

THE HUMAN RESOURCE MANAGEMENT ROLE IN TRANSITION: EVIDENCE FROM INDUSTRIAL ENTERPRISES IN CHINA

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Abstract

The Chinese government has launched extensive reforms to encourage integration with the global economy. These reforms have brought significant contextual changes for the human resource (HR) function and human resource management (HRM) practices in Chinese enterprises. Our research investigates the implications for HRM practices of the changing business environment in China, ownership of organizations, organizational strategies, and strategic integration of the HR function. We conducted two surveys in major Chinese cities in 1994/5 and 2001/2, with managers of state-owned, privately-owned, collective-owned and foreign-invested enterprises.

Our results suggest an emerging strategic role for the HR function in Chinese enterprises, with evidence of participation in strategic decision making and a continuing emphasis on the competencies (i.e., qualifications and work experience) of HR managers. Regression analyses showed that organizational strategy and organizational ownership, in contrast with earlier research, were not found to be strong predictors of HRM practices. The changing business environment in China and participation by the HR function in strategic decision making were the strongest predictors of HRM practices. Overall, a strategic role for the HR function and implementation of 'Western' HRM practices are becoming more prevalent in China, although the legacy of traditional practices endures and new challenges are emerging.

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THE HUMAN RESOURCE MANAGEMENT ROLE IN TRANSITION: EVIDENCE FROM INDUSTRIAL ENTERPRISES IN CHINA

Our research aim is to explore whether, with the opening up of the Chinese market, there is evidence of a strategic role for the human resource (HR) function¹ and human resource management (HRM) practices in China. We report the findings of two surveys conducted with managers in China's industrial enterprises in 1994/5 and 2001/2, as part of the Best Practices International HRM (BPIHRM) project (see Geringer, Frayne & Milliman, 2002; Teagarden et al., 1995). First, we examine the Chinese context, highlighting changes in the enterprise ownership structure, integration with the global economy and emergence of HRM in China. Second, we review the literature on organizational strategy and HRM, and the evolution of the HR function and HRM practices in China. Third, we specify our research questions and method. The fourth section provides our research results and discussion. The paper concludes after raising several implications for future research.

THE CHINESE CONTEXT

The economic reforms commenced in the late 1970s in China have brought impressive economic growth and ongoing development of the institutional and conceptual framework for a socialist market economy with Chinese characteristics. These developments were achieved through reforms targeting the two major aspects of the old command economy, that is, central planning and public ownership. The operational reform that has sought to substitute the mandatory central planning system with a market-oriented system has resulted in shrinkage of the old centralized planning system and an increasing role for the market in the economic system, on issues ranging from control over prices to resource allocation. The ownership reform has resulted in a rapid growth of enterprises in the private sector, with more intense competition. In particular, the enterprise reform that is focused on state-owned enterprises (SOEs) has been at the centre of reforms since the early 1990s, with the introduction of a modern enterprise system incorporating restructuring, corporatization, shareholding and marketization (e.g., Chai & Docwra, 1997; Dernberger, 1997; Lo, 1997). As a result, ownership gradually is being separated from the administration of enterprises, particularly in SOEs that have been or are being converted into financially self-sufficient businesses, rather than being administered and subsidized by the state.

Furthermore, amongst developing countries, China has become the largest recipient of foreign direct investment (FDI). FDI in China has grown rapidly from \$4 billion in 1990 to \$40 billion in 2000 and its accumulative real use of FDI reached over US\$568.4 billion by the end of 2001 (*China statistical yearbook*, 2002). China is now considered to be the third largest economy in the world after the United States and Japan. As China needs to further open its protected markets and submit to the rule of international law after becoming a member of the World Trade Organisation (WTO), the government, while urging its businesses and people to 'get on track with the international community' (*gen guoji jiegui*), has pursued reforms in its policies and practices under the communist constitutional rules. These include disengagement from any forms of subsidization of SOEs, the opening of protected domestic markets to foreign enterprises and the revamping of policies and regulations that lack transparency (McDaniels & Waterman, 2000). Organizational ownership has been reported to be an important factor for management in China, given the current policies being furthered by the government are dramatically changing the ownership of business enterprises (see Zhu & Dowling, 2002). Our research explores four major ownership types, that is, state-owned enterprises (SOEs), privately-owned enterprises (POEs), foreign-invested enterprises (FIEs), and collective-owned enterprises (COEs).

The Chinese government is accelerating and deepening its reforms to allow greater economic integration with the rest of the world. The ongoing transition and increasing participation in the world economy has resulted in significant contextual changes for management practices in China's industrial sector, and consequently holds substantial implications for HRM. For example, the influence of organizational ownership on the adoption of HRM practices has been found in several studies (e.g., Braun and Warner, 2002; Ding and Akhtar, 2001). Although the term 'human resource management' (HRM) has flourished in China, many people have used HRM as a synonym for personnel management (Warner, 1999). However,

this term increasingly is used in a broader and different sense than just the traditional concepts of personnel and labor (Deng, Menguc & Benson, 2003; Mitsuhashi, Park, Wright, & Chua, 1999).

Although China is moving into a market-driven economy, there has been little empirical study to explore whether enterprises in China have adopted the organizational strategies that have been documented in other market economies or in a 'Western' context. Further, there is little extant research exploring whether enterprises in China have adopted strategic integration of the HR function and HRM practices, as discussed in market economies. Our research seeks to address these gaps in the literature.

