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This paper has not undergone formal review or approval of the faculty of the ILR School. It is intended to make results of Center research available to others interested in preliminary form to encourage discussion and suggestions.

ABSTRACT

This paper examines the differences in perceptions of the importance and effectiveness of HR practices in firms operating in the People's Republic of China. The major finding is that while there are no significant differences between HR and line executives' perceptions of the importance of each functional area in HRM, there are significant differences between line and HR executives' perceptions of the effectiveness of these areas.

Line and HR executives both view the issue of securing, developing, and maintaining human resources as a critical issue for the execution of daily operations and long-term strategic plans. However, line executives perceive HR performance effectiveness to be significantly lower than HR executives do in these functional areas. Therefore HR departments are not meeting the performance expectations of line executives.

There are three possible reasons for the poor performance of HR departments. First, government intervention may limit HR departments' ability to act strategically. Second, HR departments may not have enough power to act strategically. Third, HR departments may have few capabilities to respond to line executives' demands. (172 words)

The People's Republic of China, Effectiveness, HR activities, Line executives, Line executives' evaluation of HR, Strategic human resource management

INTRODUCTION

There is little doubt that the People's Republic of China (PRC) has become one of the most attractive business markets for foreign investors. The 1997 PRC economic statistics indicate that (1) GDP grew by 8.8% and the retail price index rose just 0.8%; (2) foreign exchange reserve reached U.S. \$140 billion; (3) overseas-funded businesses created 17 million jobs; (4) the trade surplus reached over 40 billion U.S. dollars; and (5) 30,000 overseas-backed businesses involving approximately 200 billion U.S. dollars of investment were approved by the government (Chinese Embassy, 1998). It is apparent that the booming attractiveness of the PRC as a business hub has increased researchers' and practitioner's interests in people practices and organizations there.

Changes in the organizational environment in the PRC have facilitated transitions from the traditional Chinese ways of people management or the "Iron-Rice-Bowl" approach to the Western or "import/non-traditional" approach (Ding, Fields and Akhtar, 1997; Goodall and Warner, 1997; Warner, 1995; Zbu and Dowling, 1994). As a result of increasing competition brought about by the stream of multinational firms entering the PRC, firms are realizing the need to focus on business efficiency and effectiveness (Shenkar and Chow, 1989). These needs translate into the need to groom people to become a source of competitive advantage for the firm. With the transition of HR practices and the increased competition in the PRC market, the traditional roles of HR functions have been questioned, and new roles that place a strong emphasis on the achievement of organizational goals through people have been proposed (Goodall and Warner, 1997; Warner, 1995; Wilhelm and Xia, 1993; Zhu and Dowling, 1994).

Existing research in the field of PRC HRM have left unexplored questions regarding the extent to which HR departments respond to changes in their internal customer needs; the extent to which HR activities help organizations increase organizational performance; and the extent to which HR departments conduct their business effectively. This lack of answers is due to the fact that the previous research tended to overlook the strategic aspects of HRM (Verburg, 1996) or typically only provided narrative organizational stories about people management in the PRC. HRM should be viewed as a system of interdependent HR practices (i.e. compensation, performance appraisal, etc.) that drives organizational members to achieve organizational goals, rather than as a collection of independent practices where the emphasis is placed on the outcome of each individual HR practice (Wright and Ferris, 1996). The emerging concept of the "strategic partner" (Barney and Wright, 1998; Schuler, 1992; Ulrich,

1998) contends that HR departments should help line managers resolve business issues and align HR's interests with the achievement of organizational goals.

The purpose of this study is to elucidate the extent to which the activities of HR departments in firms operating in the PRC meet their internal customers' (line executives') demands, i.e., to what extent HR departments conduct their business effectively. Our arguments and propositions are primarily based on questionnaire surveys conducted in 1997 which examined both line and HR executives' perceptions of the importance of HR functional areas and the overall effectiveness of HR departments. Comparing line and HR executives' perceptions enabled us to analyze HR departments' responsiveness to internal customer demands. Given that successful strategic HR management begins with HR's responsiveness to strategic business needs (Schuler, 1992), line executives' perceptions of the effectiveness and importance of HR practices will help to indicate the potentials that HR departments have in regard to becoming real business partners (Barney and Wright, 1998; Ulrich, 1989; Ulrich, Brockbank, Yeung, and Lake, 1995). If this study has shown anything of importance, it is that line people's evaluations of HR activities must be taken seriously in order to construct a strong connection between organizational performance and HR activities.

This paper is organized as follows. First, we present a brief overview of people management in firms operating in the PRC with a primary focus on the transitions of HR practices and the changing roles of HR departments. Next, we present the results of the analysis of data obtained from line and HR executives using non-parametric tests (Siegel, 1956) and ordered logistic regression (Agresti, 1996). Finally, we discuss the results and their implications.

PEOPLE MANAGEMENT IN PRC

Recent economic transformations in the PRC, including privatization and decentralization (i.e. movement away from centralized economic planning to a quasi-market economy), have forced HR departments to take on new roles (Wright, Mitsuhashi and Chua, 1998b). In the traditional economic system prior to the 1980s, the principal roles of state-owned firms and their HR departments were geared towards stabilizing the national economic growth, rather than to increasing organizational performance.

First, the "Iron-Rice-Bowl" concept, the dominant and traditional HR model prior to the labor reform (Goodall and Warner, 1997), was designed to guarantee lifetime employment with an emphasis on managing employee needs through wages, housing, and medical and social insurance (Verburg, 1996; Warner, 1995). This approach resulted in policies of no

layoffs/firings, egalitarian pay systems, group-based rewards, and cradle to grave welfare coverage (Goodall and Warner, 1997). HR's role was to provide stable employment and to maintain employees' standard of living through egalitarian reward structures and various forms of benefits programs¹.

