



# STRATEGIC HRM PRACTICES AND THEIR IMPACT ON COMPANY PERFORMANCE IN CHINESE ENTERPRISES

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*This study examined the factorial validity of strategic human resource management practices and their effects on company performance in a sample of 465 Chinese enterprises. Data were collected through two questionnaire surveys among general managers and HRM directors on product/service performance of their companies and a range of strategic HRM practices. Our findings indicate that a valid set of strategic HRM practices (training, participation, results-oriented appraisals, and internal career opportunities) affect both product/service performance and financial performance. Employment security and job descriptions contribute uniquely to product/service performance, whereas profit sharing contributes uniquely to financial performance. © 2008 Wiley Periodicals, Inc.*

## Introduction

Researchers have argued that human resources may be seen as a source of sustained competitive advantage for organizations (Barney, 1991, 1995; Becker & Gerhart, 1996). The underlying assumption is that human resources are unique to the extent that competitors cannot imitate them. This research has led to the identification of a number of human resource management practices that contribute to company performance across different organizations (Huselid, 1995). In a literature review, Delery and Doty (1996)

identified seven such practices that have been consistently considered strategic HRM practices. They defined strategic HRM practices as those that are “theoretically or empirically related to overall organizational performance” (p. 805). These practices include internal career opportunities, formal training systems, results-oriented appraisals, employment security, participation, job descriptions, and profit sharing. This approach has come to be known as the “best practices” or universalistic approach.

Within the best practices approach to strategic HRM, the first practice, internal career opportunities, refers to the organizational

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preference for hiring primarily from within (Delery & Doty, 1996). Second, training systems refers to whether organizations provide extensive training opportunities for their employees or whether they depend on selection and socialization processes to obtain required skills. Third, appraisals are conceptualized in terms of outcome-based performance ratings and the extent to which subordinate views are taken into account in these ratings. Fourth, employment security reflects the degree to which employees feel secure about continued employment in their jobs. Although formal-

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ized employment security is generally on the decline, organizations may have either an implicit or an explicit policy. Fifth, employee participation, both in terms of taking part in decision making and having opportunities to communicate suggestions for improvement, has emerged as a strategic HRM practice. Sixth, job description refers to the extent jobs are tightly and clearly defined so that employees know what is expected of them. Finally, profit sharing reflects the concern for overall organizational performance on a sustainable basis.

Other approaches to strategic HRM research include contingency and configurational approaches. The contingency approach implies that organizational strategy (e.g., cost, quality, innovation) moderates the relationships between strategic HRM practices and company performance. In other words, a particular HRM practice may influence company performance positively in combination with one strategy and negatively in combination with another strategy. The configurational approach builds on the two previous approaches and synthesizes them into a high-order system in which researchers are interested in identifying the unique patterns of strategic HRM practices that are optimally effective. Although compelling theoretical arguments have been made in favor of the contingency and configurational approaches, we argue that currently there is relatively weak

empirical support for these approaches. Progress in this area of research would seem to depend on the emergence of new techniques to measure HRM configurations.

The present study adopts the best practices approach to examining strategic HRM practices and their influence on company performance. It contributes to the extant literature in three ways. First, it examines the factorial validity of the previously outlined seven strategic HRM practices in the context of Chinese enterprises using a large sample that cuts across firm age, size, industry sector, ownership, and location of the enterprise. We expect that our results will help to determine whether or not measures of strategic HRM practices can be generalized across organizations and countries with a view to facilitating comparative research. Second, we discuss in some detail how the seven strategic HRM practices currently are applied in Chinese enterprises and their development trends. This will shed some light on how Western HRM concepts and practices are adapted in the newly emerging market economy of China. Third, we examine how these strategic HRM practices impact a firm's product/service performance and financial performance. This will help identify a set of strategic HRM practices that influence both these performance indices.

## Literature Review and Research Questions

How valid is the use of strategic HRM practices in Chinese enterprises? Have these practices been adapted when applied in the Chinese context? Do these practices matter in terms of their influence on company performance? These questions need to be raised in the context of the Chinese economy, which is in transition from a centrally planned economy to a form of a free market economy. Of particular interest are the changes that have taken place in people management because traditionally, this area is one in which large differences have existed between communist and advanced market economies (Ding, Fields, & Akhtar,

1997; Warner, 1996). In the following sections, we present an overview of the literature that has raised these questions and has sought their answers.

### ***How Valid Are Strategic HRM Practices?***

It must be said that before the economic reforms began in 1978, China's state-owned enterprises (SOEs) virtually dominated industrial production. HRM practices among these enterprises were embedded in the so-called "iron rice bowl" (*tie fan wan*) that ensured centrally planned job allocation, lifetime employment, egalitarian pay, and "cradle-to-grave" welfare (Ding, Fields, & Akhtar, 1997; Warner, 2004). However, over the last two decades, China has experienced phenomenal growth in foreign direct investment (FDI), foreign-invested enterprises (FIEs), and subsidiaries (Warner, 2004).