ORGANIZATIONAL STRATEGY AND HUMAN RESOURCE MANAGEMENT

Our study draws upon Porter's (1985) framework of generic strategies of "differentiation" and "cost leadership". This framework was adopted for this research project as it has been argued to provide a "simple set of two relatively distinct means of gaining competitive advantage that might be meaningfully applied on a global basis" (Bowen, Galang & Pillai, 2002: 107). The application of this approach assumes that HRM practices aim to elicit and reinforce employee attitudes and behaviors of the generic strategies identified by Porter (1985; Schuler & Jackson, 1987). For example, it has been widely documented that, in the U.S., changes in the business environment have led to a "*wave of change focused on cost effectiveness*" (Beer, 1997: 49), leading to pressure on the HR function itself to be cost effective. Concomitantly, the need to attract and retain valued employees may generate pressure for the HR function to differentiate on the basis of quality or innovation (Hailey, 2001). Little empirical research has been conducted which examines these relationships outside the U.S. context (Bowen et al., 2002), although Ding and Akhtar's (2001) investigation of Porter's generic strategies in a study of Chinese enterprises provides a notable exception. Ding and Akhtar (2001) found that, compared with cost and quality strategies, the innovation strategy influenced HRM practices. They concluded that this reflected the dynamic nature of the Chinese business environment as it moves towards a market economy.

We build upon the extant research by also drawing upon the resource-based view, as applied to HRM (Boxall & Purcell, 2003). This perspective suggests that human resources can be valued not only for their contribution to a firm's (external) competitive position, but also for providing an internal source of strategic success (Barney & Wright, 1998; Wright, Dunford & Snell, 2001). Given the dynamism of the Chinese context, the manner in which firms use HRM practices to attract, motivate and retain valued employees may be critical for the firm's survival (Ding & Akhtar, 2001). The resource-based view of HRM uses the concept of "organizational capability" (Ulrich & Lake, 1990) to describe the way in which the firm's mix of HRM practices, employees, and the type of organization, can provide a source of competitive advantage. Our research includes exploration of the relationship between an organizational capability strategy and HRM practices.

STRATEGIC INTEGRATION OF THE HR FUNCTION IN CHINA

Changes in the business environment in China have had several implications for the HR function and HRM practices (e.g., Braun & Warner, 2002; Sun, 2000; Zhu, 1997; Zhu & Dowling, 1994). As Beer (1997: 49) has noted: "Competition, globalization and continuous change in markets and technology are the principal reasons for the transformation of human resource management". Although Beer was probably referring to industrialized nations, this transformation is also increasingly evident in China. In organizations in China in the past, the HR function (or HR department) was limited to policy implementation or focused on administrative and welfare tasks in the public sector, especially in SOEs. We postulate that the further integration of China into the global economy, the flourishing of enterprises in the private sector, and the decentralization of decision-making to enterprise-level have brought the need for more strategic involvement of the HR function (e.g., Braun & Warner, 2002; Whiteley, Cheung & Zhang, 2000; Zhao & Ni, 1997). There is broad consensus that *strategic* HRM involves the development and implementation of internally consistent policies and practices which will enhance the capacity of an organization to create and sustain improved performance and a competitive

advantage (Becker & Gerhart, 1996; Boxall & Purcell, 2003; Huselid, Jackson & Schuler, 1997; Wright et al., 2001). Strategic integration of the HR function is a key step in the development of strategic HRM.

Beer (1997: 51) has argued that for the HR function to be effective in the 21st century, it “will have to shed its traditional administrative, compliance, and service role and adopt a new strategic role concerned with developing the organization and capabilities of its managers”. US-based HRM scholars and practitioners appear to agree on the desirability of this transformation, and there is abundant prescriptive literature with regard to the management of this transformation (e.g., Mohrman & Lawler, 1997; Ulrich, 1998). However, the inherent difficulties in transformation attempts have been the subject of considerable discussion, and examples of successful transformation tend to be limited to case studies of Western firms (e.g., Becker & Huselid, 1999; Svoboda & Schröder, 2001; and Truss, Gratton, Hope-Hailey, Stiles & Zaleska, 2002).

In China, recognition of poor enterprise efficiency and productivity, linked with relatively low education levels, created a need for HR development and a national program for vocational training in all SOEs and COEs (Zhu & Dowling, 1994). Management development programs, including training of HR professionals, have been introduced in several major Chinese cities (Benson & Zhu, 2002; Zhu, 1997). Recent research (e.g., Deng et al., 2003; Mitsuhashi et al., 1999) has begun to explore the implications of the HR function and HRM practices for firms in the Chinese context. For example, Ding and Akhtar (2001) found that the strategic role of the HR function, combined with ownership, has an impact on the choice of HRM practices in Chinese enterprises. Similarly, Braun and Warner (2002) found that a large majority of multinational enterprises operating in China reported that the HR function is of high strategic importance in that environment.

If organizations in China seek to follow the example of HR functions in the ‘West’ in performing a strategic organizational role, several characteristics could be anticipated to emerge, based on extant HRM literature, including research conducted in China. First enterprises would be likely to introduce an HR function (or department) (Ding & Akhtar, 2001), and will encounter demand for various competencies in HR managers (Beer, 1997; Benson & Zhu, 2002). The HR function would seek to participate in strategic decision-making (i.e., decision making by senior executives) (Braun & Warner, 2002; Truss et al., 2002), be linked to business strategies and be perceived as effective in the organization (Braun & Warner, 2002; Mitsuhashi et al., 1999; Truss et al., 2002; Wright et al., 2001). In summary, extant literature leads us to suggest that managers in China will seek to develop strategic integration of the HR function. However, if this is a challenge for the HR function in industrialized nations, how feasible is it for the HR function in China to play a strategic role?