The second role that HR functions had to fulfill was to help organizations achieve production goals assigned by the State (Zhu and Dowling, 1994). The most crucial goal of organizations was to fill production quotas in an environment where the State controlled all resources and centralized the allocation of material supplies. The complete lack of organizational autonomy and managerial discretion coupled with a dictatorial government administration suppressed the development of better business actions. Thus, managers concentrated on completing the assigned quotas without examining the wisdom of their actions. Centralized market systems, where competition is discouraged or eliminated, provided few incentive mechanisms for organizations to improve design and quality, reduce costs, or increase productivity (Zhu and Dowling, 1994). In short, strategic HR issues such as resolving business problems, managing the number and types of employees necessary for achieving organizational goals, and aligning employees' interests with organizational goals, were not of much importance under the traditional social structure.

However, recent economic transformations exhort firms to become competitive to survive, and management to take responsibility for managing organizations and conducting prudent business (Shenkar and Chow, 1989). The current observable transformation in the field of HRM further echoes this trend of macro economic transformations: One, the recent development of contractual labor systems allows firms to control the number and quality of employees based on business needs (Ding et al., 1997; Goodall and Warner, 1997; Verburg, 1996). Two, organizational endeavors to implement "post plus skill" systems are aimed at increasing organizational competitiveness via the emphasis of rewards for individual performance (Goodall and Warner, 1997; Warner, 1995). Three, the new social insurance system transfers the management of social welfare from the State to the firms. This transfer resulted in firms becoming more cost-conscious about a variety of social insurance including pensions, medical, accident, disability, maternity, and unemployment expenses (Goodall and Warner, 1997; Warner, 1995). Four, the recent economic reforms attempt to inaugurate new

¹ It deserves adding that contributing to the stability of national political systems was also another important role of HR departments (i.e. Wilhelm and Xia, 1993; Ventinsky, Tse, Wehrung, and Lee, 1990; Von Glinow and Teagarden, 1988). However, it is not necessary for the purpose of this paper to enter into a detailed discussion of this issue of party influence in organizations.

rules of management where increasing competitiveness and efficiency/effectiveness have now become imperative issues for both management and HR departments.

Though hastening the shift in focus to meet these new management objectives has taken priority in companies, many factors hinder the process of transforming HR departments into “strategic partners.” First, ambiguous government policies and regulations often stagnate the processes (Wright et al., 1998b). Tsang’s (1994) observations shed a most compelling light on this issue. He found that despite the implementation of individual-based labor contracts, a joint venture in the PRC is still unable to fire workers at their own discretion. The approval of the local labor bureau must be obtained. He also reported that in the case of Beijing Jeep Corporation, a widely publicized joint venture between Beijing Automotive Works and Chrysler Corporation, the Beijing Municipality had pressured the company to employ more workers than needed in exchange for managerial discretion over worker assignments. While it is obvious that macro economic systems are being driven towards a quasi-market economy, government administration and control over HR matters remain so strong that organizations still do not have enough autonomy to implement strategic HRM. (See Wright and McMahan (1992) for theoretical arguments on the impact of government regulations on strategic HRM).

Second, the lack of suitably qualified or skilled personnel in the PRC continues to be a prime problem faced by many firms (Lu and Chen, 1990; Mayer, Han and Lim, 1990; Tsang, 1994; Wright et al., 1998b; Zhu and Dowling, 1994). The Cultural Revolution, which largely demeaned and derogated formal university education, resulted in a significant lack of qualified candidates for middle-management positions. Tsang (1994: 12) noted that “people over 45 have experience but do not speak English; people under 25 speak English, but have no experience; and the group from which middle managers should come ... the 25-45 year old - they lack both skills and experience” (see also Mayer, Han and Lim, 1990). This labor market condition has incapacitated organizations’ efforts at matching current staff availability with strategic business needs.

Third, the previous institutional systems are so embedded that firms often vacillate between the implementations of new and old practices (Verburg, 1996; Zhu and Dowling, 1994). Despite management’s growing interest in performance-based incentives, the egalitarian mindset, which had been deeply entrenched in employees, prevents firms from implementing pay-differentials among workers (Goodall and Warner, 1997). Harmony in some workplaces is affected where high performers become a target of jealousy by other workers, when firms implement merit pay plans for individuals (Verburg, 1996). In some firms,

specifically the state-owned firms, the emphases are still on bureaucracy, supervision, and control via punishment or negative rewards (Goodall and Warner, 1997; Verburg, 1996).

Finally, due to the rapid economic expansion, firms do not have enough resources and time to implement systematic training programs (Verburg, 1996). Firms typically give priority to technical issues (Wilhelm and Xia, 1993) and to the improvement of production skills (Verburg, 1996). Little resources and time are left for the grooming of human capital with high capabilities for problem identification and resolution. Further, training systems in firms do not seem to alleviate the existing dearth of qualified labor.

Although HR departments are urged to adopt a more strategic orientation and to contribute to the firms' competitiveness, several factors significantly debilitate the process of transforming HR departments into "strategic partners." While firms are now required to be competitive, HR departments are given limited opportunities to perform strategic work and to contribute to organizational competitiveness. The effectiveness of the HR departments in firms operating in the PRC has rarely been analyzed empirically. Few researches, if any, examined the performance and effectiveness of HR departments as "strategic partners" in firms doing business in the PRC. Our data analyses, following an overview of the methodology, will uncover the extent to which HR departments in the PRC satisfactorily perform their roles and whether or not they are real "strategic partners."