In 2004, China approved the opening of more than 43,000 new foreign-invested enterprises, an increase of 6.29% over 2003, and the total amount of foreign direct investment reached more than U.S. \$60 billion, an increase of 13.3% over the previous year (China State Statistics Bureau, 2005). These economic reforms have brought about unprecedented changes in human resource management practices. 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 reward systems, and contributory social security (Warner, 2004). A new HRM terminology has emerged in joint ventures and multinational corporations that seems to be distinguished from the personnel management terminology of the pre-reform era. Compared with the pre-reform era, recruitment and selection have become more market-oriented, remuneration is increasingly tied to performance, and lifetime employment is being phased out (Rowley, Benson, & Warner, 2004).

On revisiting human resource management in China, Warner (2004) observed that whereas in many SOEs conventional people management continued to be the norm, sub-

stantial 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 giant SOEs that have gone through reforms and have become publicly listed companies (Ding & Akhtar, 2001). In FIEs, human resource managers are usually expatriates or local Chinese who have gone through prestigious business education programs. These managers are familiar with modern management language and are expected to follow the "best practices" in strategic HRM, "as exemplified by their own corporations internationally or in other MNCs operating in Mainland China. They may, of course, have to adapt their practices to Chinese conditions" (Warner, 2004, p. 619).

It is clear to us that both local and global competitive pressures are at work in a move toward a convergence in strategic HRM practices in China. Whether or not measures of these practices, as conceptualized in the Anglo-American HRM literature, can be considered to be valid with applicability across different organizations and national settings is an empirical question that we will address in this study. In view of recent developments in strategic HRM in Chinese enterprises, we expect that the conceptual structure of these practices, as explained in Delery and Doty's work (1996), will be reflected in an empirically valid structure.

### ***How Are Strategic HRM Practices Applied?***

Strategic human resource management often is viewed as a set of decisions regarding the acquisition, allocation, utilization, and development of human

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resources that affect organizational performance (Dyer, 1984). In the following sections, we discuss the prevalence of Delery and Doty's (1996) seven strategic HRM practices applied in the Chinese context, and their current status and development trends.

Workers' congresses, with trade unions as executive agents, are entitled by law to approve or disapprove of companies' strategic plans and to have a say in major issues related to the welfare of workers (Ding, Ge, & Warner, 2001). However, the significance of workers' congresses has declined in recent years.	<p>In a cross-cultural study of managerial attitudes about HRM practices, Jennings, Cyr, and Moore (1995) found that training and development is perceived as the most important strategic HRM practice by managers. In China, the amount of investment in training employees varies widely across firms with different ownership types (Drost, Frayne, Lowe, &amp; Geringer, 2002). In his empirical study, Zhao (1999) noted that about half of the SOEs in his sample allocated a negligible amount of annual expenditure on training, less than RMB¥30 per employee (U.S. \$1 = RMB¥8.07).</p> <p>On the contrary, in FIEs, substantial amounts have been spent on training employees, since training is seen as a critical and effective tool to ensure product and service quality and standards. In multinational corporations, training is the keystone for localization of top and senior managers. Trained Chinese managers have successfully replaced expatriate managers at the corporate and department levels. In Ericsson China Ltd., for example, out of 12 senior managers at the corporate level, nine are local Chinese. Also, out of 25 department directors, 21 are Chinese managers (Wenmi Net, 2007).</p>
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In FIEs, it is recommended that local managers need to be consulted as the company strives to integrate its corporate culture with Chinese traditions and customs (Yang, 1998). In SOEs, workers' congresses are traditionally the primary channel for employee involvement in management activi-

ties. Workers' congresses, with trade unions as executive agents, are entitled by law to approve or disapprove of companies' strategic plans and to have a say in major issues related to the welfare of workers (Ding, Ge, & Warner, 2001). However, the significance of workers' congresses has declined in recent years. In the large, reformed SOEs, such as publicly listed firms (PLFs) and joint-stock companies, employee representatives are elected to participate in the meetings of the boards of directors, representing workers and managers in the major corporate decisions.

The abolition of the "iron rice bowl" is believed to have contributed to the increased labor productivity in Chinese firms. However, in an environment where almost all welfare benefits come with full-time employment and where the newly established social security system provides only minimal protection, job security has become very important for all employees.

It has now become a popular practice in Chinese firms that each employee has clearly defined duties, which are evaluated regularly to determine his/her level of compensation. Job descriptions are the centerpiece for the so-called "post wage system" (*gangwei gongzizhi*), which developed from the reward system reform in Chinese enterprises (for a detailed discussion of the evolution and reform of the reward system in Chinese enterprises, see Ding & Warner, 2001). The "post wage system" is composed of two parts: a basic wage (determined by the intensity and complexity of job duties) and a supplementary wage (determined by the accomplishment of job duties). This system is accompanied by clear job descriptions and a strict performance appraisal system. In recent years, the "post wage system" has increasingly added elements of skills and capabilities. The system is called *ganwei jineng gongzizhi*, and it emphasizes clear job responsibilities, professional skills, and qualifications, the ability to innovate, and results-based performance appraisal (Ding & Warner, 2001; Warner, 1995).

Performance appraisal in China has been undergoing significant changes since the economic reforms began in 1978 (Shen, 2004). It is not used just for managers' promotions



and transfers, but for line workers as well. Recent research conducted by the Development and Research Center of the China State Council reported that 67.3% of the sampled firms utilize performance appraisal. Of 1,044 enterprises, the majority reported that appraisal had positive impacts on employee performance ranging from moderately effective to very effective. About 37.2% of the sampled firms asserted that performance appraisal is not as effective as expected. The reasons for the unsatisfactory results of performance appraisal include unclear performance objectives and evaluation criteria, the lack of feedback and two-way communication, uncooperative attitudes by employees arising from a sense of being monitored and controlled, and the lack of a corresponding reward and punishment system to match appraisal results (Guo & Suo, 2005).