HUMAN RESOURCE MANAGEMENT PRACTICES IN CHINA

In this study, we explore some of the contextual variables that influence HRM practices in Chinese enterprises. Many enterprises have HR departments, while all managers may participate in HRM practices on a daily basis. HRM refers to the policies and practices that influence employees’ behavior, attitudes and performance. There are several important HRM practices, including attracting potential employees and choosing employees (hiring), teaching employees how to perform their jobs, preparing them for the future (training), rewarding them (compensation), and evaluating their performance (performance appraisal). Effective HRM practices are developed and used to support business goals and objectives, and have been shown to relate to company performance by contributing to employee and customer satisfaction, innovation, productivity and development of a favorable reputation in the firm’s community (Barney & Wright, 1998; Wright et al., 2001).

While HRM has been widely documented in market economies, there is a growing literature investigating HRM practices in China (e.g., Braun & Warner, 2002; Deng et al., 2003; Ding & Akhtar, 2001; Zhu & Dowling, 1994). The extant research has led to a fairly wide-spread view that traditional HRM practices in China have changed in recent years and “we are witnessing the emergence of a more complex, *hybrid* management model as marketisation advances and as enterprise autonomy increases” (Warner, 1998: 31). Some debate has emerged in extant literature with regard to the question of whether it is feasible to transfer

the HR function, or specific HR practices, between national contexts. A number of authors have endeavored to apply theoretical perspectives to this question (Jackson & Schuler, 1995; Morishima, 1995; Tayeb, 1995). For example, resource-based theorists might argue that firms should base their competitive advantage on the unique elements of the nation's human resources, to create inimitable, sustainable competitive advantage (Wright et al., 1991). In contrast, neo-institutionalist theorists (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) focus on the ways in which innovations are recognized, socialized and diffused, through mimicry, normative pressures, or coercion. There are complementary aspects of these perspectives, despite their different emphases. Tayeb (1995) suggests that it is important to recognize that there is some commonality across national contexts with regard to the practices that comprise HRM, although there is a need to develop an organization's HRM implementation approach with regard to suitability and feasibility within the local/national context.

The best practice approach to HRM has been adopted for this research (Geringer et al., 2002; Teagarden et al., 1995). The concept of best practices is most commonly used to suggest an approach to HRM that integrates strategic and operational levels through the examination of specific HR practices, such as performance appraisal or training programs (Bowen et al., 2002). Hence, we examine the role of the HR function and HRM practices in the context of influential factors in the Chinese context. As Von Glinow, Drost and Teagarden (2002: 135) have commented, "we do not believe that much value can be added by examining single HR practices without examining them within their multiple embedded contexts".

RESEARCH QUESTIONS

The primary purpose of this study is to explore the strategic role of HRM in China. Specifically, this study seeks to answer the following research questions:

1. Is there evidence of a changing business environment in China?
2. What is the status of the HR function in Chinese enterprises?
3. Does the HR function participate in senior executive decision-making?
4. What is the perceived effectiveness of the HR function?
5. Is there a relationship between organizational strategy and adoption of HRM practices in the areas of hiring, training, performance appraisal, and compensation?

In addressing the above research questions, the study draws upon data from two independent surveys conducted with managers of Chinese enterprises in 1994/5 and 2001/2. Comparison of these two surveys enables us to explore some evidence of changes in the role of the HR function and HRM practices across four enterprise ownership types.

RESEARCH METHOD

Samples

The data used in this study were based on surveys conducted in industrial enterprises in four major Chinese cities, i.e., in Shanghai, Nanjing and Tianjing during 1994 and 1995 and then in Beijing, Shanghai and Nanjing during 2001 and 2002. These cities were selected because all are host to enterprises of the four ownership types under examination and are considered to be representative of most industrialised cities in China (*China statistical yearbook*, 2002). For example, Nanjing, the capital city of Jiangsu province, has an economic and technological development zone that has attracted foreign investment.

The number of survey questionnaires distributed to respondents of enterprises with different types of ownership was 850 in the first survey and 900 in the second survey. The response rate was 52% in the 1994/5 survey, with 440 useable questionnaires received and 50% in the 2001/2 survey, with 447 useable questionnaires returned. We excluded non-managerial employees because our focus was on perceptions of managers and supervisors towards organizational level issues of strategy and HRM. This left 317 respondents in the 1994/5 survey and 328 respondents in the 2001/2 survey who were managers and

supervisors at different levels. We believe that the relatively high response rates achieved were mainly due to three factors: seminars offered by the first researcher to explain the purpose and importance of the survey, the anonymous nature of the survey, and the use of snowball, chain or network sampling (Zhu, 1997; also see Babbie, 2004; Culpepper, Zhao & Lowery, 2002). Characteristics of the respondents to the two surveys are shown in Table 1.

Table 1 about here

Measures

We adapted the BPIHRM Project questionnaire, which was developed using a combination of deductive and inductive methods (see Geringer et al., 2002 for details). To minimize the problems such as the validity of questionnaires designed in the West for non-Western societies like China, as raised by some researchers (e.g., Shenkar, 1994; Xie & Johns, 2000), and as recommended for international research (Cavusgil & Das, 1997), the first author, with bilingual skills and personal experience in China, checked the translated questionnaire and made some alterations in the Chinese version. The survey requested data on the respondent's demographic characteristics, perceived changes in China's business environment, organizational characteristics including ownership and strategic approach, the existence of an HR department, competencies in HR managers (i.e., tertiary qualification and work experience), participation of the HR function in senior executive decision-making, perceived effectiveness and importance of the HR function, and adoption of a range of HRM practices. The measures used in this study are outlined below.

Organizational ownership was measured by four types of ownership (SOES, POEs, COEs, and FIEs). For multiple regression analyses, ownership was coded as three dummy variables; the omitted group was the modal category (SOEs).