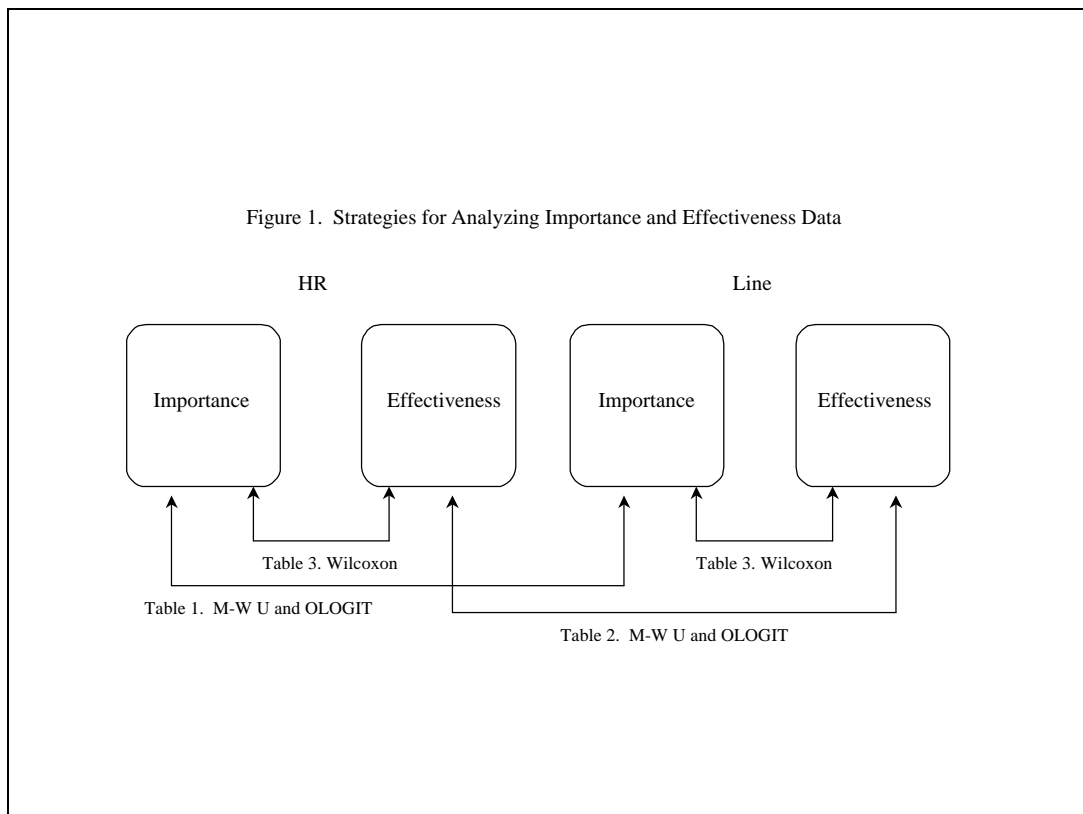
METHODS

The survey was conducted during the Summer and Fall of 1997. We faxed invitation letters to HR directors for the Asia region of 25 multinational companies and invited them to have their firms participate in the study. Executives in 7 of the firms agreed to participate and oversee the distribution of the surveys. These executives were sent packets containing 2 to 7 each of the line and HR surveys with instructions to distribute them to the top HR managers and line managers in each operation located in Mainland China.

Of these we received completed surveys from 12 HR and 14 line executives. Of the line executive sample, 92% were male and 8% were Chinese nationals (30% holding U.S. citizenship and 53% holding citizenship from other countries) with an average age of 39.1 years and average experience of 12.6 years with 1.8 years in their present position. Of the HR respondents, 58% of the sample were male and 42% were Chinese nationals with an average age of 36.4 and average experience of 10.3 years with 3.2 years in their present position.

Although the survey consisted of both Likert-type response items and open ended questions², we only analyzed the results of the Likert-type response items for this study. The first section of the survey solicited both line and HR executives' perceptions of the importance of various HR functional areas. The second section gathered the respondents' perceptions of the effectiveness of these HR functional areas. The third section ascertained the perceived effectiveness of the HR department in the firm from a strategic point of view. Details of the variables are available in Appendix 1. The measurements used in this study were developed by Wright et al. (1998a).

Our data analysis approach for the first two sections is summarized in Figure 1.



Since the survey asked line and HR executives about their perceptions of the importance and the effectiveness of HR departments, there are four types of sub-data sets: (1) HR executives' perceived importance, (2) HR executives' perceived effectiveness, (3) line executives' perceived importance, and (4) line executives' perceived effectiveness.

² The results of the open-ended questions are reported in Wright et al. (1998b).

Comparisons between HR and line executives' perceived importance and HR and line executives' perceived effectiveness are conducted using the Mann-Whitney U test (M-W U) (Siegel, 1956) and ordered logistic regression (OLOGIT) (Agresti, 1996). Because of the limited number of observations, it is inappropriate to use independent-sample t-tests in this situation (Moore and McCabe, 1992). M-W U, a nonparametric test, determines whether two sampled populations are equivalent in location, and is "a most useful alternative to the parametric t-test when the researcher wishes to avoid the t-test's assumptions" (Siegel, 1956: 116). OLOGIT allows us to construct a regression model with categorical and ordered dependent variables. Given that the independent variable is a dummy variable that indicates whether a respondent is a line or HR executive, the regression coefficient will show us whether the distinction between line and HR executives significantly accounts for the variance of the dependent variables (i.e. various measurements of importance and effectiveness). The regression coefficients will also indicate the direction and strength of the association. Pseudo- R^2 will measure the amount of the variance of the dependent variables the HR/line dummy variable explains. We used SPSS 7.5 for the M-W U analysis and STATA 5.0 for the OLOGIT analysis.

The gaps between HR executives' perceived importance and effectiveness and between line executives' perceived importance and effectiveness are examined using the Wilcoxon matched-pairs signed-rank test (Wilcoxon) (Siegel, 1956). The ranks of the absolute values of the difference between the two variables will provide an indication of the size of the difference between the two members of a pair. In other words, it is a nonparametric version of a paired-samples t-test. We used SPSS 7.5 for the Wilcoxon analysis.