In recruiting and retaining qualified professionals, such as technical, marketing, and managerial staff, providing opportunities for career and personal development plays an important role in attracting young Chinese holding graduate and postgraduate degrees (Caplan, 2003). As Chinese society gradually moves toward becoming a knowledge society, career management has become an increasingly important part of human resource strategies, especially in the high-tech sector. More and more companies provide opportunities for development and continuous learning in return for high performance and productivity during an employee's stay (Larkin, 2005).

The deteriorating performance of SOEs prompted the Chinese government to shift the focus of SOE reform to ownership and corporate governance restructuring in the mid-1990s. The main purpose of the ownership reform was to improve the efficiency of SOEs through clarification of property rights and relationships with government agencies to reduce day-to-day government administrative intervention in the operations of SOEs. An important part of the ownership reform was employee ownership (i.e., some company stock is sold to employees), thus linking the benefits of the employees with company performance. According to a recent report by

the China State Council, ownership reform increased the efficiency of SOEs and reduced their financial debt (Deng, 2005).

### ***Do Strategic HRM Practices Matter?***

It is one thing to have strategic HRM practices in place; it is another to have such practices make a difference to company performance in the presence of strong institutional influences. Some researchers have argued that China's economic, social, and political institutions remain decisive in how firms operate in the country (Peng, 2000). For FIEs to operate successfully, the choice of local partners is crucial in establishing networks of stakeholders (Beamish, 1993), while the mode of entry is constrained by institutional environments and firm-government relations. Do these significant institutional forces for firm performance imply that strategic HRM practices do not matter in developing and securing competitive advantage?

Law, Tse, and Zhou (2003) have argued that while this may be the case in formerly centrally planned economies that are severely distorted by institutional forces, "China's situation is changing rapidly" (p. 257). Realizing the heavy burden of loss-making SOEs on the country's nascent financial system, China is actively reforming large enterprises in the state sector with the slogan "grasping the large" (Nolan, 2001). The small SOEs are left out and encouraged to seek privatization on their own. This change is a big step forward in the direction of a free market economy. Also, China's entry into the World Trade Organization (WTO) has further

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removed barriers to competition, even in regulated sectors such as telecommunications, banking, and insurance. These indicators of changing situations imply that even though institutional forces may remain potentially influential, enterprises seeking competitive advantage must increasingly rely on internal management processes, including human resource management.

Barney's (1991) resource-based theory of the firm often has been used to support the contention that strategic HRM practices may

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create distinctive competencies as a source of sustained competitive advantage. Not all human capital resources, however, lead to this end result equally. Human resources that are valuable, rare, difficult to imitate, and supported by the organization can lead to sustained competitive advantage (Barney & Wright, 1998). In the context of a transitional economy such as in China, these resources include "experienced and talented managers, qualified engineers and technicians, and competent marketing staff" (Ding & Akhtar, 2001, p. 948). Accordingly, in this study, we examine the influence of strategic HRM practices relating to managerial and professional employees on two indexes of company performance: product/service performance and financial performance.

There is now empirical support to indicate that strategic HRM practices have positive and additive effects on company performance across different organizational settings in Anglo-American samples (Arthur, 1994; Delaney, 1997; Delery & Doty, 1996; Guest, Michie, Conway, & Sheehan, 2003; Guthrie, 2001; Huselid, 1995; Ichniowski & Shaw, 1999; MacDuffie, 1995). Although several studies have explained developments and trends in the HRM field in Chinese enterprises over the past two decades (Warner, 2004), only a few recent studies have examined the linkage between HRM practices or systems and company performance.

For instance, Bjorkman and Fan (2002) conducted a study of 62 manufacturing FIEs and wholly owned foreign subsidiaries. They reported significant positive effects of the HRM system and HRM-business alignment on company performance. They created an HRM system index based on average standardized scores on 11 strategic HRM practices, and company performance was measured by managerial assessments of satisfaction with profitability and overall performance. Similarly, Law et al. (2003) conducted a study of 122 firms across nine cities to test, among other things, the effect of the strategic role of HRM on firm productivity and return on equity. Reporting positive effects on both indexes, they concluded that "good HRM does matter to firm performance in a transitional economy" (Law et al., 2003, p. 263). The present study extends these previous studies by way of examining individual effects of these strategic HRM practices on firm performance.

## Method

### Sample

To investigate strategic HRM practices and their impact on firm performance in Chinese firms, a large-scale questionnaire survey was conducted in three major cities, Guangzhou, Shanghai, and Nanjing. These three cities were selected based on their level of economic openness and development. Guangzhou is the capital city of Guangdong province, located in Southern China. Benefiting from its proximity to Hong Kong, Guangdong province is one of the top destinations for FDI in the country. Shanghai is China's economic and financial center and has the highest per capita GDP among all Chinese cities. Nanjing is the capital city of Jiangsu province, located along the lower Yangtze River. In comparison with the other two cities, Nanjing is less developed in terms of GDP per capita, infrastructure, household consumption, and human resource development.