The *changing business environment in China* was measured by four items, each rated on a Likert-type scale ranging from (1) 'very false' to (5) 'very true'. The items were: marketplace competition has increased dramatically; conditions in our business environment are rapidly changing; government regulations are rapidly changing; and the technology in our product/services is complex. Cronbach's alpha for this scale was .64 in 1994/5 and .62 in 2001/2. Although less than Nunnally's (1978) recommended .70 cutoff, internal consistency coefficients greater than .60 are considered acceptable for exploratory measurement scales (Hair, Anderson, Tatham & Black 1998).

Organizational strategy refers to cost leadership, differentiation and organizational capability. Respondents were asked the degree to which their enterprise used items related to each strategy to be successful. Each item was rated on a five-point, Likert-type scale ranging from (1) 'not at all' to (5) 'to a great extent'. 'Cost leadership' was measured by three items (operating efficiency, competitive pricing, and setting strong performance goals for individual, group and organization). Coefficient alpha for 'cost leadership' was .68 in 1994/5 and .76 in 2001/2. 'Differentiation' was measured by four items (new brand identification, new product development, innovation in marketing techniques and methods, and strong emphasis on research and development). Coefficient alpha for 'differentiation' was .72 in 1994/5 and .75 in 2001/2. 'Organizational capability' was measured by five items (unique corporate culture, effective management of human resources as a source of competitive advantage, the management philosophy highly values employees, and superior management talent and superior employee talent). Coefficient alpha for 'organizational capability' was .73 in 1994/5 and .84 in 2001/2.

The *status of the HR function* was measured by three items, including one item measuring the existence of an HR department, and two items measuring the competency (i.e., tertiary qualifications and work experience) of the HR manager.

Strategic HR participation was measured by a single-item asking respondents to rate on a five-point scale from (1) 'strongly disagree' to (5) 'strongly agree' to what the extent the HR function works closely with senior management on strategic issues.

Perceived effectiveness of the HR function was measured by two items on a five-point, Likert-type scale ranging from (1) ‘strongly disagree’ to (5) ‘strongly agree’, the perceived importance of the HR function, and perception of the HR function’s effectiveness. As these two items were not strongly correlated ($r = .47$ in 1994/5 and $r = .36$ in 2001/2), their responses were not combined to yield a composite scale score.

Finally, adoption of activities in four *HRM practice* areas (hiring, compensation, training, and performance appraisal) were measured on five-point, Likert-type scales ranging from (1) ‘not at all’ to (5) ‘to a very great extent’. Factor analysis resulted in four dominant factors outlined below. A full description of the four HRM practice scales can be found in Zhu (2000). *Hiring practices* consisted of four items related to formal selection criteria and methods that influence hiring decisions: applicant’s ability, experience, written test and personal interview. Cronbach’s alpha coefficient for this scale was .74 in 1994/5 and .70 in 2001/2. *Compensation practices* was measured by four items: incentives important, earnings contingent on group performance, incentives significant portion of earnings, pay raises based on individual performance. Cronbach’s alpha coefficient for this scale was .72 in 1994/5 and .78 in 2001/2. *Performance appraisal* was measured by seven items regarding the purposes for this practice: plan development activities, improve performance, recognition for things done well, discuss subordinate’s views, evaluate goal achievement, identify strengths and weaknesses, and allow subordinate to express feelings. Based on the results of factor analysis, this scale measures performance appraisal for purposes of employee development and communication. Cronbach’s alpha coefficient for this scale was .84 in 1994/5 and .91 in 2001/2. *Training practices* were measured by five items related to its purposes: teach company values, help understand the business, build teamwork within company, improve interpersonal abilities, and provide skills for different jobs. This scale measures assistance given to the employee in adapting to, and interacting with, the enterprise. Cronbach’s alpha coefficient for this scale was .84 in 1994/5 and .90 in 2001/2.

RESULTS AND DISCUSSION

The findings of this study are reported and discussed in two parts. First, we address our research questions by using data from the two surveys to examine: (1) evidence of a changing business environment in China, (2) the status of the HR function, (3) the participation of the HR function in senior executive decision-making, and (4) whether the HR function is perceived as important and effective in the organization. Second, to address our final research question, we use multiple regression to examine the relationship between organizational strategies and adoption of HRM practices (hiring, compensation, training, and performance appraisal), controlling for a range of contextual variables, including ownership type, the changing business environment, degree of HR participation in senior decision making, and presence of an HR department. The results of the regressions are presented separately for each of the two survey periods.

Changing Business Environment

With regard to the business environment in China, when we compared the two surveys (using two-way ANOVA), we found a significant interaction between year and ownership ($p < .01$). Analysis of simple main effects showed that respondents from POEs and FIEs reported significantly higher mean scores on the measure of changing business environment in 2001/2 than in 1994/5. Specifically, FIEs increased from 3.7 to 4.2 and POEs from 3.6 to 4.1. In contrast, mean scores for SOEs and COEs were not significantly different between the two surveys. In the 2001/2 survey there were no statistically significant differences across ownership type. Taken together, these results indicate that changes have taken place in the Chinese business environment, suggesting, in contrast with some previous research (e.g., Ding & Akhtar, 2001), that a level playing field, or a more market-oriented economy, is becoming evident in China (Dernberger, 1997; Warner, 1999; Zhu & Dowling, 2002). Given the dynamism of the business environment, demands on the HR function are likely to increase in complexity. We suggest that these environmental changes bring a challenge for the HR function to play a strategic role in Chinese enterprises.

