CONVERGENCE IN HUMAN RESOURCE SYSTEMS: A COMPARISON OF LOCALLY OWNED AND MNC SUBSIDIARIES IN TAIWAN

Shyh-Jer Chen, John J. Lawler, and Johngseok Bae

This article investigates issues of convergence in human resource systems in Taiwan, with reference to the similarities and differences between locally owned companies and subsidiaries of multinational corporations (MNCs). Traditionally, management in Taiwanese companies has been largely influenced by Confucian values and is quite distinct from approaches common to MNCs. However, globalization has engendered significant competitive pressures, coupled with cultural and institutional change within Taiwan. This article provides a theoretical framework for understanding such changes and provides empirical evidence indicating that Taiwanese companies are acting very much like MNCs with regard to the adoption of flexible, high-performance work systems. © 2005 Wiley Periodicals, Inc.

In their "convergence hypothesis," Kerr, Dunlop, Harbison, and Myers (1960) posited that market forces would shift all countries toward employment and industrial relations systems similar to those of the United States. Although subsequent research long seemed to reject this argument (Punnett & Shenkar, 1996), globalization has proven a significant force that continues to foster renewed interest in the convergence hypothesis (e.g., Rowley & Benson, 2003). Convergence is a complex and multifaceted phenomenon. This study concerns only one aspect: convergence of human resource systems between locally owned companies (LOCs) and subsidiaries of multinational companies (MNCs) at the host-country level.

Despite apparent cultural and social impediments, research suggests that high-performance work systems (HPWSs) have the potential to be effective in East and Southeast Asia (Bae, Chen, Wan, Lawler, & Walumbwa, 2003). It therefore is not surprising that discussion often centers on the utility of American-style strategic human resource management (SHRM) and what has come to be known as HR "transformation" in this region (Erickson & Kuruvilla, 1998). LOCs, particularly those in the more advanced East and Southeast Asian economies, appear to be patterning their employment systems more extensively after those of Western multinational companies (MNCs), especially American MNCs.

Correspondence to: Shyh-Jer Chen, Institute of Human Resource Management, National Sun Yat-sen University, Kaohsiung, Taiwan, 804, 886-7-5252000 ext. 4927, schen@mail.nsysu.edu.tw

© 2005 Wiley Periodicals, Inc. Published online in Wiley InterScience (www.interscience.wiley.com).
DOI: 10.1002/hrm.20069
Quantitative studies that rigorously test specific hypotheses related to convergence are lacking. We undertake that task here with respect to various HR subsystems by comparing subsidiaries of MNCs operating in Taiwan to Taiwanese LOCs. Among the most developed economies of the region, Taiwan has long attracted significant foreign investment. Today, however, Taiwan experiences significant competitive challenges from newly emerging economies (Chen, Ko, & Lawler, 2003). These challenges appear to be causing managers in LOCs to replace traditional employment practices with predominantly Western-style approaches, including high-performance work systems.

In contrast to prior research, this study differentiates between and explores two different aspects of convergence: what we term structural convergence (i.e., similar HR strategy regardless of organizational context) and decisional convergence (i.e., the use of similar rules that relate organizational context to HR strategy). The results support both forms of convergence, though our findings with respect to decisional convergence are more consistent with the SHRM framework. Implications of the research findings are discussed, not only for Taiwan but for other East and Southeast Asian economies confronting similar challenges and for MNCs operating in the region.

Prior Research

Contemporary proponents of the convergence hypothesis maintain that globalization and related factors have created an environment in which companies, regardless of location, must necessarily become more flexible, innovative, and “agile” to respond rapidly to competitive challenges. High-performance work systems foster this agenda in Asia, particularly in LOCs in both Korea (Kim & Bae, 2004) and Japan (Morishima, 1998). Researchers have identified similar pressures, at least to some extent, elsewhere in East and Southeast Asia (Budhwar, 2004; Rowley & Benson, 2003; Von Glinow, Drost, & Teagarden, 2002). Yet many researchers continue to question the viability of this new version of the convergence hypothesis, especially in Europe (Brewster, Mayrhofer, & Morley, 2000; Wright & Brewster, 2003) and tend to view the “American” model of HR with “a certain suspicion, debating the extent to which it applies to Europe with its different and multiple institutional contexts” (Evans, Pucik, & Barsoux, 2002, p. 171).

