

Comparative Human Resource Management Practices: A Case of China and India

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ABSTRACT

The present study broadly focuses on impact of HRM on firm performance, cultural context of HRM, HRM practices in China and India, and implications for China, India, and multinationals coming from other countries. HRM practices including human resource planning, recruitment and selection, training and development, compensation and benefits, performance appraisal, and employment relations are discussed comprehensively in context of India and China. Through the exploitation of current literature and knowledge, it is found that China and India are distinct cultures and these countries differ in the practices of HRM. Further, Indian companies have adopted market-driven HRM practices comparatively greater extent than Chinese companies. However, Chinese companies have started following market-oriented HRM practices.

Keywords: HRM, Cultural context, India, China, Employment relations, Recruitment and selection, Performance appraisal

INTRODUCTION

The emergence of the global market due to globalization of economic activities around the world has forced the developed countries to look towards developing markets like India and China. As the focus of the world shifts to Asia, the future of India and China is deeply tied together (Mitra, 2008). A large number of companies in the West have established business and direct investment in India and China. These two economies are today's giants and tomorrow's superpowers. While India has the potential to be globally competitive, China with its aggressive policies definitely has the edge (Business Today, 2001). The International Monetary Fund (IMF) already calls China the World's second-largest economy and it will be the largest economy by 2010. By 2010, India may be the world's most populated country. But in terms of economic hegemony, China may wear the crown (Business Today, 2001). India has negatives of China (huge population and poverty), but none of its economic or political strengths (Business Today, 2001).

Since China introduced a market economy in 1978, its economy has been the fastest growing in South East Asia. Since 1980, the annual average growth rate of China's gross domestic product was around 10 per cent, far exceeding the performance of competitors like Singapore, Thailand, South Korea, and Japan (International Labour Office, 2000). With the entry to the World Trade Organisation (WTO) (The Economist, 2000), there is little doubt that China is posed to become one of the world's economic superpowers (Lewis, 2003). In 1995, only the USA attracted more inward investment, with China taking a 42 percent share of all foreign investment in Asia (Warner, 1997; Glover and Siu, 2000). So, there are challenges to the continued economic growth of China. One important challenge of these is the adoption and practice of more effective HRM practices by Chinese state-owned enterprises (Ding *et al.*, 2000).

Indian economy was liberalized in 1991 and India became the signatory to WTO. Since liberalization and globalization of Indian economy, India has responded positively and India is now considered as one of the dynamic emerging nations. At present, the second-generation reforms are in progress and the economy seems to be moving on the right track. The World Bank forecast indicates that, by 2020, India may emerge as the fourth largest economy in the World (Budhwar, 2003). The liberalization of economic policies and the increased level of competition by MNC's have put a lot of pressure on HR management of Indian domestic companies (Budhwar, 2000). The 2020 corporation must be built of, around, for, and by people (Skaria, 1996a). A new approach to managing people becomes absolutely critical. Actually, human resource management must become the business of everyone in the organization (Skaria, 1996b).

Rivers of ink have been devoted to coverage of China and India Inc., the rising economic powerhouses of Asia. They are, respectively, the first and second fastest growing major economies in the world. But one thing that could slow them down is a lack of managerial talent needed to run their growing businesses (Galagan, 2006). China and India, ancient allies and modern competitors, are rebuilding economic ties. Consequently, Multinational companies face the most challenging – potentially rewarding – business landscape ever (Khanna, 2007). Further, China and India are large, populous Asian neighbours, but the similarities end there (Khanna, 2007).

Further, as firms are entering a more dynamic world of international business and as the globalization of world markets continues apace, comparative issues appear to be gaining momentum (Singh, 2003; Budhwar and Debrah, 2001). For example, the recent

developments in developing nations (such as liberalization of economies by China, India, the Latin American countries, and Eastern and Central Europe) have brought about a need to learn about the pattern of HRM system(s) pertinent to various regions of the world (Budhwar, 2000). These developments strongly suggest the need for more cross-national HRM studies, especially in emerging markets (Clark *et al.*, 1999; Budhwar and Debrah, 2001). However, almost all the studies have been undertaken in West including US settings and to add more to this growing stream of research, more such studies in diverse settings like India and China need to be conducted. So, this study on 'Comparative Human Resource Management Practices: A Case of China and India' makes a sense.

In view of the above, this article addresses the following questions by exploring current knowledge.

- Do HRM practices affect firm performance?
- Are India and China culturally different countries?
- Does culture affect HRM practices?
- Do Indian and Chinese firms differ in HRM practices?
- Are firms in these countries adopting market oriented HR practices?

HRM AND FIRM PERFORMANCE

In conducting studies of firm performance, researchers of strategic management have recommended using multiple measures of firm performance (Venkatraman and Ramanujam, 1986). Numerous researches have shown that good HR practices can go a long way in influencing business growth and development (Rao, 1999). There has been considerable interest in the developed world specifically in USA and UK in demonstrating casual link between the HRM techniques and organizational performance (Lewis, 2003). The HR function has a critical role to play in satisfying the expectations of shareholders, employees, and customers (Kaplan and Norton, 1996). When a firm's human resources are strategically aligned to fulfill the firm goals (Barney, 1991; Wright and McMahan, 1992), good human resource (HR) policies and practices will help improve firm performance (McDuffie, 1995; Huselid, 1995; Becker and Huselid, 1998; Pfeffer, 1998; Patterson *et al.*, 1998; Yeung and Berman, 1997; Ulrich, 1997; Twomey and Harris, 2000; Wood, 1999; Legge, 2001; Kundu and Vora, 2004).

