Chinese universities is mainly English. Also, the MNCs offer in both countries the same possibilities of training and courses. The conclusion can be that the educational level and training possibilities are more or less the same in the USA and China.

4.1.2 Reward System

The main similarity between both reward systems is the increase in pay-for-performance systems. In both countries, performance related payments dominate the payment schemes in companies. With those systems, companies want to trigger their employees to think creative and sometimes also ‘out of the box’, so new ideas can come to mind (Fey et al., 2009). Another similarity is the concept of a minimum wage. Employees are offered a minimum wage set by law by the government. Furthermore, a job descriptions for every employee is stated in their contracts.

4.1.3 Employee Participation

No similarities exist between USA and Chinese practices in the area of employee participation.

4.2 The differences of HRM practices

In this part, the most essential differences between the US and Chinese, in the field of HRM found in the former chapter, are pointed out.

4.2.1 Training and Education

The biggest difference in the field of training possibilities in the USA and China is the money spent on training possibilities. As mentioned in subchapter 3.2.2., in China, less than $4 per employee is annually spent on trainings. In the USA, however, the companies offer plentiful trainings and courses for their employees, internally or externally. However, USA companies vested in China, do offer as much money as they do in their home country on training activities. An important factor that they should keep in mind is that senior employees in the USA have had, on average, more secondary or university education than senior employees in China.

4.2.2 Reward System

The biggest difference between both reward systems is the lot of extra ‘perks’ offered by US companies. In the USA, the CEO of a company is offered a lot of perks used as a competitive tool to attract and keep highly skilled employees. Such perks include cars, executive dining rooms, travel on corporate jets etc. Not only CEOs are offered such perks, also other lower-level managers are offered perks.

4.2.3 Employee Participation

The most essential difference in the area of employee participation is, of course, the concept of power distance. The USA have low power distance, meaning that employees know what is going on in all parts of the firm, not only in the part they belong to (Hofstede, 1980). In contrast, China has high power distance, meaning that the employees only know what is going on in the part of the firm they are working. Table 4.1 summarizes the consequences of high and low power difference (PDI) scores. Another essential difference is, also related to power distance, the communication within the corporation. In US companies, a lot of communication exists between top management, lower-level management and the employees. On the contrary, for Chinese employees it is uncommon to communicate with higher managers. Also, they do not cross boundaries and do not take any initiative to ask for feedback or suggestions for improvements.

Table 4.1 Some consequences of national PDI score differences for work and organization

Low PDI countries	High PDI countries
Decentralization	Centralization
Low concentration of authority	High concentration of authority
Flat organizational pyramids	Tall organizational pyramids
Hierarchy means inequality of roles, established for convenience	Hierarchy reflects existential inequality between higher-ups and lower-downs
Small proportion of supervisors in the workforce	High proportion of supervisors in the workforce
Narrow salary range between top and bottom: lower differential in status and qualifications	Wide salary range between top and bottom: higher differential in qualifications and status
Consultative relationship between superior and subordinate leads to satisfaction, performance and productivity	Authorative leadership and close supervision lead to satisfaction, performance and productivity
Ideal boss is resourceful and democratic	Ideal boss is benevolent and paternal
Privileges and status symbols for managers are frowned upon	Privileges and status symbols for managers are expected and popular
Openness with information, also to non-superiors	Information constrained by hierarchy

Source: based on Hofstede (2001: 107-8)

5. Cultural Differences

This chapter describes what cultural differences are, where they come from and why they became crucial in the globalizing world. The second part of this chapter consists of the three bipolar dimension of motivational values of Shalom Schwartz (1992).

5.1 Cultural Differences

Before explaining what cultural differences are and where they come from, it is essential to stress the definition of culture again. One of the most accepted definitions of culture is that defined by Clifford Geertz. He (1973) defines culture as “a historically transmitted pattern of meanings embodied in symbols, a system of inherited conceptions expressed in symbolic forms by means of which men communicate, perpetuate and develop their own knowledge about and attitudes toward life”. The definition of Hofstede (2001) given in the first chapter is almost the same, except for the fact that Hofstede includes the “collective programming of the mind” in his definition.
Cultural differences have all to do with the existing differences between cultures. Such differences include traditions, religion and language. In the context for this research, cultural differences refer to the way corporations organize their businesses in the field of environment, morality and hierarchy.