We based the sample frame on the China Industrial Enterprises Database, compiled by the China State Statistics Bureau, to cover the manufacturing and service sectors. The

manufacturing sector includes a broad range of businesses in electronics, garments, engineering and chemicals, and pharmaceuticals. Some enterprises have multiple operations. The service sector includes enterprises in insurance and banking, import and export trading, and retailing (department stores) and advertising.

To solicit participation from the selected enterprises, we contacted the enterprises by telephone and through our interpersonal networks at local universities. If a particular enterprise declined our invitation, we replaced it with another enterprise in the same

industry. We then mailed 600 questionnaires to these enterprises with the promise that their individual responses would remain confidential. We received 465 usable questionnaires, a response rate of 78.0%.

Table I shows the characteristics of the sample. Firms with an age of 3–5 years constituted 34.4% of the sample, 42.2% were 6–15 years old, and 23.4% were older than 15 years. Small firms with fewer than 100 employees accounted for 28.2%, 35.7% of the sample were medium firms with 100 to 500 employees, 25.1% were large firms with 501 to 2,000 employees, and the remaining

**TABLE I** Sample Characteristics

Category	Frequency	Percent
Age		
3–5 years	160	34.4
6–15 years	196	42.2
> 15 years	109	23.4
Size		
employee < 100	131	28.2
employee 101–500	166	35.7
employee 501–2,000	118	25.4
employee > 2,000	50	10.8
Sector		
Electronics	93	20.0
Garment	39	08.4
Engineering	54	11.6
Chemical and pharmaceuticals	88	18.9
Service	74	15.9
Mixed	117	25.2
Ownership		
State-owned	136	29.2
Publicly-listed	47	10.1
Foreign-invested	282	60.6
Location		
Nanjing	175	37.6
Shanghai	122	26.2
Guangzhou	168	36.1

10.8% were giant firms with more than 2,000 employees. Of all the firms in our sample, foreign-invested enterprises accounted for 60.6%, state-owned enterprises were 29.2%, and publicly listed firms were 10.1%. Of these enterprises, 37.6% were from Nanjing, 26.2% were from Shanghai, and the rest were from Guangzhou.

### Data Collection

We collected data from multiple sources in each enterprise. The general managers or their deputies responded to the survey on company performance, while human resource directors responded to the strategic HRM practices questionnaire. This was done to match the nature of inquiry with the relevant source of information on the one hand, and to overcome the simultaneity bias in the survey responses on the other. The questionnaires were originally prepared in English and then translated into Chinese by a professional translator and back-translated into English by another professional. The back-translated versions were compared with the originals to ensure accuracy. The two questionnaires are briefly described below.

#### Strategic HRM Practices Questionnaire

This questionnaire elicited information from human resource directors on background characteristics of the organization and seven strategic HRM practices related to internal career opportunities, formal training systems, results-oriented appraisals, employment security, participation, job descriptions, and profit sharing. We adopted Delery and Doty's (1996) survey instrument to measure these practices. The instrument contains multi-item scales on seven strategic HRM practices except for profit sharing, which is based on a single item. We added one item to the profit-sharing scale to make

it a multi-item scale. The item was "individuals receive ownership shares as incentive pay." Responses to scale items ranged from 1 (not accurate at all) to 4 (very accurate).

### Survey of Company Performance

Consistent with Dyer and Reeves's (1995) proposed dimensions of company performance, we used three items each to measure product/service performance and financial performance. Items on product/service quality, customer satisfaction, and technological innovation measured product/service performance, whereas items on profitability, sales growth, and returns on investment measured financial performance. On each item, the general managers were asked to compare the performance of their company to the performance of their competitors for the previous three years. Responses were obtained on a five-point scale, ranging from 1 = very low to 5 = very high. Each dimension had a coefficient alpha of .77 in the present study.

## Results

### Factorial Validity of Strategic HRM Practices

We factor-analyzed the items measuring strategic HRM practices (Delery & Doty, 1996) using principal component factor analysis followed by varimax rotation. Table II shows that this analysis resulted in the seven dimensions of strategic HRM practices accounting for 64.36% variance. Factor I consists of items that reflect frequency and extensiveness of training programs and the prevalence of programs that relate to skill development among new hires and promotability among existing employees. This factor accounted for 12.17% of the variance ( $\alpha = .83$ ). Factor II contains items on employee participation in decision making, superior-subordinate communication, and opportunities for suggesting improvements. It explained 11.94% of the variance ( $\alpha = .81$ ). Factor III, which measures implicit and explicit policy on employment security, accounted for 9.24% of the variance ( $\alpha = .73$ ).