Specifically, Huselid, Jackson and Schuler (1997) found relationships between HR management effectiveness and productivity, cash flow, and market value. Further, effective HRM practices were found related to labour quits, grievances, unit costs (Betcherman, McMullen, Leckie and Caron, 1994), labour efficiency, scrap rate, labour turnover (Arthur, 1994), productivity, quality (Ichniowski, Shaw and Prennushi, 1997; MacDuffie, 1995), profitability (Kalleberg, Knoke, Marsden and Spaeth, 1996; Patterson, West, Lawthorn and Nickell, 1997), firm's market value (Becker and Huselid, 1998a,b), commitment (Guest and Hoque, 1994; Agarwala, 2003), job satisfaction (Hoque, 1999), return on assets (Singh, 2003; Lawler, Moharman and Ledford, 1995, 1998), return on sales, return on investment, sales per employee (Lawler, Moharman and Ledford, 1995, 1998), commitment and quality of staff (Guest and Hoque, 1994).

HR systems contribute to a firm's competitive advantage because they help develop specific human capital and generate tacit organizational knowledge (Taylor, Beechler and Napier, 1996). Taylor *et al.* (1996) conceptualized HR practices into different types of

competencies. Competencies may have a significant impact on the effective management of human capital that contributes to the achievement of business goals (Huselid, Jackson and Schuler, 1997; Rao, 1999). Further, HR function should be assessed on its deliverables, using simple outcome measures such as the improvement of the workforce mindset, its competencies, and critical behaviours (Beatty, Huselid and Schneier, 2003). Business success requires unyielding vigilance in six management practices (all four primary practices i.e. strategy, execution, culture, and structure, and any two of the four secondary practices i.e. talent, innovation, leadership, and mergers and partnerships) and constant renewal to excel (Nohria, Joyce and Roberson, 2003). There is a further need for a more balanced HR agenda addressing human and economic concerns in current and future models of HRM (Francis and Keegan, 2006).

The studies related to HRM and firm performance have not been without critics. Whitfield and Poole (1997) have criticized the research methods adopted by researchers. Purcell (1999) argues that even if the result is valid it is unhelpful because it assumes that the link is universally applicable and does not explain the nature of the casual link. Further cultural context is also having impact on HR practices (Ferner, 1997).

Proposition 1: Effective human resource management practices will have positive effects on firm performance.

CULTURAL CONTEXT OF HRM

The cultural impact on management and HRM is reflected by basic values, attitudes, beliefs, and behaviour of people. Moreover, culture affects how people think and behave (Hodgetts and Luthans, 1994; Kundu, 2001). It is the cultural background that creates differences (Reynolds, 1986). The cultural attitudes and values are also affected by the second language that the individual masters (Yang and Bond, 1980). Hofstede (1991; 2001) found significant differences in behaviour and attitudes of employees and managers from different countries that worked for IBM. Hofstede further found that national culture explained more difference in work-related values and attitudes than the position within the organization, profession, age, or gender. Initially, he found that employees vary on four primary cultural dimensions (i.e. Individualism/Collectivism; Power Distance; Uncertainty Avoidance; and Masculinity/Femininity). Later Hofstede along with others identified a fifth dimension i.e. Confucian Dynamism (long-term versus short-term orientations), which is related to the choice of focus for people's efforts -- the future or the present (Hofstede, 1993; Hofstede, 2001; Hofstede and Bond, 1988; Adler, 1997).

Taking the findings of Hofstede and other researchers as basis for comparing countries on cultural dimensions, the Chinese employees and managers differ from Westerners and Asians (Japan and India) in a specific way, as shown in Table 1. Hofstede (1991) found that corporate cultures differ remarkably from national cultures. Within a corporate environment, the culture can vary according to the hierarchical level. It depends on the people in power and their cultural layout (Albrecht, 2001).

Table 1: Comparison of Countries on Cultural Dimensions

	Power Distance	Individualism	Masculinity	Uncertainty Avoidance	Long- term Orientation
P.R. China	High	Low	Low	Low/ Moderate	High
India	High	Low	Moderate/ High	Low	Moderate/ Fairly High
UK	Low	High	High	Low	Low
USA	Low	High	High	Low	Low
Japan	Moderate/ Large	Low	High	High	High

Sources: Hofstede (2001); Kundu (2001); Albrecht (2001); and Wang *et al.*, (1999)

China and India are distinct cultures. Chinese culture is rooted in Confucianism, Taoism and Buddhism. Since the establishment of People's Republic of China, Chinese culture and social values have been influenced by the Cultural Revolution following economic reforms (Wang, 1994). During Cultural Revolution, Confucianism was criticized and Buddhism was treated as poison (Wang *et al.*, 1999). Instead, political education (Communist ideology which emphasizes social contributions and egalitarianism) became the most influential way to promote industrial production (Nyaw, 1995). On the other side, India did not experience so many changes and fluctuations of social norms as China did. Rather Indian culture retains its traditional characteristics with the embeddedness of Western technology, industrial structures, management systems (Sinha, 1994), and features of Western HRM. Although Indian organization structures and systems are mainly adopted from Western styles, Indian organizational behaviour is strongly affected by traditional Indian culture under the influence of Hinduism (Sinha, 1994; Sinha and Kanungo, 1997). The philosophy of Hinduism is enriched with values like spirituality, *Seva*, *Sadhana* (Yoga), *Satsang*, *Ahinsha* (non-violence), forgiveness, and relationship values. These traditional features of Indian culture have pervasive impact on decision making in almost every field including HRM.