This viewpoint is illustrated, for example, in the work of Budhwar and Sparrow (2002), who see national institutional practices as the controlling factor in shaping HR systems. In the case of MNC subsidiaries, Ferner (1997) argues for the pervasiveness of country-of-origin effects. For example, leading German MNCs pursue German-style employment practices in host countries and avoid more Anglo-Saxon strategic international HRM perspectives and policies (Ferner & Varul, 2000). Geary and Roche (2001) likewise observe country-of-origin effects dominant in companies operating in Ireland. In their edited book, Brewster et al. (2000) present a similar viewpoint, stating that European HRM differs from U.S. and Japanese counterparts because European companies emphasize legislative frameworks, trade unions, institutional arrangements, and so forth.

The complexities of the European environment differentiate much of Europe from the United States and also from much of East Asia. Moreover, there are apparent cross-national differences with respect to the impact of SHRM approaches on firm performance. Much of the empirical research demonstrating a positive connection between SHRM and firm performance has taken place in the United States (Wright & Boswell, 2002). Studies conducted in a variety of Asian countries also have shown HPWSs exerting a positive effect on firm performance (e.g., Bae & Lawler, 2000; Bae et al., 2003; Björkman & Fan, 2002; Lee & Miller, 1999; Morishima, 1998).

In contrast, research is less supportive of the effective transference of American-style SHRM approaches to European countries (Doeringer, Lorenz, & Terkla, 2003; Harzing & Sorge, 2003; Rodríguez & Ventura, 2003). There are many factors that might explain why these techniques are not so effective in Europe, including political and cultural constraints, stronger unions, the regulatory envi-
Comparison of Locally Owned and MNC Subsidiaries in Taiwan

The Logic and Forms of Convergence

Convergence Mechanisms. Given research pointing to the viability of the SHRM framework in Asia, we might expect managers in LOCs in Asian countries to experiment with HPWSs. Institutional theorists (cf. Scott, 1995) suggest many diffusion mechanisms could lead to this type of convergence and could be often evident in such processes as corporate governance (Aguilera & Jackson, 2003). Professional and managerial norms and standards are important avenues by which managers develop notions of what is appropriate action. Certainly, cross-border mergers and acquisitions represent one mechanism by which knowledge of HR policies and practices common in MNCs are transmitted cross-nationally (Aguilera & Dencker, 2004). In addition, organizational managers often imitate the management practices found in other organizations either to gain legitimacy or because they are otherwise unsure as to how to act (i.e., mimetic forces). Laws and administrative rules are other institutional control mechanisms, though these could serve to promote indigenous approaches rather than facilitate convergence toward what some might view as universal “best practices.”

While these institutional forces encourage convergence, others interfere with this phenomenon. To the extent that managers of LOCs have open and cosmopolitan views, regularly interact with their counterparts in MNC subsidiaries, and are exposed to the SHRM perspective through professional education and training, there is apt to be a diffusion of employment practices reflecting the SHRM perspective to LOCs. Country- or region-specific institutional forces, including labor laws and indigenous employment systems, may militate against convergence toward the SHRM framework. As we have noted, this seems very much to be the case in Europe, particularly given the conventions and protocols of the European Union. However, there are significant global, legal, and administrative forces also at work in Asia. Membership requirements of the World Trade Organization (WTO) and actions taken by the International Monetary Fund (IMF) in relation to the 1997 financial crisis have curtailed many local laws and rules that blocked the diffusion of global practices to Asian LOCs. For example, Korea rescinded laws that severely limit a firm’s ability to terminate employees for economic reasons. Thus, many Asian economies are moving toward deregulation and greater openness to external influences.