Finally, the M-W U and OLOGIT were again utilized to analyze the final section of the survey on the perceived effectiveness of HR departments as rated by both HR and line executives.

RESULTS

The first section of the survey measured the perceived importance of each of the HRM functional areas. Both line and HR executives rated their perceived importance of such HR areas as compensation, performance-based incentives, training, and performance management. The results are presented in Table 1.

Table 1. Perceived Importance of Functional Areas in HRM by HR and Line Executives¹

| | HR | | Line | | Diff. | Nonparametric | | OLOGIT ² | | |
|-------------------------------|-------|-------|-------|-------|--------|--------------------|------|---------------------|---------------------|----------------|
| | Mean | S.D. | Mean | S.D. | | M-W U ³ | Sig. | b. | Sig. | R ² |
| 1 Compensation | 6.167 | 0.588 | 5.856 | 1.658 | 0.311 | 82.500 | | 0.062 | | 0.000 |
| 2 Performance-based Incentive | 5.917 | 0.669 | 5.643 | 1.499 | 0.274 | 83.000 | | -0.043 | | 0.000 |
| 3 Training | 6.417 | 0.793 | 5.929 | 1.269 | 0.488 | 63.000 | | -0.921 | | 0.026 |
| 4 Performance Management | 5.400 | 1.075 | 4.929 | 1.385 | 0.471 | 57.000 | | -0.620 | | 0.009 |
| 5 Communication | 5.750 | 1.215 | 4.714 | 1.204 | 1.036 | 47.500 | | -1.499 | | 0.055 |
| 6 Staffing | 5.583 | 0.996 | 5.786 | 1.528 | -0.203 | 66.500 | | 0.693 | | 0.013 |
| 7 HR Initiative for Goals | 6.000 | 1.045 | 5.308 | 1.251 | 0.692 | 52.000 | | -1.184 | | 0.036 |
| 8 Measurements | 4.833 | 1.115 | 4.214 | 1.251 | 0.619 | 59.500 | | -1.059 | | 0.028 |
| 9 Responsibilities | 4.917 | 1.165 | 4.571 | 1.158 | 0.346 | 66.500 | | -0.693 | | 0.012 |
| 10 Commitment | 5.500 | 1.508 | 5.857 | 1.512 | -0.357 | 59.500 | | 1.167 | | 0.034 |
| 11 Labor Relations | 4.500 | 1.382 | 4.357 | 1.550 | 0.143 | 79.500 | | -0.170 | | 0.001 |
| 12 Benefits | 3.583 | 1.621 | 4.429 | 1.555 | -0.846 | 59.000 | | 0.959 | | 0.020 |
| 13 User-friendly Benefits | 4.000 | 1.706 | 4.357 | 1.499 | -0.357 | 81.000 | | 0.114 | | 0.000 |
| 14 Legal Support | 5.250 | 1.545 | 5.357 | 1.277 | -0.107 | 81.500 | | 0.098 | | 0.000 |
| 15 Diversity | 4.750 | 1.712 | 4.714 | 1.490 | 0.036 | 80.500 | | -0.135 | | 0.000 |
| | | | | | | | | | Mean R ² | 0.016 |

1: * p < .05 ** p < .01 p < .001

2: The independent variable in ordered logistic regression: line executives are coded as 1.

3: Mann-Whitney U Tests

We found that there are no significant differences between HR and line executives' perceptions in terms of the importance of each functional area in HRM. Although there seems to be some variances across these areas, what HR executives considered to be important were also considered by the line executives to be important. The three most important functional areas perceived by the line executives include (1) *Training* (mean = 5.929), (2) *Commitment* (mean = 5.857), and (3) *Compensation* (mean = 5.856). The three most important areas perceived by the HR executives are (1) *Training* (mean = 6.417), (2) *Compensation* (mean = 6.167), and (3) *HR Initiative for Goals* (mean = 6.000).

Our results are consistent with other studies. The shortage of qualified people with high skills and the retention of top performers are two of the major people issues faced by firms in the PRC (Verburg, 1996; Wright et al., 1998b). As noted earlier, firms in the PRC encounter recruitment and selection difficulties because of the PRC's labor market characteristics. Wage differentials as a result of performance-based incentives can cause conflict in the workplace because of the people's strong preference for egalitarianism (Goodall and Warner, 1997; Tsang, 1994; Verburg, 1996). However, if firms implement egalitarian pay systems that do not reward high performers, they will in turn face the difficulty of retaining their top performers. Firms in the PRC will have to choose between implementing a non-egalitarian (or non-performance based) pay systems which may cause workplace conflicts or maintaining an egalitarian system which may lead to the failure to retain the skilled personnel necessary for the achievement of organizational goals. It deserves mentioning that the consistency of our findings with those of previous research lends some credence to the quality of our data. While the number of observations in the sample is relatively limited, the respondents are not biased toward any particular direction.

The second section of the survey addresses the effectiveness of each HR functional area as rated by the line and HR executives. Matching the results in this section with those in the previous section enables us to examine the critical differences between line and HR views of current HR activities. Table 2 summarizes the results of the data analysis.