Basing upon high power distance and low individualism, Chinese management emphasises the importance of the following attributes: respect for hierarchy; orientation towards groups; preservation of face; importance of relationships; decisions are rarely debated; and leaders are not challenged publicly (Hofstede, 2001; Hofstede and Bond, 1988; Zhao, 1991; Bond 1996; Yeung and Tung, 1996; Verbarg *et al.*, 1999). Moreover, popular work values in China are being equal and average, avoiding competition, and emphasizing relations (Wang and Mobley, 1999). China's high power distance features come from the Confucian Doctrines, which promotes Chinese respect for the older persons and superiors/supervisors (Redding and Hsiao, 1995). Similarly, India is also fall in high power distance and low individualism (Hofstede, 2001). Similar results were found in other studies (Kakar, 1971; Negandhi and Prasad, 1971). Indian managers prefer centralized decision making, practice tight control, and do not like delegation of authority (Kakar, 1971; Sharma, 1984; Tayeb, 1987). Further, majority of the lower level employees in India are not aware about their rights (Venkata Ratnam, 1995). India's high power distance values come from Hindu religious influences and the caste system of social stratification (Sinha and Kanungo, 1997). In the ideology of Hinduism, there is the

existence of social stratification in the form of different castes (based on four varanas i.e. *Brahmana*, *Ksatriya*, *Vaisya*, and *Sudra*) and languages. The above stratification influences the educational and career choices, also affects the beliefs and value systems of the people and have meaningful impact on management. Both India and China are high collectivist societies. Indian managers are more loyal to their community and they are also self-reliant (Wang *et al.*, 1999). China is still an agrarian society depending on collective structures for survival. The traditional structures were reinforced and overlaid by those of socialism (Albrecht, 2001).

Masculinity is higher in India than in China. Chinese people value harmony and interpersonal relationship due to the influence of Confucianism and Buddhism (Wang *et al.*, 1999). China is patriarchal, seniority-oriented society of men, in which the masculine behaviour nonetheless appears soft and avoids open confrontation (Albrecht, 2001). Under the transitional phase from planned economy to free-market economy, interpersonal relationship is extremely important to get things done (Peng and Heath, 1996). Both India and China score low on uncertainly avoidance. However, according to Wang *et al.* (1999), Indian managers scored higher than Chinese managers did. Chinese managers' lower uncertainly avoidance indicates that the political and economic fluctuations in China have increased their tolerance for uncertainty. Strategic thinking, long-term orientation and flexibility are the Chinese answers to uncertainly in order to gain security (Albrecht, 2001).

People in the East rely more on personal relations (i.e. *guanxi* in China) to govern economic transactions and to manage business activities than people in the West (Li, Park and Li, 2004). The term *guanxi* refers to dyadic personal relations between people who can make demands on each other. The stronger the *guanxi*, the more demand can be imposed (Tung and Worm, 2001) and it plays major role in China (Chen and Chen, 2004). *Guanxi* tends to have strong influences on employee selection, work relationships, performance evaluation, and work outcomes (Tsui and Farh, 1997). *Guanxi* with powerful leaders determined the path of an individual career.

Social relations and recommendations play very influential role in India. India is characterized by high collectivism and related practices of selective recruitment of human resources. Sparrow and Budhwar (1997) noted that social relationships and political connections play a significant role in the selection, promotion and transfer of employees in Indian organizations. This is largely a function of the caste consciousness in substantial parts of the country's population (Gooderham and Nordhaug, 2004)

Proposition 2: India and China are culturally different countries/societies.

Proposition 2A: Cultural variations will have varying impact on human resource management practices.

HRM PRACTICES IN CHINA AND INDIA

Researchers urged organizations to focus on the serial steps of recruitment, compensation and training in order to attract and develop competent employees (Wright and Snell, 1991, 1998; Wright and McMahan, 1992; Becker *et al.*, 1997). Ferris *et al.* (1990) found that firms with higher levels of strategic, including HR, planning have achieved higher organizational performance. Further, the studies showed that

comprehensive selection and training activities were frequently correlated with both productivity and organization performance (Terpstra and Rozell, 1993). Delaney and Huselid (1996) found positive associations between human resource management practices, like training and staffing selectivity, and perceptual performance measures. Strategic HR-oriented firms used selection practices to 'locate relevant competencies and attract them to the organization' (Wright and Snell, 1991). Strategic HRM-oriented firms will employ a performance evaluation system linked to strategic goals (Singh, 2003). Gerhart and Milkovich (1990) found that pay mix, i.e. pay structure having a fixed component and a performance-linked variable component, was related to organizational performance. Leonard (1990) found that organizations having long-term incentive plans for their executives had larger increases in return on equity over a four-year period than other organizations. To retain competent employees, firms will be required to have a competitive level of compensation and fringe benefits (Gerhart and Milkovich, 1990; Bloom and Milkovich, 1998). So, in this paper, a comparison of China and India is made on the basis of HRM practices being practiced in the respective countries' companies. HRM practices discussed are human resource planning; recruitment and selection; employee training and development; compensation and benefits; performance appraisal; and employment relations.

Human Resource Planning

Being centrally planned economy before the end of the 1970s, HRM in China was mainly executed by a centrally planned job allocation system (Goodall and Warner, 1997). Rather than in charge of HR planning, the personnel department was in charge of administration, discipline, personal files, etc. (Ding, Fields and Aktar, 1997). In the corporate sector, managers had no autonomy to decide staff recruitment, selections, and reward policies. Such decisions have to be approved by the government (Zhang and Edwards, 2003). The national government decides the total net addition to permanent employment and each enterprise is given a hiring quota (Granick, 1991).