**T A B L E I I      Factor Structure of Strategic Human Resource Management Practices**

<b>Scale It</b>	<b>Factor 1</b>	<b>Factor 2</b>	<b>Factor 3</b>	<b>Factor 4</b>	<b>Factor 5</b>	<b>Factor 6</b>	<b>Factor 7</b>
<b>Training</b>							
1. Employees will normally go through training programs every few years.	.81*	.10	.05	.08	.17	.14	.07
2. Extensive training programs are provided for employees.	.77*	.19	.12	.12	.12	.24	.09
3. There are formal training programs to teach new hires the skills they need to perform their jobs.	.73*	.25	-.03	.16	.06	.02	.02
4. Formal training programs are offered to employees in order to increase their promotability in this organization.	.66*	.17	.11	.12	.14	.33	.10
<b>Participation</b>							
5. Employees are often asked by their supervisor to participate in decisions.	.11	.82*	.11	.07	.13	.16	.06
6. Superiors keep open communications with employees.	.22	.71*	.13	.24	.03	.22	.02
7. Employees are allowed to make many decisions.	.15	.71*	.04	-.04	.16	.15	.14
8. Employees are provided the opportunity to suggest improvements in the way things are done.	.28	.66*	.13	.23	.07	.11	-.06
<b>Employment security</b>							
9. Employees can expect to stay in the company for as long as they wish.	.01	.03	.77*	.04	.06	.01	.10
10. It is very difficult to dismiss an employee.	.05	-.09	.74*	-.05	-.06	-.07	-.19
11. Job security is almost guaranteed to employees in the company.	.16	.19	.71*	.11	.00	.14	.18
12. If the company were facing economic problems, employees would be the last to get downsized.	-.01	.35	.67*	-.04	.13	.05	-.04
<b>Job descriptions</b>							
13. Job descriptions contain all of the duties performed by individual employees.	.24	.21	.12	.71*	.30	-.06	-.03
14. The actual job duties are shaped more by the employee than by a specific job description. (R)	-.10	-.19	-.06	.66*	-.33	.29	-.14
15. Job descriptions are normally up-to-date.	.23	.29	.01	.62*	.29	.02	.00
16. The duties of jobs are clearly defined.	.33	.22	.01	.58*	.31	.07	.06
<b>Results-oriented appraisal</b>							
17. Performance appraisals are based on objective, quantifiable results.	.14	.13	.08	.21	.82*	.16	.07
18. Each employee has performance objectives.	.23	.16	.01	.13	.81*	.19	.04
<b>Internal career opportunities</b>							
19. Employees have very little future within the company. (R)	.06	.06	-.01	-.07	.00	.75*	.06
20. Employees have clear career paths within the company.	.31	.25	.04	.11	.20	.57*	.03
21. Employees who desire promotion have more than one potential position they could be promoted to.	.20	.25	.08	.12	.16	.49*	.00
22. Employees' career aspirations within the company are known by their immediate supervisors.	.25	.27	-.01	.19	.19	.46*	.10
<b>Stocks/Profit sharing</b>							
23. Individuals receive ownership shares as incentive pay.	.07	.05	.03	.02	.07	-.01	.86*
24. Individuals receive cash bonuses based on the profit of the organization.	.09	.06	-.01	-.08	.02	.13	.86*
Percentage of variance accounted for	12.17	11.94	9.24	8.30	8.16	7.67	6.88
Coefficient alpha	.83	.81	.73	.66	.83	.64	.70

Note. N = 406 (after listwise deletion of missing data). Except for the item on ownership shares, all other items were adapted from Delery and Doty (1996). \*Factor loadings of .40 or above. R indi-

**TABLE III** Descriptive Statistics and Correlations

Variables	M	SD	1	2	3	4	5	6	7	8	9
1. Training	2.57	0.75	—								
2. Participation/voice	2.59	0.68	.52	—							
3. Employment security	2.41	0.74	.20	.31	—						
4. Job description	2.80	0.59	.46	.40	.10	—					
5. Results-oriented appraisal	2.70	0.82	.46	.40	.13	.43	—				
6. Internal career opportunities	2.64	0.57	.56	.53	.16	.39	.42	—			
7. Profit sharing	1.69	0.82	.19	.14	.05	-.03	.13	.19	—		
8. Product/service performance	3.48	0.80	.42	.30	.11	.31	.30	.26	.01	—	
9. Financial performance	2.85	0.68	.27	.22	.01	.15	.20	.24	.17	.46	—

Note. *N* ranged from 406 to 465. Responses were obtained on a four-point scale, ranging from 1 = not at all accurate to 4 = very accurate for the dimensions of strategic HRM practices and on a five-point scale, ranging from 1 = very low to 5 = very high for the dimensions of company performance. Correlations of .10 or more are significant at the .05 level, and correlations of .15 or more are significant at the .01 level.

Factor IV includes items that indicate the extent to which job descriptions are comprehensive, clear, specific, and up-to-date, explaining 8.30% of the variance ( $\alpha = .66$ ). Factor V represents outcome-based performance appraisals, accounting for 8.16% of variance ( $\alpha = .83$ ). Factor VI contains items that reflect the extent to which supervisors recognize career aspirations of their subordinates and the extent to which employees are provided with clear career paths and promotional opportunities. This factor explained 7.67% of the variance ( $\alpha = .64$ ). The last factor, which measures the prevalence of stock ownership and profit sharing, accounted for 6.88% of the variance ( $\alpha = .70$ ). This factor includes an item on stock ownership that was added by the authors to turn Delery and Doty's (1996) original single-item scale into a multi-item scale.