Table 2. Perceived Effectiveness of Human Resource Departments by HR and Line Executives¹

| | HR | | Line | | Diff. | Nonparametric | | OLOGIT ² | | |
|-------------------------------|-------|-------|-------|-------|--------|-----------------------|------|---------------------|----------------|----------------|
| | Mean | S.D. | Mean | S.D. | | M-W U ³ | Sig. | b. | Sig. | R ² |
| 1 Compensation | 4.583 | 1.379 | 4.000 | 0.961 | 0.583 | 48.000 | | -1.616 * | | 0.058 |
| 2 Performance-based Incentive | 4.083 | 1.165 | 3.214 | 1.188 | 0.869 | 48.500 | | -1.459 * | | 0.050 |
| 3 Training | 4.667 | 1.231 | 4.000 | 0.961 | 0.667 | 58.000 | | -1.080 | | 0.028 |
| 4 Performance Management | 4.200 | 1.135 | 3.429 | 1.284 | 0.771 | 44.000 | | -1.276 | | 0.036 |
| 5 Communication | 4.583 | 1.165 | 3.500 | 0.760 | 1.083 | 34.500 ** | | -2.357 ** | | 0.112 |
| 6 Staffing | 4.250 | 0.866 | 3.429 | 1.555 | 0.821 | 58.000 | | -1.028 | | 0.024 |
| 7 HR Initiative for Goals | 4.333 | 0.779 | 3.539 | 1.266 | 0.794 | 42.000 * | | -1.690 * | | 0.064 |
| 8 Measurements | 4.583 | 0.996 | 3.429 | 0.158 | 1.154 | 37.500 ** | | -1.978 ** | | 0.085 |
| 9 Responsibilities | 4.167 | 0.835 | 3.143 | 1.027 | 1.024 | 34.500 ** | | -2.328 ** | | 0.116 |
| 10 Commitment | 3.833 | 1.404 | 3.214 | 1.424 | 0.619 | 65.000 | | -0.729 | | 0.012 |
| 11 Labor Relations | 4.500 | 1.243 | 3.500 | 1.019 | 1.000 | 45.000 * | | -1.660 * | | 0.062 |
| 12 Benefits | 3.833 | 1.115 | 3.929 | 1.639 | -0.096 | 73.500 | | 0.402 | | 0.004 |
| 13 User-friendly Benefits | 3.167 | 0.835 | 3.286 | 1.069 | -0.119 | 76.000 | | 0.321 | | 0.003 |
| 14 Legal Support | 4.667 | 0.888 | 4.143 | 1.703 | 0.524 | 69.000 | | -0.582 | | 0.008 |
| 15 Diversity | 3.500 | 0.798 | 3.214 | 1.211 | 0.286 | 74.500 | | -0.373 | | 0.004 |
| | | | | | | | | | Mean | 0.044 |
| | | | | | | | | | R ² | |

1: * p < .05 ** p < .01

*** p < .001

2: The independent variable in ordered logistic regression: line executives are coded as 1.

3: Mann-Whitney U Tests

First, the predominantly positive differences between the HR and the line executives' perceived effectiveness (HR minus line) indicate that line executives, compared to HR executives, consider most of the HRM functional areas to be less effective. *Benefits* (line mean = 3.929; HR mean = 3.167) and *User-friendly Benefits* (line mean = 3.286; HR mean = 3.167) are the only two areas where the line executives' effectiveness ratings are higher than those of the HR executives. The fact that line executives' ratings are consistently lower in the other areas implies the possibility that the customers (i.e. line managers) do not perceive the HR service providers to be as effective as the latter think. The HR service providers seemed to have overestimated their own performance.

Second, we found the following significant differences between line and HR executives' ratings in the M-W U tests: *Communication* (line mean = 3.500; HR mean = 4.583; $p < .01$), *HR Initiatives for Goals* (line mean = 3.539; HR mean = 4.333; $p < .05$), *Measurements* (line mean = 3.429; HR mean = 4.583; $p < .01$), *Responsibilities* (line mean = 3.143; HR mean = 4.167; $p < .01$), and *Labor Relations* (line mean = 3.500; HR mean = 4.500; $p < .05$). Two additional significant differences were observed in the OLOGIT analysis, including *Compensation* (line mean = 4.000; HR mean = 4.583; $p < .05$) and *Performance-based Incentives* (line mean = 3.214; HR mean = 4.083; $p < .05$). Further, all of the significant differences found in the M-W U tests are also confirmed in the OLOGIT analysis, implying their robust significance.

Third, the greatest differences between line and HR executives' responses reside in *Communication* (difference = HR's score minus line's score = 1.083), *Measurements* (difference = 1.154), and *Responsibilities* (difference = 1.024). All of these HR areas seem to be crucial in aligning HR activities with business strategies. Given that strategic human resource management (SHRM) is defined as "the pattern of planned human resource deployments and activities intended to enable a firm to achieve its goals" (Wright and McMahan, 1992: 298), HR departments interested in the implementation of SHRM must (1) understand business goals and the levels and types of employee skills and behavior required to achieve these goals; (2) recognize current employees' skills and behavior; and (3) identify and close the gaps between required and current skill levels by implementing new HR systems or changing existing systems (Akande, 1991; Cappelli and Singh, 1992; Pfeffer, 1992; Schuler, 1992; Wright and McMahan, 1992). HR departments must collect workforce related information with appropriate measurement tools that can help them accurately understand the current state of the organization, communicate with line managers about key business and HR initiatives, and respond to issues that can hinder organizations from achieving its goals. Our

results (see Table 2) indicate that HR departments are not doing a very good job in these areas. From the line executives' standpoint, these deficiencies will impede the execution of a strategically oriented HRM system. Further discussion related to this issue will be presented in the next section.

Table 3 shows the results of the differences between HR executives' perceptions of importance and effectiveness and between line executives' perceptions of importance and effectiveness.