With the transformation of Chinese economy since 1980s, labour management has started to shift towards a labour market. One of the reforms is gradual relaxation of state control over economic planning including HR planning. The concept of competition and market is acknowledged and more autonomy is given to corporate level. In the internal structure, the party's central-control role has been moved to support position (Ding *et al.*, 1997). The authority structure has moved towards a 'Director Responsibility System' (Wang and Mobley, 1999) or modern enterprise (Zhang and Edwards, 2003). HR department now has some planning rather than merely an administrative function. Managerial competence, specifically career planning and development is now getting importance and managers are encouraged to get professional qualifications and market experience (Benson and Zhu, 1999). But there is still strong influence from central government. So, market-led HRM has not been completely implemented in Chinese organizations (Zhang and Edwards, 2003).

In contrast, Indian HRM system is more market-oriented than China. In Indian corporate sector, managers have autonomy to decide staff recruitment, selections, and other HR policies. Human resources are organized in response to business demands and labour market conditions. Departmental heads propose manpower requirements every year. It is reviewed by the respective divisional head and by the president along with the Deputy General Manager HRD. The final approval is given by President (Rao, 1999).

The company reviews the manpower needs periodically. Surplus manpower is transferred to other units after consultation with the employee concerned (Rao, 1999). So, in Indian large companies, the top management as well as personnel/HR departments is responsible for manpower planning (Kundu, 2000).

Recruitment and Selection

Prior to the 1980s, recruitment and selection were of little significant in China. The employment pattern in China was characterized by a system of unified job allocation, guaranteed life-long employment, and cradle-to-grave welfare, which was to be known as the 'iron rice bowl' policy (Warner, 1996). Under this system, employees had guaranteed job security, but no right to choose a job freely or move among different units (Zhang and Edwards, 2003) or dismissal (Zhu, 1995). This system promised cradle-to-grave welfare coverage along with job security in The State-Owned Enterprises (SOEs) (Child, 1991; Warner, 1993; Zhao, 1994). This system was developed in 1950s under the influence of Soviet Management System and Japanese Employment Practices (Warner, 1997). However, a system of employment contracts in place of 'iron rice-bowl' was introduced 1986 for new employees in SOEs, which was later extended to all enterprises in 1995. System of employment contracts was based on principles of Western-style free labour market with the intention of introducing labour flexibility to the Chinese economy. This system has been applied in most Chinese organizations (Warner, 1997). Further, managers are often promoted from within the company in China. However, Ding *et al.*, (1997) in their study of foreign-invested enterprises found that top managers were more likely to be recruited from outside their own company.

Developing market orientation of employment practices is a significant way to sharpen Chinese enterprises' competitiveness. So, they have to emancipate their mind, forming new mechanisms, and allocate human resources according to market rules (Beijing Time, 1998a). Over 80 percent of small and medium enterprises in China has moved away generally from rigid allocation of staff by the state departments and engaged in free market selection process (Zheng, 1999). Almost all organizations in India are recruiting human resources based on market driven approach. Even public sector organizations are not the exception. According to Indian labour laws, new jobs should be properly advertised and a formal process of recruitment should be followed (Gonsalves, Bhat and Mathew, 1995; Budhwar, 2001). However, this direction of labour laws is not seriously followed (Venkata Ratnam, 1995).

A study of Indian companies shows the differences in the recruitment and selection practices for both white-collar and blue-collar employees. For the recruitment of employees, Indian organizations use the recruitment methods most are advertising externally (76%), use of recruitment agencies (66%), and recruiting from current employees (56%) for white-collar employees and word of mouth (80%), advertising externally (52%) and internally (49%), as apprentices (26%) for blue-collar employees (Budhwar, 2003). Business Today's survey of Indian organizations shows that 83% of the CEOs surveyed feel that their HR managers are doing a good job in recruiting people with requisite skills (Business Today, 1996). In Indian companies, particularly in private sector, there is a strong reliance on the recruitment of top-level employees based on social contacts and by the adoption of an informal method (Budhwar, 2003). Such top-level positions are generally created and filled from family members, friends, relatives and internal loyal employees (Business Today, 1998; Dutta, 1997; Piramal, 1996;

Kanungo and Mendonca, 1994). This function is also affected by social relationships, caste, and religion and having importance in the management of employment relations in India (Sharma, 1984; Sparrow and Budhwar, 1997). Trade unions and political parties also have strong influence on the function (Sodhi, 1994; Venkata Ratnam, 1995) and affect the objectivity of recruitment practices (Kumar and Panigrahy, 2003). Majority of the Indian firms prefer to select both fresh as well as experienced candidates from the market (Kundu, 2000). Indian organizations also have the system of internal promotion of employees to fill higher vacant positions and job rotation within the department (Kundu, 2000).

Training and Development

Low level of basic education in China is the major impediment to human resources development. Today, 16% of the population is illiterate (World Development Report, 2003), compared with 80% in the past. The educational levels of the population of a nation and its education system have significant impact on management of enterprises (Laaksonen, 1988). In China, 1.5 percent of workers had tertiary qualifications, 27.3 percent had completed year 12 of schooling, 7.8 percent had graduated from technical school, and 63.3 percent had finished schooling at or below year 9 (Zhu, 1997). Seventy percent of the Chinese workforce is unskilled and untrained (Ding *et al.*, 1997). China now has more than 1000 colleges and universities and is adding more at a rapid rate (Swaak, 1995).

The training of workers in China was highly centralized and narrowly defined (Warner, 1999b) in contrast to the Western HRM notion of planning for long-term staff development. The Higher education system in China produced graduates who were narrowly trained and lacked the ability to solve problems at work (Zhu, 1997). Swaak (1995) argues that Chinese rote-learning traditional education system is unlikely to produce a generation of independent thinkers and doers.