### *Trends of Mean Scores and Correlations*

Table III presents descriptive statistics on the dimensions of strategic HRM practices and company performance and the zero-order correlations between them. It can be observed that job descriptions and result-oriented appraisals obtained relatively high mean scores of 2.80

and 2.70, respectively, whereas profit sharing and employment security obtained relatively low scores of 1.69 and 2.41, respectively. Also, correlations between strategic HRM practices ranged from  $-.03$  to  $.56$ . Profit sharing and employment security had either weak or non-significant correlations with other strategic HRM practices, whereas training had a substantial correlation.

Table III further shows that the mean score on product/service ( $M = 3.48$ ) was higher than the mean score on financial performance ( $M = 2.85$ ). The two dimensions of company performance had a moderate correlation of  $.46$ . Correlations of product/service performance with strategic HRM practices ranged from  $.01$  to  $.42$ , whereas those for financial performance ranged from  $.01$  to  $.27$ . Also, product/service performance and financial performance had nonsignificant correlations with profit sharing and employment security, respectively.

### *Main Effects on Company Performance*

We used multiple regression analysis to examine the main effects of the seven HRM practices on financial and product/service performance of the company. In the process

of this analysis, we controlled for the effects of company age, size, sector, ownership, and location. Results presented in Table IV show that except for profit sharing, all other strategic HRM practices had significant effects on product/service performance and explained 14.0% of the variance. The significant beta coefficients ranged from .09 ( $p \leq .05$ , one-tailed) for employment security and internal career opportunities to .28 ( $p \leq .01$ , two-tailed) for training.

Significant effects on financial performance were limited to training, participation, results-oriented appraisals, internal career opportunities, and profit sharing, accounting for 7.0% of the variance. The significant beta coefficients ranged from .08 ( $p \leq .05$ , one-tailed) for results-oriented appraisals to .15 ( $p \leq .01$ , two-tailed) for training. These findings indicate that a set of strategic HRM practices (training, participation, results-oriented appraisals, and internal career opportunities) affects both financial and product/service performance. Employment security and job descriptions contributed uniquely to product/service performance, whereas profit sharing contributed uniquely to financial performance.

### *Findings Relating to Control Variables*

Table IV shows that except for ownership and location, none of the other covariates (age, size, and sector) had a significant effect on product/service performance. Compared with both SOEs and publicly owned enterprises, FIEs ( $\beta = .18$ ,  $p \leq .01$ , two-tailed) had better product/service performance. However, enterprises located in Guangzhou ( $\beta = -.14$ ,  $p \leq .05$ , two-tailed) had significantly lower product/service performance than did those located in Shanghai.

Results presented in Table IV further show that the size of the enterprise and location did not significantly contribute to financial performance. However, enterprises with combined product and service operations had significantly lower profitability compared with enterprises that were in a single line business ( $\beta = -.12$ ,  $p \leq .01$ , one-

tailed). Age and ownership also significantly influenced this dimension. Older enterprises ( $\beta = -.20$ ,  $p \leq .01$ , two-tailed) were likely to have lower financial performance than were younger enterprises. FIEs ( $\beta = -.14$ ,  $p \leq .05$ , two-tailed) were likely to be outperformed by SOEs in financial performance. It must be noted here that in our sample, most of the FIEs were joint ventures. It is observed that joint ventures experience a high failure rate in the competitive Chinese market (Shenkar & Yan, 2002).

## **Discussion**

### *About the Factorial Validity*

Results obtained from the exploratory factor analysis shown in Table II suggest that Delery and Doty's (1996) conceptualization of strategic HRM practices has an overall factorial validity. Delery and Doty (1996) derived these practices from the extant literature, observing that "we identified seven practices that are consistently considered as strategic HR practices" (p. 805). They defined strategic human resource practices as those that have a theoretical or empirical bearing on overall organizational performance. Although they did not report factor analyses in their study, items measuring these practices in the present study resulted in seven dimensions that clearly reflected the original conceptualization. There were no item overlaps, and all the dimensions were internally consistent. These findings indicate that the strategic HRM practices utilized in the present study can be used with confidence in future studies of Chinese enterprises.

The apparent conceptual convergence in strategic HRM practices can be explained by the phenomenal change that has taken place in the personnel practices in Chinese enterprises since the economic reforms began in 1978. As we explained in the literature review,

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*Results presented in Table IV show that except for profit sharing, all other strategic HRM practices had significant effects on product/service performance and explained 14.0% of the variance.*

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**TABLE IV** Standardized Regression Weights for Company Performance

Independent Variable	Product/Service Performance		Financial Performance	
	Model 1	Model 2	Model 1	Model 2
Control variable				
Age (log)	.04	.06	-.22**	-.20**
Size (log)	.00	-.07	.05	.01
Sector				
Service (referent)				
Electronic	.10	.04	.11	.06
Garment	-.02	-.04	-.05	-.08
Engineering	.08	.05	-.05	-.06
Chemical and pharm.	.03	.01	-.06	-.09
Mixed	.03	-.02	-.08	-.12†
Ownership				
State-owned (referent)				
Public-owned	.03	.03	.04	.02
Foreign-invested	.21**	.18**	-.13*	-.14*
Location				
Shanghai (referent)				
Nanjing	.00	-.03	.01	-.02
Guangzhou	-.14*	-.14*	.05	.01
Main effect				
Training		.28**		.15**
Participation/voice		.13**		.10*
Employment security		.09†		-.01
Job descriptions		.15**		.06
Result-oriented appraisals		.12**		.08†
Internal career opportunities		.09*		.12**
Profit sharing		.02		.11*
<i>F</i>	3.33**	6.22**	3.58**	3.96**
<i>R</i> <sup>2</sup> cumulative	.09	.23	.09	.16
<i>R</i> <sup>2</sup> change	—	.14	—	.07
<i>F</i> for <i>R</i> <sup>2</sup> change	—	9.91**	—	4.24**

Note. *N* = 406 (after listwise deletion of missing data).