Table 2 about here

Status of the HR Function

To explore the status of the HR function, we first sought to determine the prevalence of HR departments in our samples. Table 3 shows that in 1994/5, 66% of respondents indicated that their enterprise had a separate HR department, with FIEs (73%) and SOEs (69%) significantly more likely to have a department than COEs (54%) and POEs (47%) ($p < .05$). In the 2001/2 survey, 76% of respondents in enterprises reported the existence of a separate HR department. Based on a chi-square test, this increase was statistically significant ($p < .01$). Between the two surveys, SOEs and COEs showed significant increases in the presence of an HR department (SOEs from 69% to 80%; COEs from 54% to 83%, $p < .05$). The proportion of FIEs reported to have an HR department did not significantly change over the two surveys, with 73% of respondents reporting an HR department at both surveys. In the 2001/2 survey, 65% of respondents from POEs reported an HR department, and although this was up from 47% in 1994/5, the difference was not statistically significant due to the relatively small number of private enterprises.

Table 3 about here

Although in 1994/5 the majority of respondents reported their enterprises had an HR department, only two (both from FIEs) used the term 'human resource' (*renli ziyuan*) to label this department, while others used different names such as 'personnel and administration' (*renshi xingzheng*), 'personnel and labor' (*renshi laodong*) or 'labor and wages' (*laodong gongzi*). This situation has a dramatic change in 2001/2 when 98 respondents (30%) indicated their enterprises used the term 'human resource department' (*renli ziyuan bu*). Although the reporting of the 'human resource' term by more enterprises in the 2001/2 survey does not necessarily mean that traditional personnel and labor administration has been replaced by HRM, it does at least suggest a trend to break from the old concept and practices (Braun & Warner, 2002; Ding & Akhtar, 2001).

Table 3 also reveals the education and experience of HR managers of the enterprises surveyed. In 2001/2, 89% of respondents indicated their enterprises had HR managers with work experience compared with 86% in 1994/5, a difference that was not statistically significant, however. There were also no statistically significant differences within each ownership type between the two surveys. We interpret this finding as evidence of a continuing emphasis on qualifications of managers by all types of enterprises since the reforms of the 1990s. The relatively high proportion of HR managers who are tertiary educated might also indicate a greater exposure to Western concepts of business and management in their education (Benson & Zhu, 2002; Zhu, 1997).

In 2001/2, nearly three quarters (73%) of respondents indicated their enterprises had HR managers with work experience compared with 70% in 1994/5, a difference that was not statistically significant. Although the first survey found that HR managers from COEs were the least experienced (54%), we found no evidence of statistically differences between ownership types nor of significant changes within each ownership type between the two surveys. Taken together, these results suggest that all types of enterprises have placed similar emphasis on HR managers with regard to previous work experience. Enterprises in which the HR function plays a strategic role are more likely to attract, motivate and retain human capital (Ding & Akhtar, 2001), and demands on HR managers are likely to become more complex in the Chinese environment. Overall, these findings raise an interesting implication for the development of strategic HRM: Perhaps greater potential for strategic thinking might be expected of managers with relatively high human capital (Beer, 1997; Ulrich, 1998; Wright et al., 2001). We assume that this, in turn, would reinforce the strategic involvement of the HR function.

Strategic HR Participation

Another measure of the strategic role of the HR function is participation in strategic decision-making (Braun & Warner, 2002). Table 4 shows that in both surveys, respondents' mean ratings of perceived strategic HR participation were above the midpoint of the scale (3) indicating some evidence of HR participation in senior executive decision making. When we compared the two surveys, there was no statistically significant

change on the degree of HR participation in strategic decision making across the two surveys. Again, it should be noted that the increase observed for POEs was not large enough to be statistically significant due to the small number of private enterprises surveyed. There were also no statistically significant differences in the degree of strategic HR participation within or between ownership types in either survey. Taken together, these results indicate a continuing push towards HR participation in strategic decision making across all types of enterprises (Braun & Warner, 2002; Whiteley et al., 2000).

Perceived Effectiveness of the HR Function

Table 4 also indicates the respondents' perception of their HR function's effectiveness. Again, mean responses for each item were above the midpoint of the scale (3) indicating relatively positive evaluations. This might be caused by social desirability or the respondents' caution in evaluating their HR function especially considering the culture in China, which discourages overt criticism and conflict (Culpepper et al., 2002; Weldon & Jehn, 1993). Notwithstanding this limitation, when we compared the two surveys, we found a significant interaction between year of survey and ownership type ($p < .01$). Respondents from COEs reported their HR function to be more important in 2001/2 than in 1994/5 (from 3.4 to 4.3), whereas scores for SOEs decreased slightly from 4.1 to 3.8. No statistically significant differences in perceived importance of the HR function across ownership were observed in the 2001/2 survey. This suggests that HR functions are perceived similarly across different types of enterprises in the 2001/2 survey, contrasting with earlier studies that have found differences, at least between SOEs and FIEs (Braun & Warner, 2002).

Further, with regard to perceived effectiveness of the HR function, we found a statistically significant interaction between year of survey and ownership type ($p < .01$). Again, respondents from COEs reported significantly higher mean scores on the effectiveness measure in 2001/2 than in 1994/5 (from 3.0 to 3.6), whereas scores for SOEs decreased from 3.4 to 3.0. These findings are particularly interesting, given that the number of SOEs will continue to decline. Overall, our findings provide some signals that the HR function is emerging as a strategic player in Chinese enterprises. The current direction of changes in the Chinese economy suggests that demand for this strategic HR role will increase in the future.