Types of Convergence. The most common way to define convergence involves comparing HR systems across organizations according to what we term structural convergence. Isomorphic HR practices within organizational populations, regardless of contextual influences such as organizational strategy, reflect structural convergence. Holding all else constant, HR systems would tend to look outwardly the same in both MNC subsidiaries and LOCs under conditions of structural convergence. The universalistic SHRM perspective (Delery & Doty, 1996) posits that the HPWS approach constitutes a “best practice” and that at least some level of HPWS implementation will generally serve to enhance the performance of any firm. If managers in both LOCs and MNC subsidiaries in a particular country (e.g., Taiwan) were to buy into the universalistic argument, then both types of organizations would tend to adopt HPWSs and we would expect to see reasonably isomorphic HR practices across LOCs and MNC subsidiaries.
We argue that there is another type of convergence, distinct from structural convergence, which occurs when LOCs and MNC subsidiaries utilize similar analytical frameworks and decision rules for designing HR systems. We term this decisional convergence.

That LOCs and MNC subsidiaries share similar HR practices does not, *per se*, establish structural convergence with respect to HPWSs. It could be the case that MNC subsidiaries adopt indigenous host-country employment practices. The correct explanation likely depends on factors such as the strength of host-country national culture and the balance of institutional forces favoring versus inhibiting openness to external influences. The assessment of structural convergence in a given host country with respect to the SHRM framework requires first discerning substantial similarity in LOC and MNC affiliate HR practices and determining whether these similar practices are consistent with the SHRM framework as opposed to an alternative approach.

We argue that there is another type of convergence, distinct from structural convergence, which occurs when LOCs and MNC subsidiaries utilize similar analytical frameworks and decision rules for designing HR systems. We term this decisional convergence. The contingency perspective in the SHRM literature (Delery & Doty, 1996) indicates that the effect of HR strategy on firm performance will be influenced by a firm's business strategy. Decisional convergence may result if both LOCs and MNC subsidiaries base HR strategy decisions on general business strategy and attach similar weights to business strategy in developing their HR systems.

Decisional convergence, however, does not necessarily give rise to isomorphic HR systems. MNC subsidiaries and LOCs may well confront differing contexts and pursue distinctive business strategies. Structural differences may exist between these types of companies (i.e., polymorphism), but HR managers may think similarly about how to design HR systems. Decisional convergence is subtle and more complex than the structural form, but it is important to consider nonetheless. It predicts, for example, that if the business environments of LOCs and MNC subsidiaries become more alike, then HR policies and practices will ultimately converge (i.e., structural convergence will follow). To the best of our knowledge, the notion of decisional convergence is largely unexplored in the HR literature, as the convergence literature focuses mainly on structural isomorphism and polymorphism.

Finally, true convergence requires the acceptance of similar HR practices or decision rules with respect to HR strategy formulation on the part of key organizational decision makers (Budhwar, 2004). Research on the cross-national adoption of managerial policies argues that this must be understood in terms of both policy *implementation* and policy *internalization*. Kostova and Roth (2002) note that it is necessary to distinguish between merely the "ceremonial adoption" of policies and practices (because certain policies might be viewed as trendy) and a fundamental commitment to such policies and practices (i.e., internalization). These arguments are applicable to HR convergence (Rowley & Benson, 2003). Convergence only at the level of specific practices or decision rules proves incomplete and lacks internalization. We propose a means of testing convergence with respect to internalization as well as implementation in the context of Taiwanese HR systems.