†*p* ≤ .05 (one-tailed), \**p* ≤ .05 (two-tailed), \*\**p* ≤ .01 (two-tailed).



the pre-reform Chinese economy was dominated by SOEs and personnel practices were characterized by centrally planned job allocation, lifetime employment, egalitarian pay, and “cradle-to-grave” welfare (Ding et al., 1997; Warner, 2004).

However, China’s open-door economic policy, huge growth in foreign direct investment, proliferation of foreign-invested enterprises, the Labor Law of 1994, accession to the WTO, 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 adoption of these HRM practices (Warner, 2004). Also, recruitment and selection have become more market-oriented, and lifetime employment is almost a thing of the past (Rowley et al., 2004). Similar practices can be observed in giant SOEs that have successfully gone through the reform process. In both FIEs and reformed SOEs, HRM managers are well educated in business management. It is thus clear that there is internal as well as external pressure toward increasing convergence in strategic HRM practices.

### **About the Application of Strategic HRM**

Table III shows that the mean scores of job descriptions and results-oriented performance appraisals ranked first and second, respectively. As mentioned previously, these two practices are key elements of the so-called “post wage system” currently widely used in almost all Chinese enterprises (Ding & Warner, 2001). In the past few years, the Chinese government has been moving toward reducing structural imbalances in its economic sectors by rationalizing and updating its industries. Priority has been given to the development of high-tech and high-value-added industries, such as the electronics and telecommunications industries. The “post wage system” has been refined to incorporate elements of knowledge, capabilities,

and skills to better cope with performance management for professionals in high-tech and high-value-added sectors.

In the post-reform era, job security is not guaranteed. This is reflected in the relatively low mean score on employment security in our sample. Managers increasingly are under pressure to compete for limited numbers of managerial positions as SOEs streamline their organizational structures to become efficient. Applicants need to have a good track record and show evidence of managerial capabilities and skills in order to remain in or bid for new positions. In Chinese, this phenomenon is called *jingzheng shanggang* (Cheng, 2005). Similarly, in many FIEs, it has become a common practice to demote or to replace incompetent and nonperforming managers (Yang & Zhang, 2005).

Our results further show that stock/profit sharing has the lowest mean score. A possible explanation is that stock options as incentive pay for senior managers has been experimented with in only a small number of companies. In our sample, more than 60% of firms were FIEs, in which profit sharing is rarely used to motivate employees.

The mean scores for training, participation, and internal career opportunities were in the middle range of the seven strategic HRM practices. This shows that although Chinese enterprises have recognized the importance of these three practices, the application of these practices has met with some problems. For example, training in most Chinese enterprises is constrained by the lack of money, and as such, training is almost at the bottom of the priority list in company budgets (Zhao, 1999).

The application of employee participation in Chinese enterprises may have been hindered by traditional Chinese values. The Confucian doctrine of “maintaining harmony” advises that people not cross their personal

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boundaries of responsibility or interfere in another's business (*yuezudaipao*). Consequently, Chinese managers tend to concentrate their efforts on performing the duties defined in their job descriptions. It is rare for Chinese employees to cross boundaries and to take the initiative to give critical feedback and suggest improvements. Therefore, effective employee participation mechanisms have not been es-

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tablished prevalently in Chinese enterprises. However, the situation may change gradually, as more Chinese firms recognize the benefits of adopting employee participation (Wang & Mobley, 1999). With their increasing education level, Chinese employees, especially those returning from overseas with management education, tend to embrace the concept of employee participation in management.

It also must be noted that only a proportion of FIEs has achieved a high degree of localization of senior management teams. The career development of local managers is constrained by limited opportunity for promotion and by unclear and blocked career paths (Wong & Law, 1999). In SOEs, streamlining of administrative structures puts heavy pressure on Chinese managers to compete for the reduced number of positions.

### ***About the Impact on Performance***

Although previous studies have used different measures of firm performance (Guthrie, 2001; Hartog & Verburg, 2004; Huselid, 1995; Rogg, Schmidt, Schull, & Schmitt, 2001), the findings of our regression analyses are consistent with the general consensus on a positive linkage between strategic HRM practices and firm performance. In our study, we have identified a set of strategic HRM practices that affect both product/service performance and financial

performance. These practices include training, participation, results-oriented appraisals, and internal career opportunities. We consider these practices as the "core" of strategic HRM in Chinese enterprises because they are common in explaining variance in the two performance indices. The significant impact of training on both product/service performance and financial performance confirms previous studies that training and development is perceived as an important strategic HRM practice by managers (Jennings et al., 1995).

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. The results-oriented appraisal system provides substantial incentives for employees to work hard to accomplish their performance objectives. Therefore, it is reasonable to suggest that a results-oriented appraisal system has significant effects on both measures of performance.