Table 4 about here

Linking HRM Practices to the Strategic Context

The aim of this section is to examine, using multivariate analysis, the relationship between adoption of HRM practices in four areas (hiring, training, performance appraisal, and compensation) and organizational strategies, controlling for the changing business environment, ownership type, strategic HR participation, and the presence of an HR department. Tables 5 and 6 present means, standard deviations, and inter-correlations of the above variables in the two surveys. Several of the correlations are noteworthy. For example, the correlations between organizational strategies and HRM practices in both 1994/5 and 2001/2 show only modest correlations. However, the correlations between strategy and HRM practices are somewhat stronger in the second survey. The highest correlation is between performance appraisal and cost leadership strategy in 2001/2 ($r = .42$). Likewise, the impact of the changing business environment on HRM practices and organizational strategies is stronger in the 2001/2 survey. Interestingly, in both surveys, there is little evidence of ownership type having significant relationships with either organizational strategy or HRM practices. This contrasts with the findings of earlier research (Ding & Akhtar, 2001). Perhaps the volatility and dynamism of the Chinese business environment requires a 'mixed' strategy (Porter, 1985). Alternatively, we could speculate that the findings raise a question of how strategic these enterprises are, with respect to their HRM practices. It might be the case that there is a lag between the emergence of demand for a strategic role for the HR function, and implementation of this role in enterprises (Mitsuhashi et al., 1999).

Table 5 about here

Table 6 about here

To further explore this issue, we then conducted multiple regression analyses, using each of the four HRM practice areas as the dependent variable in each, respectively. Each of the four dependent variables were regressed on to the variables of changing business environment, organizational strategies, strategic HR integration, and ownership (public and private). The relationships were tested using multiple regression to control for variables simultaneously and to take into account the inter-correlations of the independent variables. This allows us to estimate the 'unique' contribution of each independent variable to the model after controlling for other independent variables in the model. Although there was a relatively large correlation between cost leadership and organizational capability in the 2001/2 survey ($r = .69$), colinearity diagnostics using the Tolerance Test also confirmed that the regression coefficients were not degraded by multicollinearity. Pairwise deletion was used for missing data. Analysis of the residuals revealed no consequential departures from normality, linearity and homoscedasticity. Table 7 presents the results of the regression analyses.

Table 7 about here

Hiring practices

In 1994/5, compared with SOEs, private enterprises (POEs and FIEs) and COEs were more likely to use hiring practices that reflect formal selection criteria and methods. Greater organizational capability was also significantly associated with more use of hiring practices. In 2001/2, having a separate HR department was significantly related to greater use of hiring practices (Beta = .20). Significant positive relationships were also found between the use of hiring practices and the changing business environment, degree of HR participation, and the use of a differentiation strategy. The unstandardised partial regression coefficients show the increased impact of the above variables on adoption of hiring practices in the 2001/2 survey. In a dynamic competitive environment, attraction of human capital becomes a strategic imperative. These findings suggest that, at least with regard to hiring practices, there appears to be a strategic role for the HR function (Zhu & Dowling, 2002).

Performance appraisal

In 1994/5, there were statistically significant positive relationships between POEs and the changing business environment and greater use of performance appraisals. In 2001/2, the strongest predictor of performance appraisal was the degree of HR participation (Beta = .23), with greater participation predictive of performance appraisals. There were significant positive relationships between the changing business environment, differentiation, and cost leadership strategies and use of performance appraisals. Compared to state-owned enterprises, FIEs were also significantly more likely to use performance appraisals in the 2001/2 survey. These findings may reflect the constraints peculiar to performance management in China. Accountability and efficiency have been major challenges for Chinese management (Zhu & Dowling, 1994), so it is not surprising to find an emerging connection between organizational strategies and performance appraisal practices.

Compensation practices

In 1994/5, there was a significant positive relationship between the changing business environmental and use of compensation practices (Beta = .21). In 2001/2, the changing environment (Beta = .27) and strategic HR participation (Beta = .19) were the strongest predictors of compensation practices. The unstandardized regression coefficients show the significantly increased impact of these two variables on adoption of compensation practices in the 2001/2 survey. These results reflect the importance of attracting, motivating and retaining human capital. We speculate that compensation will develop as a substantial and complex challenge for the HR function as China moves towards a market economy (see Zhu, De Cieri & Dowling, 1998).

Training practices

In 1994/5, there were significant positive relationships between training practices and the changing business environment, the degree of HR participation, differentiation strategy, and presence of a HR department. Compared to state-owned enterprises, FIEs and COEs were also more likely to use training practices. In 2001/2, strategic HR participation was the strongest predictor of training (Beta = .18). Increased focus on a differentiation strategy was also significantly related to greater use of training practices. As in 1994/5, compared to state-owned enterprises, FIEs and COEs were more likely to use training practices. However, unlike in 1994/5, the changing business environment and presence of a HR department were not statistically significant in the prediction of training practices. It may be that government policy on HR development, combined with changing business environment, has resulted in some training practices being established for at least a decade in Chinese enterprises (Benson & Zhu, 2002; Zhu & Dowling, 1994). Despite this, FIEs and COEs still lead the way in utilizing training practices.

LIMITATIONS AND IMPLICATIONS FOR FUTURE RESEARCH

There are several limitations to the study. First, this study utilized the best practice approach to HRM, although we acknowledge that considerable discussion has emerged amongst HRM scholars, with regard to the best practice, configurational and contingency approaches to HRM (see, for example, Delery & Doty, 1996). Future research may benefit from the application of alternative approaches and theoretical perspectives to the study of HRM in China. Second, the use of convenience sampling limits the generalizability of the survey findings and our reliance on self-report rating scales may expose the study to error and response bias, particularly in a cross-cultural context (Mitsubishi et al., 1999). Third, the measures developed in this study require further psychometric evaluation in respect of their reliability and validity. For example, although having face validity, we have no data on the reliability and validity of the single-item measure of strategic HR participation used in this study. Fourth, we note that the two surveys utilized were cross-sectional in nature. Future research might consider using a longitudinal design to examine changes in HRM in China. A longitudinal design facilitates the study of change by providing a baseline for comparison. Another interesting area for future research is to examine the external validity or generalizability of the findings to other settings in China, including enterprises in rural and remote areas. A final limitation is that we could not examine the relationships between organizational strategy, HRM practices and organizational performance. In particular, while the resource-based view perspective provides the justification of why HRM should become more strategic, our study does not extend to an examination of whether the adoption of certain HRM practices will result in superior firm performance in China. This remains an important area for future research. Another area that would be interesting to explore in future research is the question of whether Chinese enterprises will need to work through the same developmental stages in the HR function as have been observed in Western contexts, before HRM can be strategically integrated in organizations.