**HR Systems in Taiwan**

Confucian Management. Management practices rooted in Confucianism, traditionally prevalent in Taiwanese-owned firms (as well as Chinese firms throughout East Asia), are quite different from those typical of Western MNCs (M. Chen, 2001). In contrast to Western universalism, Confucian ethics are highly particularistic: the individual is obligated to favor those with the closest social or hierarchical relationships (i.e., *guanxi*) (Hwang, 2001). The maintenance of harmony within the firm and paternalistic management are basic elements of the employment relationship in Confucian management. Interpersonal trust based on personal connections (i.e., *guanxi*) is seen as the key element in employer-employee relationships, as there are normally few formal workplace rules or governmental regulations. A person with significant *guanxi* with the owners or managers is more likely to be hired, promoted, rewarded, and given opportunities to participate in decision making (Wu, 2004).
The traditional employment system in Taiwan has been characterized by various authors (e.g., S. Chen, 1997; Negandhi, 1973). Just as more recent studies capture changes that reflect the diffusion of HR practices between LOCs and the large number of MNC subsidiaries now operating in Taiwan, this study focuses on Negandhi's (1973) efforts to establish a stylized notion of the more traditional approach against which HR practices in both Taiwanese LOCs and MNC subsidiaries can be assessed. Negandhi contrasted Taiwanese LOC employment practices with those of American and Japanese MNC subsidiaries at a time when extensive foreign investment was just beginning to take hold in Taiwan and before there was much diffusion in either direction. His sample was relatively small (11 LOCs and 16 MNC subsidiaries), but stands as the only published study of that period with at least some quantitative estimates of LOC-MNC differences.

Negandhi's work demonstrates seemingly substantial differences between the LOCs and MNC subsidiaries (and between LOC employment systems during the period) and our contemporary notions of HPWSs. While selection processes are intensive and rigorous in HPWSs, Negandhi found that LOCs utilized selection procedures that were *ad hoc* and "based on the immediate whims of the supervisor." Both the American and Japanese firms in his study generally relied on more formal selection processes than the LOCs. HPWSs emphasize merit and ability as primary criteria in hiring and promotion decisions, whereas LOCs in Negandhi's study emphasized job tenure, age, family ties, or loyalty (with education and training the most important criteria in many American MNC subsidiaries). Most of the Taiwanese LOCs lacked formal appraisal systems and systematic training programs, and there was little linking of pay to performance, at least for lower-level employees. There was clearly considerable structural divergence, although the issue of decisional convergence lacks relevance, as it is based on processes linked to the SHRM framework that would not have been pertinent at the time (i.e., a connection between business strategy and employment practices). Thus, a benchmark exists against which this study can assess the current situation.

**Forces for Change.** The annual average rate of economic growth in Taiwan from 1950 to 1990 was around 9%; however, the growth rate dropped to between 4 and 7% annually in the 1990s. The initial period of rapid growth experienced by Taiwan came at a time when it enjoyed a significant competitive advantage as a low-cost producer, with Confucian management promoting disciplined and efficient workplace behavior. But Taiwanese LOCs can no longer compete primarily on the basis of cost and must be more flexible and innovative to compete in high value-added industries involving cutting-edge technologies.

While fundamental to Chinese culture, Confucianism is not without its critics, who view it as conservative, reactive, and resistant to change and transformation. How to transform the culture of business organizations and the broader society in the direction of greater innovation and flexibility is a key theme in management, political, and academic debates now under way in Taiwan. Pyat, Ashkanasy, Tamaschke, and Grigg (2001) found that Chinese-owned firms in both Thailand and Hong Kong are increasingly assuming a more strategic (and less Confucian) stance as they become more integrated into the global economy. This change is reflected, for example, by greater reliance on professional managers (versus family members) and a reduced tendency to depend on *guanxi* in building business relationships. These firms are in many ways transforming themselves into Western-like MNCs.

A real issue confronting Taiwan and other East Asian societies is whether Confucian management can be transformed so as to enhance competitive advantage in an increasingly difficult global economy. Asian culture would seem antithetical to HPWS assumptions. One factor supporting such a transition has been Taiwan's growing affluence and a tendency toward more individuality and less hierarchy (Hofstede, 1980), a
trend similar to that occurring in Korea (Bae & Lawler, 2000) and other economically advanced parts of East Asia. Younger, more individualistic workers may be less willing to accept Confucian-style management. Large numbers of Taiwanese have attended school in the United States and many have worked there. They return accustomed to American management styles and some have been instrumental in forming new companies, particularly in Taiwan’s high-technology sector. Principles from American management and HR practice have been extensively incorporated into management education and training within Taiwan. There are now many American-style MBA programs in Taiwan and at least three graduate programs in human resource management, all of which frequently utilize American textbooks and emulate the American-style curriculum. This shift has been one institutional mechanism supporting the diffusion of American-style management within Taiwan and other parts of East Asia.