After the introduction of economic reforms, the government identified the need to develop management education in line with the requirement of employees who could lead competitive enterprises (Lewis, 2003). Accordingly Chinese Enterprise Management Association was created to co-ordinate management education courses with Chinese and foreign institutions (Zhu, 1997) from West and East (Ding *et al.*, 1997). Further, it has recently been announced that all top-level executives now have to undergo training and certification. China has also introduced mandatory training and examinations for all leading officials of enterprises (Warner, 1999b).

China's efforts for training have shown positive signs as indicated by the surveys. Zhu (1997) found that eight out of ten employees had received on-the-job training. Four out of ten employees had received training in occupational and technical/professional skills, and six out of ten had taken benefit of management development. Training helped employees in improving performance by reducing deficiencies, updating technical skills, and developing multiple skills (Zhu, 1997). Further, Benson, Debroux, Yuasa and Ying (2000) also found equally positive results of training and development of employees. Enterprises under study had made considerable efforts to improve the skills of their employees through the use of in-company and out-company training of managers. On-going staff skill improvement and management training have been taken place mainly in Foreign Owned Enterprises (100%) and Joint Ventures (56%) (Zheng, 1999). However, another study has shown little evidence of such results of training (Glover and Siu, 2000).

In India, the concept of training and development of employees have grown gradually. Up to the late seventies of the last century, there were very little number of organizations with HRD departments; by the eighties many organizations had started establishing them. By the nineties, majority of the companies had HRD departments with mature HRD culture (Rao, 1999). In 1985, a new professional body named National HRD Network took birth and is comparable to the OD Network in the USA (Rao, 1999). The developments like the creation of HRD ministry, creation of the academic institutions, and the creation of a number of HRD-related professional institutions have boosted the training and development programmes (Balaji *et al.*, 1998; Rao, 1999; Budhwar, 2000).

Indian organizations put strong emphasis on training and development of employees and have invested heavily in training. Expenditure on employee training seems to have increased in Indian organisations (Budhwar, 2003; Rao, 1999). As high as 86 percent of managers (including HR managers) agree that adequate attention is paid to employee growth and development in their companies (Business Today, 1996). Managers are being trained in number of key areas like performance appraisal, motivation, team building, staff communication, delegation, etc. (Budhwar, 2003). Apart from on-the-job training programmes, Indian companies also organize executive development programmes (Kundu, 2000). Companies liberally send their executives and employees for training abroad to keep them update and sometimes to learn specific techniques (Rao, 1999; Kundu, 2000).

Compensation and Benefits

The compensation pattern in China was characterized by a state-administered reward system, low wage policy, flat-wage structures, and inflexible wage schemes, which was known as the 'iron wages' policy (Ding and Warner, 2001). So, there was an egalitarian pay system together with cradle-to-grave welfare benefits (Child, 1991; Warner, 1993; Zhao, 1994). Consequently, pay differences among those in different professions and different levels of responsibility were minimized. The system tended to emphasize economic equality and was based more on seniority. Market oriented performance related pay system did not exist in China before the 1980s (Zhang and Edwards, 2003). The differences of pay are still low compared to West (Easterby-Smith *et al.*, 1995).

Later China adopted the principle of 'to each according to his work' (Easterby-Smith *et al.*, 1995). Salaries or wages were to be based on a basic wage determined by job level and wage category and bonuses linked to the success of the enterprise. It was realized that one of the most effective packages in HRM practices is to link staff salaries directly to their performance in order to increase incentives and improve productivity. So, Chinese enterprises started moving from an egalitarian wage payment system to one that is more individualized (Lewis, 2003). Chinese employees are rewarded on the basis of their age, position and skills (Warner, 1997; Goodall and Warner, 1997; Benson and Zhu, 1999). A survey showed that 70% of small and medium enterprises in China have put the practice of payment of remuneration linked with performance (Zheng, 1999). Again, enterprises that did not link their staff payment to performance are those from state-owned enterprises (Zheng, 1999).

Executives in Chinese enterprises have received increasing pay enlarging the gap with ordinary employees after an economic reform underwent for more than 20 years in China (Beijing Time, 1998b). Certain benefits and welfare aspects were also included in the pay package. These benefits include accommodation, meals, medical assistance

(Verma and Zhiming, 1995), bonuses and subsidies (Warner, 1997), medical care, food facilities, housing, childcare (Benson, 1996), and provisions for pensions and insurances which includes medical, accident and disability, maternity, and unemployment (Ding *et al.*, 1997). Payment of bonus to Chinese employees has become an important part of all compensation packages (Laaksonen, 1988; Nelson and Reeder, 1985) and closely tied to individual performance (Ding *et al.*, 1997; Goodall and Warner, 1997; Zhao and Nichols, 1996). However, performance based compensation has become the trend in China and egalitarianism is being replaced by wage differentiation (Dowling, Welch and Schuler, 2001).

Typically in public sector organizations in India, compensation is determined on the basis of length of the service or seniority. In private sector organizations, compensation is determined by considering the performance as major criteria. Seniority alone is no criteria for determining wages and salaries in private enterprises in India, whereas seniority based salaries have all along been a distinct feature of Indian public sector (Kundu, 2000). However in majority of firms, compensation is determined in keep with performance as well seniority (Kundu, 2000). Another study suggests that Indian firms are more likely to adopt a mixed approach (based on seniority; performance; and skills or competence) to compensate their employees (Budhwar, 2003). Collective bargaining (unions) and provisions of labour laws (state) play significant role in determining basic wages for blue-collar employees. Further, basic pay for white-collar employees is determined on an individual basis (Budhwar, 2003). A trend (more relevant to private sector firms) of compensation determination is emerging i.e. shifting from traditional seniority-based to performance-based pay in India (Venkata Ratnam, 1995; Bordia and Blau, 1998; Balaji *et al.*, 1998).