Table 3. Gap Analysis¹

| | HR | | Wilcoxon ² | | Line | | Wilcoxon | | | |
|----------------------------------|----------------|-------------------|-----------------------|--------|------|----------------|-------------------|-------|--------|------|
| | Importanc e | Effectivene ss | Diff. | Z | Sig. | Importanc e | Effectivene ss | Diff. | Z | Sig. |
| 1 Compensation | 6.167 | 4.583 | 1.584 | -2.714 | ** | 5.856 | 4.000 | 1.856 | -2.513 | ** |
| 2 Performance-based Incentive | 5.917 | 4.083 | 1.834 | -2.716 | ** | 5.643 | 3.214 | 2.429 | -2.957 | ** |
| 3 Training | 6.417 | 4.667 | 1.750 | -2.831 | ** | 5.929 | 4.000 | 1.929 | -2.831 | ** |
| 4 Performance Management | 5.400 | 4.200 | 1.200 | -1.845 | | 4.929 | 3.429 | 1.500 | -2.846 | ** |
| 5 Communication | 5.750 | 4.583 | 1.167 | -2.095 | * | 4.714 | 3.500 | 1.214 | -2.297 | * |
| 6 Staffing | 5.583 | 4.250 | 1.333 | 2.636 | ** | 5.786 | 3.429 | 2.357 | -2.571 | ** |
| 7 HR Initiative for Goals | 6.000 | 4.333 | 1.667 | -2.862 | ** | 5.308 | 3.539 | 1.769 | -2.836 | ** |
| 8 Measurements | 4.833 | 4.583 | 0.250 | -0.750 | | 4.214 | 3.429 | 0.785 | -1.994 | * |
| 9 Responsibilities | 4.917 | 4.167 | 0.750 | -1.725 | | 4.571 | 3.143 | 1.428 | -2.811 | ** |
| 10 Commitment | 5.500 | 3.833 | 1.667 | -2.434 | ** | 5.857 | 3.214 | 2.643 | -2.812 | ** |
| 11 Labor Relations | 4.500 | 4.500 | 0.000 | -0.610 | | 4.357 | 3.500 | 0.857 | -1.980 | * |
| 12 Benefits | 3.583 | 3.833 | -0.250 | -0.343 | | 4.429 | 3.929 | 0.500 | -1.122 | |
| 13 User-friendly Benefits | 4.000 | 3.167 | 0.833 | -1.723 | | 4.357 | 3.286 | 1.071 | -1.723 | |
| 14 Legal Support | 5.250 | 4.667 | 0.583 | -1.380 | | 5.357 | 4.143 | 1.214 | -2.315 | * |
| 15 Diversity | 4.750 | 3.500 | 1.250 | -1.674 | | 4.714 | 3.214 | 1.500 | -2.336 | ** |
| | r= | 0.575 | | | | r= | 0.275 | | | |

1: * p < .05 ** p < .01 p < .001

2: Wilcoxon Matched-Pairs Signed- Test
Ranks

On the one hand, in the HR executive data, our Wilcoxon tests uncovered significant differences in *Compensation* (difference = HR's importance - effectiveness = 1.584; $p < .01$), *Performance-based Incentive* (difference = 1.834; $p < .01$), *Training* (difference = 1.750; $p < .01$), *Communication* (difference = 1.167; $p < .05$), *Staffing* (difference = 1.333; $p < .01$), *HR Initiative for Goals* (difference = 1.667; $p < .05$), and *Commitment* (difference = 1.667; $p < .01$). On the other hand, in the line executive data, we found significant differences in all HR functional areas except *Benefits* and *User-friendly Benefits*. The results connote that, from the line executives' standpoint, current HR activities do not meet their expectations, and that they are dissatisfied with current HR departments. This point is further confirmed by the correlation coefficients shown at the bottom of Table 3. A relatively low correlation coefficient in the line executive data ($r = 0.275$) indicates weak connections between perceived importance and effectiveness. Therefore a HR area/activity highly rated in importance is not necessarily highly rated in effectiveness.

Table 4 summarizes the results of line and HR's perceived effectiveness of the HR department as a whole.

Table 4. Perceived Effectiveness of Human Resource Departments by HR and Line Executives¹

| | HR | | Line | | Diff. | Nonparametric | | OLOGIT ² | | |
|------------------------------------|-------|-------|-------|-------|-------|-----------------------|------|---------------------|------------------------|----------------|
| | Mean | S.D. | Mean | S.D. | | M-W U ³ | Sig. | b. | Sig. | R ² |
| 1 Performing the expected job. | 5.083 | 0.793 | 3.714 | 1.204 | 1.369 | 27.500 ** | | -2.829 ** | | 0.145 |
| 2 Responsive to customer needs. | 4.583 | 0.996 | 3.786 | 1.477 | 0.798 | 56.500 | | -1.081 | | 0.028 |
| 3 Providing useful information. | 5.500 | 0.905 | 3.857 | 1.292 | 1.643 | 24.000 *** | | -2.776 ** | | 0.140 |
| 4 Enhancing competitiveness. | 5.167 | 1.946 | 2.615 | 1.325 | 2.551 | 23.500 ** | | -2.786 ** | | 0.126 |
| 5 Contribution to the bottom line. | 6.250 | 0.754 | 3.214 | 1.311 | 3.036 | 5.500 *** | | -4.991 *** | | 0.257 |
| 6 Building human capital. | 5.417 | 1.240 | 2.071 | 1.639 | 3.345 | 9.000 *** | | -4.158 *** | | 0.199 |
| 7 Business partner. | 5.167 | 1.193 | 2.286 | 1.684 | 2.881 | 14.500 *** | | -3.603 *** | | 0.163 |
| 8 Supporting business plan. | 5.917 | 1.311 | 1.786 | 1.424 | 4.131 | 3.500 *** | | -5.506 *** | | 0.242 |
| | | | | | | | | | Mean R ² | 0.163 |

1: * p < .05 ** p < .01 p < .001

2: The independent variable in ordered logistic regression: line executives are coded as 1.