Another institutional force is imitation (i.e., mimetic forces). The presence of many successful, high-profile U.S.-based MNCs in Taiwan (e.g., Citibank, IBM, Ford, HP, P&G) has provided an attractive model for Taiwanese firms as they seek new approaches to management in order to cope with global competition. Japanese-style management, once seen as a viable alternative, is viewed less favorably given the difficulties experienced in recent years by Japanese companies. European MNCs are less established in Taiwan than either American or Japanese MNCs and provide less of a model for local managers. Hence, mimetic forces would seem to favor the diffusion of U.S.-style SHRM approaches to Taiwanese LOCs. These observations are supported by scholars who have examined the nature of HR systems in Taiwan (S. Chen, 1997; Wu, 2004).

HR Systems in Practice: MNC Subsidiaries versus LOCs

HR Systems

This study employs the approach Bae (1997) adapted from the SHRM literature to measure HR systems in an Asian context. He proposed four broad functional HR system categories: HR flow (recruitment, selection, training and development), work structuring (control, teamwork, job specificity), reward systems (wages and performance appraisal) and employee influence (employee participation and ownership). Each of these HR functions can be defined as a continuum of related HR practices ranging from a control-based work system to a high-performance work system.

Perceived Value of Human Resources

SHRM-based research has also focused on the extent to which management values human resources as a source of competitive advantage (e.g., Bae & Lawler, 2000). This aspect of the SHRM literature is linked to the resource-based perspective (Barney, 1991), which holds that employees can develop organization-specific skills and competencies that are valuable and not easily imitated in other organizations. The extent that management values human resources as a source of competitive advantage should impact the extent to which it is prepared to act strategically to exploit such an advantage. Thus, while HR system variables measure HR policy implementation, perceived HR value serves as an indicator of management internalization of these policies. For example, a firm might implement features of an HPWS in an effort to emulate the look of competitors or to depict the firm as a state-of-the-art organization that utilizes management “best practices.” However, if management does not internalize the view that employees actually contribute to competitive advantage, then these policies may be largely irrelevant to organizational action.

Hypotheses

Structural Convergence. Suppose Taiwanese LOCs largely followed Confucian-style employment practices and MNC subsidiaries tended to implement HPWS practices. We would expect traditional employment practices in Taiwan to resemble control-based work systems more than HPWSs. This out-
come is indicated in several of the studies cited earlier, as well as in comparisons of Chinese-owned and MNC subsidiaries in Hong Kong (Shaw, Tang, Fisher, & Kirk-bridge, 1993): If the traditional Confucian system was still dominant in Taiwanese MNCs, then, other things being equal:

Hypothesis 1a: Taiwanese LOCs will exhibit lower levels of HPWS activity than will MNC subsidiaries along all human resource system dimensions.

Support for Hypothesis 1a would lead us to reject the view that there is structural convergence between LOCs and MNC subsidiaries in Taiwan.

Hypothesis 1a considers convergence related to the implementation of HR practices. We have argued that perceived HR value can indicate management commitment to such practices (i.e., internalization). We anticipate that in a traditional Confucian-based system, management will be less inclined to view employees, especially lower-level employees, as sources of competitive advantage. Confucian organizations are hierarchical, and managers are generally seen as having command of all strategically important knowledge. Lower-level employees generally defer to superiors in all matters; superiors do not expect to have their views questioned by subordinates. Thus, top-down decision making and informational flows are inconsistent with management perceptions of high perceived HR value, especially relating to competitive advantage. If the traditional Confucian approach holds in contemporary Taiwanese LOCs, then, other things being equal:

Hypothesis 1b: Management perceptions of HR value will be lower in Taiwanese LOCs than they are in MNC subsidiaries.

Decisional Convergence. To test for decisional convergence, we first need to see if there is a general relationship between relevant contextual factors and HR strategy. If so, we then need to discern if this effect differs between LOCs and MNC subsidiaries. There are many possible contextual factors that could influence HR system design, although most of the theory and research in this area focuses on organizational business strategy as a moderating variable. If firms apply SHRM concepts in developing HR strategies, then they may well link business strategy to HR system design.