Indian firms also offer a wide variety of monetary benefits and facilities including bonus, city compensatory allowance, housing or housing allowance, group insurance, medical facility or allowance, schooling, recreational facilities, retirement Medicare, and many more. Many of the benefits are also extended to the employees' families (Kundu, 2000). Incentive schemes offered to white-collar Indian staff are performance-related pay, individual bonus, profit sharing, and employee share option (Budhwar, 2003). However, 60% of the Indian organizations offer group bonuses to blue-collar employees as against 10% of the organizations those offer individual bonus (Budhwar, 2003). Apart from individual performance and individual incentives, Indian social and cultural values and legal requirements also have important bearing while determining salaries and incentives for white-collar employees (Ramaswamy *et al.*, 2000). However, using incentives as rewards, remain a sprinkled effort limited in scope and structure (Kumar and Panigrahy, 2003). Further, Government interference in compensation systems affects their compatibility to be globally effective.

Performance Appraisal

Generally performance appraisals serve organizational and individual needs that are performance feedback, compensation determination, promotion decisions, identification of management development and training needs, workforce planning, potential identification, dismissal, etc. Performance appraisal in Chinese enterprises was mainly conducted for the purpose of promotion or transfer, with the main criteria being political loyalty and seniority (Young, 1989). Personnel department usually conducted the performance appraisal annually. Performance appraisal for blue-collar was used less

frequently. As a part of economic reforms, it was being employed by many Chinese enterprises to weaken the egalitarianism and to facilitate the abolition of the 'iron rice-bowl' and to link performance to rewards (Zhang and Edwards, 2003; Zhu and Dowling, 1998). Research on performance appraisal in Chinese state-owned enterprises has found that it is currently used primarily for determining wages and bonuses. However, it is expected to be utilized more for communication and development in the future (Zhang and Edwards, 2003).

Certain studies have found problems with performance appraisal in China because of the emphasis given to political consideration, and problems with inconsistent measurement, subjectivity, static, and a lack of communication (Brown and Branine, 1995; Huang, 1994; Nyaw, 1995).

Performance appraisal, which is linked to the rewards and other benefits, motivates the employees to update their knowledge and skills. Most of the Indian companies use almost regularly the performance appraisal of employees. A study has shown that large companies in India appraise their employees by using assessment centre method and appraisal by results. In small companies, grading method is more popular (Kundu, 2000). 75 per cent of HR managers and CEOs surveyed feel that there is a formal appraisal system in their organizations. However, only 54 percent of managers think that appraisal system is effective in their companies (Business Today, 1996).

Incentives and stock options are linked to performance appraisal system in Indian software companies, which in turn gives an impetus to the employees to learn the latest in the field through their own efforts (Paul and Anantharaman, 2002). Survey shows that out of 22 companies, 21 offered promotion to employees as a reward based on their performance appraisal. 16 companies offered financial bonus and eight rewarded their employees with perks (Ghosh, 1996). Indian organizations are now incorporating a multi-rater system or the 360-degree feedback system into their formal performance appraisals. In this system, employee receives feedback from his managers, supervisors, peers and others he comes in contact with (Monappa and Engineer, 1999).

Employment Relations

Chinese culture that is characterized by co-operation, sharing, and authoritarian harmony work relationships is influenced by mutual obligations and reciprocity, and superior-subordinate communication (Kao *et al.*, 1990). Personalized obligations and loyalty leading to the subordinate's willingness to comply and confirm to the wishes of leaders is part of the culture of company loyalty (Zhang and Edwards, 2003). Value like implicit trust and respect for leaders who are exhorted in return to display generosity and support of their subordinates are of strategic importance in Chinese business organizations. Group work and flexibility in work organization is a typical feature of Chinese organisations (Child, 1991). Such characteristics of Chinese organizations have impact on their employment relations.

In China, trade unions were historically organized to carry out the Party's policies and taking care of workers' welfare. Trade unions were controlled by the Party and Central Government and they assisted the Party in resolving problems of employee welfare and family rather than acting as an employee representative in collective bargaining for better work conditions or fix wage levels for workers (Zhao, 1994). These unions may look powerful on paper. In recent years, Chinese trade unions have played an increasing role in labour-management relations in joint ventures (Zhao, 1994).

Researchers have reported the absence of inter-personal communication in Chinese enterprises (Child, 1991; Glover and Siu, 2000). Further poor communication is consistent with low employee involvement, which is more due to low involvement and low initiative nature of employee attitudes to work (Glover and Siu, 2000). This shows poor communication of organizational information. There is no independent decision making by corporate managers (Child, 1991; Warner, 1993). Zhu (1997) noted that there is a great power distance between the top and middle management in China as Chinese top management holds nearly all the strings of decision-making in its hands and allows very little power to lower levels. This phenomenon is perhaps more dominant in state-owned enterprises. So, Chinese managers are unwilling to take responsibility in decision-making and were more likely to follow the direction of superiors (Child, 1991). In general, employee involvement has improved in China in recent years but weaknesses are still there, specifically in employee grievances handling (Benson *et al.*, 2000). Dismissal of employees seems to be rarely practiced in China. In a study of six enterprises, Warner (1997) noted that dismissals were very low in each of the enterprises.