5.2 Three Bipolar Dimensions of Motivational Values

In this study, the three bipolar dimensions of motivational values by Shalom Schwartz (1992) are used for explaining the existing differences of HRM practices between the USA and China. Schwartz (1992) explains the differences in national culture for organizations and the consequences related to such differences.
Although Hofstede (1980) has the commonly known study of national culture differences, this research is based upon the study of Shalom Schwartz (1992). Schwartz’s work is known as being more refined and more complete than the work of Hofstede. Schwartz included values appropriate for uncovering the dimensions of Hofstede which serves as “a check on the Replicability of the Hofstede dimensions with a different method of measurement” (Schwartz, 1994). Gatley, Leesem and Altmna (1996) described Schwartz’s theory as a more in-depth investigation of values based upon his 1992 study and a more satisfactory sample of nations enables the purpose of a more universally inclusive model of cultural dimension which provides a more developed model than Hofstede’s model.
With the help of the three bipolar dimensions discussed below, the link can be made between cultural differences and differences in human resource management practices.
The original study of Schwartz was accomplished in twenty countries, but has been increased constantly (Smith & Schwartz, 1997). Schwartz (1992) created a survey instrument of 56 values from the literature. The respondents were teachers and students from universities. The data were collected between 1998 and 1992 from 86 samples. Those samples were drawn from 41 different cultural groups in 38 separate nations.

Schwartz defined three bipolar dimensions of motivational values:

- Embeddedness versus autonomy
  In an embedded culture, values like social order, respect for tradition and security are of especially importance. People in such cultures are viewed as entities embedded in the collective whole, finding meaning in life through social relationships.
  People in autonomous cultures find their meaning of life in their own uniqueness. Those people are supported in expressing their feelings and preferences.
- Hierarchy versus egalitarianism
  According to Schwartz (1992), in hierarchical cultures, the unequal distribution of power, roles and resources is seen as legal. Such values include social power, authority and wealth. People are socialized and permitted to fulfill the duties and regulations connected with their roles.
  In egalitarianism cultures, people are encouraged to see each other as morally equal who share the same basic interests. Lower level workers communicate not only with each other, but also communicate with higher-level mangers. The emphasis is on your own interests, rather than emphasize the welfare of others.
- Mastery versus harmony
  Mastery-oriented cultures seek to master, change and develop the national and social environment to achieve the goals, personal as well as group goals. Important values in a mastery-oriented culture are ambition, daring and competence. Mastery-oriented organizations are dynamic, competitive and strongly adjusted towards success (Schwartz, 1992).
  Harmony-oriented cultures accept the world as it is. They do not want to change or develop the world, but rather they want to understand and fit in the world. Values in such cultures include world peace and protecting the environment. Such cultures relate applying technology to problematic and sometimes even to illegal.

Having discussed the three bipolar dimensions of Shalom Schwartz, the problem statement defined in the first chapter can be answered.

6. Conclusions, Limitations and Recommendations

In this final chapter, an answer at the problem statement is given first. Furthermore, some limitations of this research are discussed and finally, some recommendations for further research are presented.

6.1 Conclusions

After investigating the research questions, it is possible to answer the problem statement mentioned in subchapter 1.2: *What is the effect of cultural differences between the USA and China on the HRM practices in a Chinese subsidiary of a US MNC in China?* The answer to this problem statement is as follows. Based on the research done, it can be concluded that the aspects studied, deal with at least one of the three bipolar dimensions of Schwartz (1992). According to Schwartz (1992), China can be related to embeddedness, hierarchy and harmony. Whereas the USA can be related to autonomy, egalitarianism and mastery. Keeping this in mind, we can relate those bipolar dimensions to the three investigated aspects of human resource management.

The first bipolar dimension of Schwartz, embeddedness versus egalitarianism, can be related to the human resource management aspect of the reward system. Because in an autonomous culture, like the one of the USA, everyone is merely focused on the self, the rewards are also provided individually. In the USA, employees are rewarded based on their own contribution, ideas and extra effort they put in. In China, however, employees do what they have to do, but they would not take any initiative to work extra or provide a new idea.