Our findings on the significance of the four "core" strategic HRM practices for product/service performance also are consistent with the results of a recent study by Shipton, Fay, West, Patterson, and Birdi (2005), who reported a positive linkage between strategic HRM practices and product innovation. Overall, the four "core" strategic HRM practices provide firm ground for nurturing, involving, motivating, and promoting professional and managerial employees. A practical implication of this finding is that enterprises that have institutionalized these "core" practices will have sustainable competitive advantage over the long term.

We also found that certain strategic HRM practices have a unique influence on one performance measure or the other. Profit sharing significantly influenced only financial performance. A possible explanation could be that managers, motivated by bonuses based on company profits, tend to pursue short-term profitability. In Chinese enterprises, this dynamic has led to insufficient investment in new product and service development. Therefore, we suggest that firms that adopt profit-sharing programs should base bonuses not only on profitability, but also on other

indices—namely, new product development, quality of product and services, and customer satisfaction. Another explanation is that stock sharing as an important component of ownership reform in China has provided an alternative means for financing enterprises. Tseo, Sheng, Zhang, and Zhang (2004) found that firms sell company stocks to employees more for new capital financing than for providing incentives to employees. The financial capital gathered from selling shares to employees provides much-needed investment funding, which in turn brings potential profitable opportunities to the company.

Employment security and job descriptions are two other practices that positively affected product/service performance but not financial performance. In general, employment security has declined considerably in the post-reform era of the Chinese economy. Firms that provide employment security create a supportive environment for organizational innovation (Shipton et al., 2005) and are in a better position to employ committed professionals to enhance new product and service development.

Finally, in Chinese enterprises, job descriptions are the key element in performance appraisal and reward determination. In organizations where performance goals are quantifiable, employees are evaluated by objective and quantified criteria. On the contrary, where performance goals are difficult to quantify, such as product/service performance criteria, clear job descriptions allow employees to understand where their responsibilities lie, thus serving as a basis for accountability and evaluation.

### *Limitations and Future Research Directions*

Although this study contributes to HRM research, its limitations should be acknowledged. First, we used a perceptual performance measurement in this study. Specifically, we used managerial perception of the company's product/service performance and financial performance compared with that of their competitors for the previous three years. Although the perceptual performance

measurement was adopted in previous studies on the HRM and performance relationship (e.g., Delaney & Huselid, 1996), it would still be worthwhile for future studies to investigate the influences of strategic HRM on objective performance measurements, such as the ratio of profit to sales, return on assets, and return on equity.

Second, we performed regression analysis on a cross-section of data gathered at one time to identify the relationship between strategic HRM and performance. It is important to use some longitudinal data in future studies to examine the causal link between strategic HRM practices and firm performance. Third, our data were collected in three main cities, Shanghai, Guangzhou, and Nanjing. Future research may extend the study to the less-developed inland and western regions of China, such as Chongqing, Chengdu, and Xi'an.

Fourth, our sample firms include FIEs, PLFs on p. 18, and SOEs, and the majority of them are FIEs. Although FIEs are no doubt the trendsetters for HRM practices in Chinese enterprises, we should include other ownership types of firms in future studies, especially considering the growing importance of private enterprises in China's economy.

Fifth, we adopted an organizational-level approach in the evaluation of the effectiveness of strategic HRM practices. However, factors at the micro level, such as the level and experience of staff and job poaching, will affect the effectiveness of strategic HRM practices. The interactive effects of organizational-level factors, such as industry with strategic HRM practices, also must be investigated in future studies.

Finally, Chinese managers and employees may differ in their understanding of some of

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the practices, such as participation, from their Western counterparts. As the HRM practices of a country are heavily influenced by its culture (Satow & Wang, 1994), another important research direction for us is to identify strategic HRM practices with unique Chinese characteristics and determine if Chinese strategic HRM practices diverge from or converge with Western strategic HRM practices.

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*The Chinese economy seems to have gained momentum to nurture and develop human capital with the purpose of becoming a knowledge economy.*

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## Conclusion

The past few years have witnessed dramatic developments in strategic HRM practices in Chinese enterprises. Not only have FIEs adopted these practices, but large, reformed SOEs are also in the forefront of making these changes. Our findings support recent assertions by researchers that strategic HRM practices not only are widespread, but also are valued by Chinese organizations.

The Chinese economy seems to have gained momentum to nurture and develop human capital with the purpose of becoming a knowledge economy. A recent trend report

issued by a Chinese social science institute (Wang, 2005) observed that future developments in strategic HRM would be characterized by treating human resources as organizational capital, emphasizing the management of employee knowledge, skills, and capabilities; developing strong corporate culture; making performance appraisals objective and reward systems just and fair; redesigning jobs to facilitate career development; and changing the role of the HR function from one of administrative bureaucracy to one of possessing the strategic role of facilitating and achieving strategic goals. These characteristics of strategic HRM closely reflect HRM trends in advanced economies. We believe that in a decade or two, with some local adaptations, mainstream strategic HRM will prevail in most Chinese organizations.

In the highly competitive Chinese market, a firm's success increasingly will rely on the quality of its human capital. HR departments will have to design systems that enable their organizations not only to attract managerial talent, but also to train, involve, motivate, and reward managers in ways that support organizational strategy. To move in this direction, the four core strategic HRM practices identified in our study should be the fundamental constituents in designing these systems.

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