3: Mann-Whitney U Tests

Both M-W U tests and OLOGIT showed that all of the differences (HR minus line) are positive and significant with the exception of *Responsive to Customer Needs*. Again, the line executives think that their HR departments are ineffective and do not contribute to the achievement of organizational goals. Although our interpretation of these findings follows the previous discussion, a strong emphasis must be placed on the fact that the results in Table 4 indicate a more serious result. The differences are significant at the $p < 0.001$ level in both the M-W U tests and OLOGIT analysis in *Contribution to the Bottom Line*, *Building Human Capital*, *Business Partner*, and *Supporting Business Plan*. In addition, while the means of R^2 of OLOGIT in Table 1 and 2 are just 0.016 and 0.044, respectively, those in Table 4 jumped to 0.163. Whether a respondent is a line or a HR executive explains a greater variance in the entire effectiveness of the HR department than it does in the importance-effectiveness of HR functional areas.

DISCUSSION

The major finding in our data analysis is that, while there are no significant differences between HR and line executives' perceptions of the importance of each functional area in HRM, there are significant differences between line and HR executives' perceptions of the effectiveness of these areas. These differences connote that line executives are more dissatisfied with current HR capabilities than are HR managers. Although our findings are straightforward, there are one methodological and two theoretical concerns that need to be addressed before discussing the implications of our findings.

The methodological concern is that the number of observations is small. We attempted to resolve this issue through the employment of non-parametric tests and ordered logistic regression and by gathering data from a diverse range of corporations that operate in the PRC. We recognize that one limitation of this study stems from the small sample sizes which reduce the statistical power for finding significant effects. However, in spite of the low power, this study still revealed significant differences between line and HR respondents.

The two theoretical concerns are interrelated. One, the multi-constituency model (Tsui, 1990; Tsui and Milkovich, 1987), the behavioral theory of the firm (Cyert and March, 1963), and resource dependence theory (Jacobs, 1974; Pfeffer and Salancik, 1978) hold that organizations consist of various social actors with different and incongruent interests. Because of these diversified interests, the actors tend to interpret identical organizational phenomenon differently. Two, a number of studies (i.e. Bradley, 1978; Kidd and Morgan, 1969; Miller and Ross, 1975) pointed out that "self-serving" biases often lead "individuals to view

themselves favorably than seems objectively warranted" (O'Reilly, 1983: 128). Perhaps, HR executives overrate their performances in order to validate the importance and effectiveness of the HR function within the organization. On the basis of these theoretical predictions, it is not surprising that line executives' perceptions of HR effectiveness are different from HR executives' perceptions. In lieu of these reasons, we suggest that readers interpret the study's findings and discussion with caution.

The results of this study are congruent with the findings of previous studies related to PRC HRM (i.e. Goodall and Warner, 1997; Tsang, 1994; Verburg, 1996; Wright et al., 1998b). In line with previous findings, line executives view training, commitment management, and compensation to be the three most important HR areas; HR executives view training, compensation, and HR initiatives to be the three most important areas. Indeed, it is critical for firms to secure, develop, and maintain human resources in order to effectively execute daily operations as well as long-term strategic plans. However, regardless of the importance of these functions, HR departments in our sample do not appear to be meeting the relatively high expectations of line executives. Table 4 above, especially, supports this idea that line executives' evaluation of HR practices is quite low.

There are three possible reasons for the poor performance of HR departments. First, government intervention may limit HR departments' ability to act strategically (i.e. Wright and McMahan, 1992). A number of empirical studies on resource dependence theory (Jacobs, 1974; Pfeffer and Salancik, 1978) and institutional theory (DiMaggio and Powell, 1983; Meyer and Rowan, 1977) suggest that the State is an influential environmental actor who dictates an organization's adoptions of HR programs (i.e. Edelman, 1990; Mitsuhashi and Stern, 1998; Salancik, 1979; Sutton, Dobbin, Meyer and Scott, 1994). Although we do not have any organizational dependence data or data that measures closeness to the State (i.e. whether or not a firm has government contracts), it is reasonable to expect that the State plays a significant role in shaping HR practices in firms in the PRC. Our previous study (Wright et al., 1998b) found that some of the HR executives' greatest concerns relate to government intervention and the PRC's unstable labor policies (see also Goodall and Warner, 1997; Tsang, 1994). Government intervention may decrease an organization's ability to effect complementarities between business strategies and HR practices (external fit) and those among various HR practices (internal fit) (Baird and Meshoulam, 1988; Cappelli and Singh, 1992).

Second, HR departments may not have the power to act strategically. This lack of power may not allow HR departments to acquire the resources needed to achieve strategic goals. Given that power is a necessary condition for the achievement of business goals and sustained competitive advantage by supplying valuable, rare, non-imitable, and non-substitutable human resources (Wright, McMahan, and McWilliams, 1994), powerless HR departments are less likely and less able to act strategically. Power in organizations is only acquired through managing scarce and important resources (Hickson, Hinings, Lee, Schneck and Pennings, 1971). Therefore, while HR departments are supposed to use their power to create valuable, rare, non-imitable, and non-substitutable human resources, they typically do not have any power unless they manage scarce and important resources. This paradox can be resolved only if top management supports HR. Support from top management may coercively construct powerful HR departments that are less likely to encounter, or are better able to deal with political problems in organizations that may limit their strategic activities.

Third, HR departments may have few capabilities to respond to demands from their internal customers. One source of this inability can be traced to the skills and knowledge deficiencies of HR personnel. HR personnel may not be able to resolve problems simply because they are not skilled or trained to do so. The other source of this incapability relates to the structure of HR departments. Because the problems HR departments have to cope with have become more diversified and differentiated, specialized knowledge and skills are now required to perform HR activities. An organization may have different managers for training, compensation, fringe benefits, selection, and global issues. While the diversified HR structure is necessary in order for organizations to respond to the varied needs, these diversified but interdependent HR activities should be managed and integrated in some ways (Lawrence and Lorsch, 1967).

Several factors may be causing the differences observed in the perceived effectiveness between line and HR executives. Wright et al. (1998b), who also noted these differences, offered four plausible explanations: (1) the HR function is not delivering the services expected, (2) traditional line-staff conflict, (3) line managers' failure to implement well-designed HR systems, and (4) the lack of line managers' involvement in HR activities. Future research should look into identifying the factors that explain these differences in perceived performance by including both organizational and environmental variables in the research design. However, all is not hopeless in regard to HR's performance.