The second bipolar dimension discussed, hierarchy versus egalitarianism, can be related to the aspect of employee participation. This dimension can be compared with power distance. It deals with legitimizing social inequality. In US companies flat hierarchies are basically used. Obviously, there is a director, higher-level management etc., but the communication is throughout the company. Lower-level employees can communicate to higher-level management as easy as a manager can do. This is certainly not the case in China. In Chinese organizations, the hierarchy is very clear and everyone respects it.

The last bipolar dimension of Schwartz (1992), mastery versus harmony, can be linked to the aspect of training and education possibilities. US companies want to expand their businesses and want to compete over the whole world. The focus of the traditional Chinese companies is to fit in the world economy, rather than change it. This has an impact on the training and education possibilities. Because traditional Chinese companies just want to fit in the world economy, no extra trainings need to be given. That is one of the reasons a Chinese company spent not much money on education and training programs for their employees.

6.2 Recommendations

Starting with the cultural differences in the field of training and education, the most essential difference to deal with, is the gap that exists, when offering a training program, between the younger employees in China who went to the university and the older employees who did not. Younger employees can better understand and follow the extra training programs, because they went to a secondary school or even a university. The best way to minimize this gap and make sure that the older employees also benefit from the extra training programs, the multinational could provide a necessary preparatory course. The corporation can do this internally or by sending those employees to local training institutions.

Furthermore, there is a gap between the extra rewards US employees receive compared to what Chinese employees receive. Some multinationals, like Motorola and Siemens, start offering their Chinese employees an extra ‘perk’. According to Björkman and Lu (1999), those multinationals use housing schemes. They investigated that the company can invest in apartments for key employees. When they do, the apartment will, after a definite number of years (typically 10 to 15), be owned by the key employee, when he or she decided to keep working for the company.

Finally, the most difficult cultural difference to deal with, is that of employee participation. Employee participation has a lot to do with communication. As mentioned in subchapter 4.2.3, for Chinese employees it is uncommon and strange to communicate with higher staff. Furthermore, they do not take any initiative to ask for feedback or improvements. Dealing with those problems, it is crucial to make sure that the Chinese employees feel comfortable and that they trust the higher staff within the corporation. This can be established by, for example, organizing informal activities for the employees so that they have the opportunity to get to know each other. Another essential factor when dealing with cultural difference is that Chinese employees get more confidence in how to communicate. This can be established by providing some communication trainings or courses with role-plays and discussions.

6.3 Limitations

It is crucial to recognize the limitations of this research, although some useful conclusions could be derived from it. First of all, an assumption was made in subchapter 1.2 that only three HRM aspects are covered in this research. This is the result of what I mentioned earlier, the lack of time for this study. Covering all the different aspects involved with human resource management, was far beyond the scope of this research.

Furthermore, the selection of only two countries, the USA and China, limits the overall generalizability of this study. However, this is not only a limitation, it can also be seen as extremely useful for matching countries with more or less the same culture. This is because the large number of information gathered about the USA and China.

Finally, the choice of the Schwartz’s (1992) three bipolar dimensions of motivational values is not a extremely recent study. When a new study is done in the area of cultural differences, an even better understanding of cultural differences related to HRM practices can be given.

References

Adler, N.J. (1984), Understanding the ways of understanding: cross-cultural management methodology reviewed, in Farmer, R.N. (ed.), *Advances in International Comparative Management, vol. 1. Greenwich, CT: JAI Press, pp. 31-67.*

Adler, N. & Jelinek, M. (1986), Is ‘organization culture’ culture bound?, *Human Resource Management No. 25, pp. 73-90.*

Akhtar, S., Ding, D.Z., & Ge, G.L. (2008), Strategic HRM practices and their impact on company performance in Chinese enterprises, *Human Resource Management, No. 1, pp. 15-32.*

Bandura, A. (1977), Self-efficacy: Toward a unifying theory of behavorial change, *Psychological Review, No. 84, pp. 191-215.*

Barney, J. (1991), Firm resources and sustained competitive advantage, *Journal of Management, No. 17, pp. 99-120.*

Becker, B. & Gerhart, B. (1996), The impact of human resource management on organizational performance: Progress and prospects, *Academy of Management Journal, No. 39, pp. 779-801.*

Becker, G.S. (1975), Human Capital: A theoretical and empirical analysis, with special reference to education (2nd edition), *Chicago: University of Chicago Press.*