CONCLUSION

This paper contributes to the growing literature on the changing HR function in China, by reporting an empirical study of the emerging strategic role for HRM in Chinese enterprises. Our study differs from previous research by reporting two time periods, each capturing quite distinct pictures of HRM in China. The results have raised several interesting implications. First, along with the changing business environment, a more level playing field has appeared for the enterprise ownership types. This appears to be a recent development, as it contrasts with earlier studies that have documented differences between ownership types. We suggest that this development creates a challenge for the HR function to play a strategic role, in order to deal with the complex demands of the dynamic Chinese context. Second, the majority of enterprises surveyed had an HR department in 2001/2 and more of them used term 'human resource department' rather than personnel or labor department. There is evidence of a continuing push towards enhancing the competencies (i.e., qualifications and work experience) of HR managers and their participation in senior executive decision making across all types of enterprises. Many HRM practices prevalent in advanced market economies were observed in Chinese enterprises in both surveys. Compared with the 1994/5 findings, the 2001/2 findings show a move away from HRM practices with Chinese characteristics.

We found modest bivariate correlations between organizational strategies and HRM practices in both 1994/5 and 2001/2. These moderate effects are consistent with previous research on the relationship between organizational strategy and HRM practices in both Western and non-Western countries (Bowen et al., 2002). However, once we controlled for other contextual variables, organizational strategy was not a powerful driver of HRM practices. Only the organizational strategy of 'differentiation' was consistently found to be predictive of HRM practices in the regression analyses. In their cross-country study, Bowen et al. (2002) also found that the relationship between 'differentiation strategy' and HRM practices is stronger in Asian countries. Drawing upon the conclusions made by Ding and Akhtar (2001), one explanation for this may be that this finding reflects the competitive demands of the Chinese business environment as it moves towards a market economy.

The findings of this study indicate that strategic HR participation and the changing business environment in China have the strongest influence on adoption of HRM practices. Interestingly, aside from the area of training, organizational ownership has little influence on adoption of HRM practices above and beyond the variables of HR participation and the changing business environment. In both surveys, findings suggest HR managers were involved in strategic decision making of the firm, and in 2001/2, the degree of participation has an increased impact on adoption of HRM practices. Changes in the business environment emerged as a significant influence on the adoption of HRM practices; this probably reflects the further integration of China into the global economy and the subsequent impact on managerial practices. The 2001/2 results also show that the impact of the changing business environment did not differ by ownership type.

In conclusion, comparison of the two surveys suggests that a strategic role for the HR function and adoption of HRM practices often employed in market economies are becoming more prevalent in China, although the legacy of traditional practices can still be observed. Overall, it is premature to pronounce that HRM practices in China have definitely converged towards a Western style of *strategic* HRM, as noted by Warner (1999). China has experienced and is still in a period of great reform.

ENDNOTE

- ¹. The terms 'HR function' and 'HR department' are used interchangeably in this paper.

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Table 1: Profile of Survey Respondents in 1994/5 and 2001/2 (Percentage)

	1994/5 Survey	2001/2 Survey
<i>Age</i>		
• Less than 30	14	28
• 30-39	39	30
• 40-49	36	27
• 50-59	10	15
• 60 and over	1	0
<i>Gender</i>		
• Female	27	35
• Male	73	65
<i>Highest level of education</i>		
• High school certificate or less	16	10
• Tertiary diploma (2-year university certificate, <i>dazhuan</i>)	48	31
• Tertiary degree (4-year university Bachelor's degree, <i>benke</i>)	32	42
• Some postgraduate education (one-year postgraduate diploma)	1	7
• Post-graduate degree (Master degree or above)	3	10
<i>Percentage of respondents from different types of organisations</i>		
• State-owned enterprises (SOEs)	56	54
• Privately-owned enterprises (POEs)	5	11
• Collective-owned enterprises (COEs)	17	6
• Foreign-invested enterprises (FIEs)	22	30

Table 2: The Business Environment Faced by Enterprises (Means and Standard Deviations)

	Year of Survey	SOEs		POES		COEs		FIEs	
		M	SD	M	SD	M	SD	M	SD
Changing business envt.	1994/5	4.0	0.5	3.6	0.6	3.8	0.5	3.7	0.7
	2001/2	4.0	0.5	4.1	0.5	4.0	0.6	4.2	0.5

Table 3: Status of HR Department and Competence of the HR Manager (Percentage)

	Year of survey	SOEs %	COEs %	POEs %	FIEs %
A separate HR department	1994/5	69	54	47	73
	2001/2	80	83	65	73
HR manager who attained tertiary education	1994/5	87	82	82	87
	2001/2	87	4	90	93
HR manager who had similar work experience	1994/5	71	54	77	78
	2001/2	70	72	65	82

Table 4: Strategic HR Participation and Perceived Effectiveness of HR Department (Means and Standard Deviations)

Variables	Year of Survey	SOEs		POEs		COEs		FIEs	
		M	SD	M	SD	M	SD	M	SD
1. HR dept. works closely with the senior management group on the key strategic issues facing the enterprise.	1994/5	3.7	0.8	3.5	0.9	3.7	0.8	3.9	0.7
	2001/2	3.5	0.9	3.8	0.8	3.8	1.1	3.8	0.9
2. HR dept. is viewed as an important department in the enterprise.	1994/5	4.1	0.6	3.6	0.8	3.4	0.8	4.0	0.7
	2001/2	3.8	0.8	3.8	0.9	4.3	0.8	3.8	0.7
3. HR dept. is viewed as an effective department.	1994/5	3.4	0.7	3.3	0.6	3.0	0.9	3.4	0.7
	2001/2	3.0	0.9	3.0	1.1	3.6	0.8	3.3	0.9