Unionization of workforce is considered very high in the public sector in India as compared to large-scale private sector establishments. It is much less in small and medium-scale units and virtually non-existent in the informal/unorganized sector, where 90 per cent of total labour force is employed in India (Venkata Ratnam, 2001). Budhwar (2003) found that 61 percent of the surveyed firms in India have unions. These labour unions have many problems and their strong position began to weaken in 1980s. Apart from the low membership coverage and fragmentation of trade unions (Venkata Ratnam, 2001), a number of other studies reported a decline in membership (Sarath, 1992; Das, 1999; Budhwar, 2003); growing alienation between trade unions and their members (Seth, 1996; Ramaswamy, 1988), specifically due to changing characteristics of the new workforce and the waning influence of national federations over the enterprise unions; multiplicity of unions; a big failure of strikes, etc. This trend is further evident by the decrease in number of lockouts, duration of strikes, and industrial disputes (Venkata Ratnam, 2001). Such new pattern of unionization indicates a shift from organizing workers in a region or industry to independent unions at the enterprise level (Ramaswamy, 1988).

Information sharing with employees is affected by cultural dimension of high power distance. Little information is shared with employees in Indian organizations. Business Today (1996) reported that only 67 percent managers and 65 percent HR managers agree that seniors give adequate information regarding performance to their subordinates. Further 65 percent of the organizations share information regarding both strategy and financial information with white-collar employees. However, none of such information is shared with 71 percent of blue-collar employees (Budhwar, 2003). It is because of low faith of top management in the employees (Sparrow and Budhwar, 1997), centralized decision-making preference of Indian managers (Kakar, 1971; Tayeb, 1987; Budhwar, 2003), and less awareness of lower levels employees about their rights (Vankata Ratnam, 1995). Top-down communication is preferred by Indian organizations, as the hierarchical system is still prevalent in Indian organizations.

Lay-offs or retrenchment strategy is becoming popular through out world. India has resorted to rightsizing of the organizations in the present scenario of change. The recent technological advancements and economic changes are expected to result in further reductions of labour force (Das, 1999; Sodhi, 1999). Since the organized workforce is in a minority (Venkata Ratnam, 2001) and less active participation of part-time workforce

in unionization (Kuruville, 1996), the bargaining power of trade unions is expected to decline further.

Proposition 3: Sequence of HR practices will have positive impact on firm performance.

Proposition 3A: Individual HR practices i.e. human resource planning, recruitment and selection, training and development, compensation and benefits, performance appraisal, and employment relations will have positive impact individually on firm performance.

Proposition 4: Embracing of globalization and inflow of multi-national corporations in both countries are affecting the HR practices.

Proposition 5: The firms in both countries are adopting market-driven HR practices for achieving competitive advantage.

DISCUSSION AND IMPLICATIONS

Due to economic reforms, China has been moving from high collectivism and high power distance to a mix of collectivism with individualism and lower power distance (Zhang and Edwards, 2003; Wang, 1994). The Chinese are beginning to follow a more individual-led management culture and give employees more responsibilities and rights (Branine, 1997; Goodall and Warner, 1997; Wang and Mobley, 1999; Zhang and Edwards, 2003). Individualism and competitiveness are stressed but collectivism will continue to predominate as an integral part of the socialist political system (Zhang and Edwards, 2003).

There is no a homogeneous model of HRM in Chinese enterprises (Zhu, Warner and Rowley, 2007). People may doubt that China today is very different place from what it was in the days of Mao Zedong. Now Chinese industry is decidedly more managerialist than Maoist was (Warner, 1999b). Deng Xiaoping's reforms have been far reaching in their implications since late 1980s. Managing people more effectively has become a priority, but the use of Western-based innovations and techniques in the HR field may still be in its early days (Warner, 1999a). HRM is an important management function in China because the HRM department is one that shapes the organizational norms and culture of a firm (Law, Tse and Zhou, 2003). With effective HRM practices, a firm would be able to develop strong organizational values, high employee commitments and team cultures, which are critical to firm performance (Law *et al.*, 2000; Wong *et al.*, 2001; Law *et al.*, 2003).

In China, many MNCs are witnessing a shortage of capable management talent (Ralston *et al.*, 1999) along with a highly competitive market environment. So, they are resorting to developing their local staff through intensive training programs. The present generation of Chinese managers has considerable weaknesses in the management of people, but there are positive grounds for assuming that their successors may learn from these weaknesses (Lewis, 2003). Like their counterparts in Japan (Channel 4, 2001), the young generation of China is increasingly looking to West for guidance (Lewis, 2003). The enthusiasm the young Chinese managers have for learning Western management

practices (Gamble, 2000) is evidenced by the number of MBA students studying in West. It suggests that they will be keen to study the aspects of Western HRM practices (like attracting and hiring the right people, flexible job design, employee development, employee involvement, flexible pay and rewards, etc.) and follow these in Chinese firms with the intention of boosting firm performance. While social institutions remain powerful in a transitional economy like China, effective HRM is important to firms' performance (Law, Tse and Zhou, 2003). Further a shared-stock ownership is more effective in motivating firms to perform efficiently and effectively (Child and Tse, 2001).

Liberal economic policies and increasing competition from overseas firms have compelled Indian domestic companies to give serious thinking to the development of human resources (Sparrow and Budhwar, 1997). To survive and thrive, Indian organizations have to prepare and develop their employees so as to compete with overseas firms in skills, efficiency, and effectiveness (Sparrow and Budhwar, 1997; Venkata Ratnam, 1995). In such an environment, companies have to reorient their employment relations (Budhwar, 2000; Sodhi, 1999). Without the development of human resources, Indian organizations may be failed to adopt new technology, improve quality, reduce costs, capacity utilization of resources, and rationalize the human resources and hence face competition from MNCs successfully (Venkata Ratnam, 1995). Changing government policies, ideology of trade unions, attitude of management towards human resources, and changes in the HR practices characterize the paradigm shifts. Prominent changes are noted in the nature of workplace practices i.e. breaking-up of lifelong employment system, initiation of performance-related compensation, a more rationalized and structured approach to HRM (Budhwar and Khatri, 2001).