From Table 1, we note that the line executives perceived training, commitment, and compensation to be the three most important HR functional areas. With the exception of compensation, line and HR's perception of HR effectiveness in regard to the other two most important HR areas did not differ significantly. Compensation in our study is defined in terms of maintaining an equitable compensation system that controls costs while ensuring that top performers are retained. As we have discussed at the beginning of the paper, while interest in performance-based incentives (e.g., equitable compensation) is growing, the deep-rooted equalitarian mindset amongst the Chinese greatly hinders such efforts. Further, the retention of local nationals who are top performers cannot be achieved by just having an effective compensation system. As Wright et al. (1998b) pointed out, other factors such as training and performance management play a more instrumental role in this regard. From Table 2, line and HR's perceptions of HR effectiveness in these two areas (i.e., training and performance management) are not significantly different. Thus, in terms of the three most important HR areas in the context of China, HR's effectiveness at executing them matches the expectations of the line executives.

From Table 2, we noted that the biggest differences between line and HR's perception of HR effectiveness lie in the areas of communication, measurements, and responsibilities. For all three areas, HR, relative to the line executives, gave higher ratings on the former's effectiveness. Given the definitions of communication, measurements, and responsibilities (see Appendix 1), all three relate more to the strategic, rather than the administrative, side of HRM. Moreover, note that 83% of the line sample is made up of expatriates. Wright et al. (1998b) argued that China's HRM is still in its infancy compared to the rest of the developed world. Hence, the predominantly expatriate line respondents may be evaluating HRM effectiveness with criteria that are inappropriate and unfair given China's infant stage of HRM development.

We would like to offer three suggestions for future research. One is to use two other methods to measure the performance and effectiveness of HR departments in addition to the respondents' perceptions which we employed in this study (Ulrich, 1989). One method relates to the "utility model" which measures "the extent to which an alternative practice improves the organization's economic gain over not using the practice" (Ulrich, 1989: 306). This method allows us to estimate the economic value of HR activities; thus, enables us to evaluate the effectiveness of HR departments. A good example is the cost-benefit analysis in which the HR effectiveness is measured in terms of monetary returns on training. The other method relates

to the “relationship model” which asks whether “HR practices become useful for implementing strategic plans” (Ulrich, 1989: 308). The emphasis here is placed on the actual connection between the features of various HR practices and the achievement of business plans.

Although there is no one best way to measure the effectiveness of HR departments, it is worth trying to use various alternative measurements and to examine consistencies across them.

The second suggestion relates to the fact that all of our respondents are in the upper echelons of the firm. Perhaps, future research may want to include a broader range of the hierarchy, e.g., including both line managers and the rank-and-file in the research design. Research has suggested that people’s perceptions at the upper echelons are significantly different from those at the lower echelons (McLoughlin and Clark, 1995; Tsui and Milkovich, 1987). A broader sample may reveal interesting results.

The third suggestion is to conduct this research in other countries that, like China, have recently expanded into the international market arena to determine if the same phenomena occur in these countries. This research may also be continued in the PRC with a larger sample. Comparative research can be conducted to determine what factors facilitate or debilitate firms in some countries to develop strategic human resource functions.

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APPENDIX 1: Variables

Perceived Importance/Effectiveness (Table 1, 2, 3)

| Variable | Survey Question |
|--------------------------------|--|
| 1. Compensation | Maintaining an equitable compensation system which controls costs while ensuring that top performers are retained. |
| 2. Performance-based Incentive | Maintaining performance-based incentives to motivate individuals to focus on achieving strategic goals. |
| 3. Training | Providing training and development programs to enable front line managers to maximize their performance potential. |
| 4. Performance Management | Providing performance management programs to develop and motivate business partners and front line managers. |
| 5. Communication | Communicating and marketing key business and human resource initiatives to business partners and front line managers. |
| 6. Staffing | Maintaining effective staffing systems and succession plans to ensure a steady supply of managerial talent. |
| 7. HR Initiative for Goals | Developing HR initiatives that contribute to achieving current and future business goals. |
| 8. Measurements | Tracking important measures and trends (e.g., productivity, turnover, sick leave) to identify potential problem areas. |
| 9. Responsibilities | Developing HR initiatives to respond to potential problem areas as noted above. |
| 10. Commitment | Developing initiatives that help build employee commitment. |
| 11. Labor Relations | Providing labor relations and preventive labor support to business partners and front line managers. |
| 12. Benefits | Controlling benefit costs, particularly health care and sick leave. |
| 13. User-friendly Benefits | Maintaining employee/user friendly benefits administration programs. |
| 14. Legal Support | Maintaining programs and providing support to business partners and front line managers to ensure compliance with legal regulations. |
| 15. Diversity | Developing initiatives to exploit the value of a diverse workforce. |

**Perceived Effectiveness of Human Resource Departments
(Table 4)**

| Variable | Survey Question |
|------------------------------------|---|
| 1. Performing the expected job | The HR department is performing its job the way I would like it to be performed. |
| 2. Responsive to customer needs | This department is very responsive to meeting customer (front line managers and employees) needs. |
| 3. Providing useful information | The department provides me with useful and timely information regarding HR issues. |
| 4. Enhancing competitiveness | This department has helped to enhance the firm's competitive position. |
| 5. Contributing to the bottom line | This department provides value-added contributions to the firm's bottom line. |
| 6. Building human capital | This department contributes to building the firm's human capital (employees/managers) as a source of competitive advantage. |
| 7. Business partner | The policies, practices, and procedures coming from the HR department help front-line business partners in their jobs. |
| 8. Supporting business plan | The HR policies, practices, and procedures help support the firm's business plan. |