Table 5: 1994/5 Survey: Means, Standard Deviations, and Correlations

	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1 Changing business envt.	3.90	0.56													
2 Org. strategy: cost leader	4.00	0.51	.23**												
3 Org strategy: differentiation	4.12	0.52	.19**	.62**											
4 Org strategy: capability	4.06	0.45	.23**	.55*	.52*										
5 HR participation	3.76	0.83	.00	.08	.10	.11									
6 Hiring	3.76	0.53	.09	.07	.11	.19*	.10								
7 Compensation	3.46	0.54	.26**	.17**	.22**	.21**	.15**	.35**							
8 Training	3.38	0.58	.18**	.18**	.23**	.21**	.20*	.42**	.65**						
9 Perf. appraisal	3.27	0.62	.13*	.05	.11	.08	.07	.40**	.58**	.67**					
10 SOE	0.54	0.50	.23**	.12*	.08	.03	-.03	-.16**	.06	.01	-.01				
11 POE	0.05	0.22	-.13*	.07	.02	.02	-.09	.10	-.01	.10	-.13**	-.26**			
12 COE	0.17	0.38	-.06	-.13*	-.09	-.06	-.03	.11	-.05	-.03	-.06	-.52**	-.11		
13 FIE	0.22	0.41	-.15**	-.09	-.05	-.01	.10	.07	-.03	-.03	.00	-.59**	-.12*	-.24**	
14 Separate HR dept	0.66	0.47	.13*	.11	.03	.06	.17**	.09	.16**	.21**	.10	.06	-.09	-.12*	.07

* p < .05. ** p < .01.

Table 6: 2001/2 Survey: Means, Standard Deviations, and Correlations

		M.	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1	Changing business envt.	4.07	0.52													
2	Org. strategy: cost leader	4.00	0.60	.34**												
3	Org strategy: differentiation	4.00	0.67	.29**	.63**											
4	Org strategy: capability	4.06	0.45	.26**	.69**	.62**										
5	HR participation	3.58	0.90	.19**	.19**	.21**	.22**									
6	Hiring	3.77	0.52	.24**	.16**	.26**	.21**	.25*								
7	Compensation	3.46	0.62	.37**	.28**	.27**	.28**	.29**	.18*							
8	Training	3.51	0.66	.28**	.36**	.36**	.36**	.30**	.34**	.69**						
9	Perf. appraisal	3.44	0.65	.32**	.41**	.40**	.33**	.32**	.32**	.67**	.74**					
10	SOE	0.52	0.50	-.11	-.18**	-.11	-.11	-.08	-.06	-.16**	-.24**	-.22**				
11	POE	0.11	0.31	.00	.02	.09	.10	.07	.02	.06	.10	.06	-.38**			
12	COE	0.06	0.23	-.04	.06	.00	-.03	.06	.10	.05	.10	.06	-.26**	-.09		
13	FIE	0.30	0.46	.15*	.15*	.04	.06	.02	.04	.12*	.15**	.19**	-.70**	-.23**	-.16**	
14	Separate HR dept	0.77	0.42	-.03	-.12	.00	-.04	.03	.21**	-.08	-.03	-.10	.09	-.10	.04	-.05

* p < .05. ** p < .01.

Table 7: Multiple Regressions – Predicting HR Practices

	Hiring		PERF. APPRAISAL		COMPENSATION		Training									
	1994/5	2001/2	1994/5	2001/2	1994/5	2001/2	1994/5	2001/2								
Changing Bus. Evt.	.09	(.10)	.17**	(.16)	.15*	(.14)	.17*	(.14)	.20*	(.21)	.32*	(.27)	.14*	(.13)	.16	(.12)
Differentiation	.05	(.05)	.14**	(.18)	.15	(.12)	.20*	(.12)	.15	(.15)	.07	(.08)	.18*	(.16)	.15*	(.15)
Cost leadership	-.08	(-.08)	-.08	(-.09)	-.11	(-.09)	.17*	(.16)	-.06	(-.05)	-.06	(-.05)	.07	(.06)	.07	(.07)
Org. capability	.22**	(.19)	.07	(.08)	.03	(.02)	-.01	(-.01)	.12	(.10)	.12	(.09)	.16	(.14)	.16	(.14)
HR participation	.05	(.07)	.09**	(.16)	.04	(.06)	.17*	(.23)	.07	(.11)	.13*	(.19)	.11*	(.16)	.14*	(.18)
POE	.39**	(.16)	.04	(.02)	.45*	(.16)	.11	(.05)	.07	(.03)	.09	(.05)	.40	(.15)	.21	(.10)
FIE	.16**	(.13)	.06	(.05)	.04	(.03)	.21*	(.05)	-.02	(-.01)	-.11	(.08)	.21**	(.15)	.21*	(.15)
COE	.25**	(.18)	.23	(.10)	-.03	(-.02)	.19	(.07)	-.01	(-.00)	-.19	(.07)	.35**	(.12)	.35*	(.12)
Separate HR dept	.09	(.08)	.25**	(.20)	.12	(.09)	-.11	(-.07)	.13	(.11)	-.10	(.07)	.22**	(.18)	-.00	(-.00)
R ²	.10		.19		.06		.31		.13		.23		.15		.26	

* p < .05. ** p < .01. Standardised (Beta) regression coefficients in parentheses.