In India, a lot of evidence linking organizational effectiveness with good HR practices comes from studies of HR practices and organizational performance. To confirm the linkages between organizational performance and HR practices, a search can be undertaken into HRD award winning organizations in terms of how well they have done financially (Rao, 1999). These companies are L&T, TELCO, SAIL, Crompton Greaves, Sundram Fasteners, Petrofils Co-operative, C-DOT, Indian Oil, ITC, NIIT, Marico Industries, etc. (Rao, 1999). About 90 per cent of these companies have continued to grow and expand in spite of having to face a turbulent environment in the recent past. They have improved their profits as well as asset base (Rao, 1999). Jomon (1998) found that middle-aged organizations, professionally-run private organizations, service companies, organizations with flat structures and medium-sized organizations are embracing change and utilizing the HRD audit inputs better that leading to a more effective HR function.

This study has some implications for multinationals those are presently operating and thinking to operate in China and India. MNCs have to know and understand the past and current state of HRM practices in China. At present, some HRM practices commonly used in the West are employed in China. However, MNCs must be aware that in China, the shift from older to market oriented HRM practices has been partial, specifically in larger enterprises (Warner, 1997). Western-style HRM practices should be introduced in China only after understanding and incorporating Chinese perspective, values, and methods (Dowling *et al.*, 2001). Chinese employees have started preferring reward differentials despite being the member of collective society. With the reforms ahead in China, a compensation system based on individual performance may become more common (Dowling *et al.*, 2001). MNCs should include local management and staff to understand the local Chinese problems and market. MNCs have to invest in training and

development of Chinese employees as they lack problem-solving skills, decision-making skills, and personal initiatives.

Similarly MNCs should include local staff and practices to build a performance-based work culture in India. However, some factors like availability of English speaking staff, transfer of technology, and Western collaborations in India made the work of MNCs easier than in China. To take advantage of cheap Indian labour with comparatively lower productivity, MNCs should consider training and development of staff very important. Further, multinationals have to effectively deal with Indian bureaucracy and autocracy of Indian managers, as high power distance is one of the major features of the Indian management style (Sharma, 1984). High power distance results into low level of trust that is a key HRM problem in India (Venkata Ratnam, 1995).

About 70 Indian companies (including Ranbaxy, Orchid Chemicals, TCS, Infosys, Sundram Fasteners, Essel Propack, and Aurobindo Pharma) are leveraging China by establishing business there (Business Today, 2004). Why China makes sense for Indian Companies? It makes a lot of sense to set up units in China to take advantage of cheap labour, investor friendly bureaucracy, country's low costs and superior infrastructure to tap not just the local market, but big neighbouring market such as Korea and Japan (Business Today, 2004). However, there is a lot of grey area also that MNCs (including Indian) must deal with. China's legal system is rather complex and each province has its own set of laws in addition to the central government's law. Most of the provinces have not codified their laws (Business Today, 2004).

As the globalization is increasing, cultural diversity is here going to stay. Those recognize the globalization of labour as a positive trend and facilitate the flow of workforce will benefit most in the changing cultural environments (Kundu, 2003). Keeping this in mind, strategy should be aimed at creating change in organisation. To be successful in such type of new environment, managers must learn to recognize, value, and respect cultural styles and ways of behaving those differ from our styles.

Companies must create a post bureaucratic organization based upon trust and respect in which culturally diverse employees are valued and integrated into all aspects of the work. Managers must be able to tie the issues of managing cultural differences to the needs of the business and be well versed in business issues, goals and results. Managing cultural diversity should be considered by managers as an opportunity to serve the needs of customers better and to penetrate diverse markets. By valuing and managing diverse workforce, it is possible to enhance creativity, flexibility, and rapid response to change (Kundu, 2004). Managers, to utilize the potential of cultural diverse workforce, must link cultural diversity to every business function or strategy i.e. recruitment, selection, placement, development, succession planning, performance appraisal and rewards (Kundu, 2001).

This study also has some future research implications. Broader areas of HRM are covered extensively in this paper to compare India and China. Survey based researches are not being conducted much to study comparative HRM in these two countries. However, comparative HRM was being studied in India and China separately to compare with other countries specifically with Western countries. Future researchers may take up survey-based researches on HRM to compare India and China and find solutions to make HRM effective and to match with the best. Researchers may study Indian companies established in China and compare HRM with Chinese companies over there. Further it may be studied how Indian companies managing HRM in China and India. As both China and India adopted liberalization and globalization and became the members of

WTO, market-driven HRM approaches have become pressing need to compete with developed world. So, it is again the important issue for the researchers to study.

CONCLUSION

With the emergence of global market, companies from developed world look towards developing countries like India and China for markets, cheap labour, etc. Increasing competition from overseas firms has compelled China and India to give serious thinking to the development of human resources.

The present study broadly focuses on impact of HRM on firm performance, cultural context of HRM, HRM practices in China and India, and implications for China, India, and multinationals coming from other countries. HRM practices including human resource planning, recruitment and selection, training and development, compensation and benefits, performance appraisal, and employment relations are discussed comprehensively in context of India and China. Through the exploitation of current literature and knowledge, it is found that China and India are distinct cultures and these countries differ in the practices of HRM. Further, Indian companies have adopted market-driven HRM practices comparatively greater extent than Chinese companies. However, Chinese companies have started following market-oriented HRM practices after reforms.

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