Beer, M. (1985), Managing Human Assets, *New York, The Free Press.*

Björkman, I. & Lu, Y. (1999), A Corporate Perspective on the Management of Human Resources in China, *Journal of World Business, No. 34.*

Boselie, P. (2002), Human Resource Management. Work Systems and Performance. A theoretical-empirical Approach, *EUR, Rotterdam, Proefschrift.*

Boyacigiller, N. & Adler, N.J. (1991), The parochial dinosaur: Organization science in a global context, *Academy of Management Review, No. 16, pp. 262-290.*

Business Glossary, *www.allbusiness.com. Accessed June 2010.*

Child, J. (1991), A foreign perspective on the management of people in China, *International Journal of Human Resource Management 2 (1991) (1), pp. 93-107.*

Delany, J.T. & Huselid, M. (1996), The impact of human reso.urce management practices on perceptions of organizational performance, *Academy of Management Journal, No. 39, pp. 949-969.*

Delery, J.E. & Doty, D.H. (1997), ‘Modes of Theorizing in Strategic Human Resource Management: Tests of Universalistic, Contingency and Configurational Performance Predictors’, *The Academy of Management Review, august 1997, pp. 802-835.*

Development and Research Center of the China State Council (2008).

Ding, D.Z. & Akhtar, S. (2001), The organizational choice of human resource management practices: A study of Chinese enterprises in three cities in the PRC, *International Journal of Human Resource Management, No. 12, pp. 946-964.*

Ding, D.Z., Fields, D., & Akhtar, S. (1997), An empirical study of human resource management policies and practices in foreign-invested enterprises in China: The case of Shenzhen special economic zone, *International Journal of Human Resource Management, No. 8, pp. 581-600.*

Ding, D.Z., Goodall, K., & Warner, M. (2000), The end of the “iron rice-bowl”: Whither Chinese human resource management?, *International Journal of Human Resource Management, No. 11 (2000) (2), pp. 217-236.*

Ding, D.Z. & Warner, M. (2001), China’s labour-management system reforms: Breaking the “three old irons” (1978-1999), *Asia Pacific Journal of Management, No. 18, pp. 315-334.*

Dore, R. (1989), Where we are now? Musings of fan evolutionist, *Work, Employment and Society 3, pp. 425-446.*

Drost, E.A., Frayne, C.A., Lowe, K.B., & Geringer, J.M. (2002), Benchmarking training and development practices: A multi-country comparative analysis, *Human Resource Management, No. 41, pp. 67-86.*

Dyer, L. (1984), Linking human resource and business strategies, *Human Resource Planning, No. 7, pp. 79-84.*

Fey, C.F., Morgulis-Yakushev, S., Park H.J., & Björkman, I. (2009), Opening the black box of the relationship between HRM practices and firm performance: A comparison of MNE subsidiaries in the USA, Finland, and Russia, *Journal of International Business Studies (2009) No. 40, pp. 690-712.*

Gamble, J. (2006), Introducing Western-style HRM practices to China: Shopfloor perceptions in a British multinational, *School of Management, Royal Holloway, University of London, Egham, Surrey TW20 0EX, United Kingdom.*

Gatley, S., Leesem, R., & Altmna, Y. (1996), *Comparative Management: a Transcultural Odyssey. London: McGraw-Hill.*

Geertz, C. (1973), *The Interpreatation of Cultures, New York: Basic Books.*

Gooderham, P.N., Nordhaug, O., & Ringdal, K. (1999), Institutional and rational determinants of organizational practices: human resource management in European firms, *Administrative Science Quarterly 44, pp. 507-531.*

Guest, D.F. (1987), 'Human Resource Management and Industrial Relations', *Journal of Management Studies, No. 5, pp. 503-521.*

Hamel, G. & Prahalad, C.K. (1994), Competing for the future, *Harvard business review: the magazine of thoughtful businessmen vol. 72 (1994) No. 4 p.122-130.*

Hofstede, G. (1980), *Culture's Consequences: International differences in work-related values, London: Sage.*

Hofstede, G. (1997), *Cultures and organizations: Software of the mind, New York: McGraw-Hill.*

Hofstede, G. (2001), *Culture's Consequences (2nd edition), London Sage.*

House, R.J., Hanges, P.J., Javidan, M., Dorfman, P.W., & Gupta, V. (2004), Culture, leadership and organizations: The GLOBE study of 62 societies, *London: Sage.*

Jennings, P.D., Cyr, D., & Moore, L.F. (1995), Human resource management on the Pacific Rim: An integration. *In L.F. Moore & P.D. Jennings (Eds.), Human resource management on the Pacific Rim: Institutions, practices and attitudes, pp. 351-379, Berlin: de Gruyter.*

Kochan, T. & Priore, M. (1985), 'US Industrial Relations in Transition' In Kochan, T. (ed.) Challenges and Choices Affecting American Labour, *Cambridge, MA: MIT Press.*

Kochan, T., McKersie, R., & Chalykoff, J. (1986), 'The Effects of Corporate Strategy and Workplace Innovations on Union Representation', *Industrial and Labour Relations Review, 39(3), pp. 487-502.*

Koen, C.I (2005), *Comparative International Management, ISBN-10:0-07-7103912.*

MacDuffie, J.P. (1995), Human resource bundles and manufacturing performance: Organizational logic and flexible production systems in the world auto industry, *Industrial and Labor Behavorial Research, No. 23, pp. 125-127.*

Lawrence, P. (1996), *Management in the USA, London: Sage.*

North, D.C. (1990), Institutions, institutional change and economic performance, *Cambridge: Cambridge University Press.*

Powell, W.W. & DiMaggio, P.J. (1991), The new institutionalism in organizational analysis, *Chicago: University of Chicago Press.*

Purcell, J. (1993), The challenges of human resource management for industrial relations research and practice, *International Journal of Human Resource Management 4, pp. 511-527.*

Rogers, L. (1995), Labour markets and employment relations in transition: the case of German unification, *Employee Relations 17(1), 24.*

Rosenzweig, P.M. & Nohria, N. (1994), Influences on human resource management practices in multinational corporations, *Journal of International Business Studies 25, pp. 229-251.*

Rowley, C., Benson, J., & Warner, M. (2004), Towards an Asian model of human resource management? A comparative analysis of China, Japan and South Korea, *International Journal of Human Resource Management, No. 15, pp. 917-933.*

Schwartz, S.H. (1992), Universals in the content and structure of values: the theoretical advances and empirical tests in 20 countries, in Zanna, M. (ed.) *Advances in Experimental Social Psychology, Vol. 25. New York: Academic Press, pp. 1-66.*

Scott, W.R. (2001), *Institutions and organizations (2nd edition), Thousand Oaks, CA: Sage.*

Sekaran, U. & Bougie, R. (2010), *Research Methods for Business; A Skill Building Approach (5th edition).*

Smith, P.B. (1992), Organizational behavior and national cultures, *British Journal of Management 3(1), pp. 39-51.*

Smith, P.B. & Schwartz, S.H. (1997), Values, in Berry, J.W., Segall, M.H. and Kagitcibasi, C. (eds) *Handbook of Cross-cultural Psychology, Vol.3, Social Behavior and Applications. Boston, MA: Allyn & Bacon, pp. 77-118* .

Strauss, G. (2001), HRM in the USA: correcting some British impressions, *The International Journal of Human Resource Management, 12:6, pp. 873-897.*

Streeck, W. (1989), Skills and the limits of neo-liberalism: the enterprise of the future as a place of learning. *Work, Employment and Society 3(1), pp. 83-104.*

United Nations Conference on Trade and Development [UNCTAD], 2006.

Walton, R.E. & Lawrence, P.R. (1985), H.R.M. Trends & Challenges, *Boston/Massachusetts, Harvardsd Business School Press.*

Wang, Z.M. & Mobley, W. (1999), Strategic human resource management for twenty-first-century China, *Research in Personnel and Human Resources Management, No. 17, pp. 353-366.*

Warner, M. (1995), The *management of human resources in Chinese enterprises, London: Macmillan.*

Warner, M. (1996), Economic reforms, industrial relations and human resources in the People's Republic of China: An overview, *Industrial Relations Journal, No. 27, pp. 195-200.*

Warner, M. (2004), Human resource management in Chine revisited: Introduction, *International Journal of Human Resource Management, No. 15, pp. 617-634.*

Zhao, S. (1999), International comparative study of human resource management and development, *Beijing: People's Press (in Chinese).*