Business strategy is defined in varying ways, with Porter's (1980) notion of cost leadership versus differentiation strategy being widely used in the SHRM literature. The general argument in the SHRM literature (e.g., Huselid, 1995) is that a differentiation strategy requires more flexibility, higher worker skills, and greater capacity of workers to respond quickly to change than a cost leadership strategy. In addition, lower-level workers are more apt to be viewed as a source of competitive advantage in firms pursuing a differentiation strategy. We then expect:

Hypothesis 2a: The extent to which a firm utilizes a differentiation strategy will be positively related to level of HPWS activity along all human resource system dimensions.

Hypothesis 2b: The extent to which a firm utilizes a differentiation strategy will be positively related to management perceptions of HR value.

Hypotheses 2a and 2b concern the expected relationship between organizational business strategy and HPWS activity, assuming managers apply some decision rules contingent on organizational strategy. If LOCs act in a traditional Confucian manner, then managers will be less likely to consider organizational business strategy as a factor in structuring employment systems (Pyat et al., 2001). HR systems should be more control-based regardless of business strategy, and employees are unlikely to be viewed as a source of competitive advantage to the firm. We anticipate that in LOCs, the business strategy-HR strategy linkage will be weaker than in MNC subsidiaries, thus reducing the level of decisional convergence:

Hypothesis 3a: Differentiation strategy will have less of an impact on HPWS activity

If LOCs act in a traditional Confucian manner, then managers will be less likely to consider organizational business strategy as a factor in structuring employment systems.
One complication became apparent in this study's efforts to distinguish the use of HPWSs from the traditional Confucian employment system. Certain features of the HPWSs might overlap with features of a Confucian system (e.g., long-term employment), while other HR practices are quite distinct (e.g., pay-for-performance versus seniority-based).

**Hypothesis 3b:** Differentiation strategy will have less of an impact on management perceptions of HR values in Taiwanese LOCs than in MNC subsidiaries.

**Research Methods**

**Data Collection**

The questionnaire used in this study measures various components of human resource management and industrial relations practices in firms, as well as management perceptions of the importance of human resources as a source of value to the organization. The questionnaire was administered in 1996 and 1999 to HR department heads of both LOCs and MNC subsidiaries, including subsidiaries of Japanese-, American-, and European-based MNCs. The 1997 Asian financial crisis did not have a strong impact on Taiwan, though the design of this research controlled for this possibility during the time period in which the data were collected.

The sampling frame for LOCs consisted of the top 1,000 manufacturers and the top 500 service-based firms in Taiwan. Surveys were sent to the head HR managers in each company. A total of 215 LOCs returned completed questionnaires. For MNC subsidiaries, we used *Brochures of Foreign Companies in Taiwan*, published by Dun and Bradstreet, and sent 509 questionnaires to foreign firms with more than 100 employees. One hundred MNC subsidiaries (including 33 American, 36 Japanese, and 19 European) filled out and returned the questionnaires.

**Variables**

Questionnaire items were used to construct the five scales that serve as dependent variables in our analysis. These items are based on Bae's (1997) approach described above. Scale items consisted of six-point Likert items in which respondents are asked to indicate the accuracy of a given statement regarding a specific HR practice in describing his or her organization, with anchors ranging from “very inaccurate” to “very accurate.” Similar items were used to assess perceived HR value. Six-point scales were used to offset the central tendency bias sometimes encountered with Asian respondents.

As organizations can have distinct HR architectures applicable to different groups (Lepak & Snell, 1999), we had respondents focus on those practices and perceptions associated with permanent nonmanagerial production or service workers. Summated scales for the HR system scales were designed so that higher values for the HR systems scales were consistent with flexible, high-performance work systems and lower scale values were associated with more traditional, centrally controlled work systems. The perceived HR value items were also anchored so that a high value on the scale indicated high perceived HR value.

One complication became apparent in this study's efforts to distinguish the use of HPWSs from the traditional Confucian employment system. Certain features of the HPWSs might overlap with features of a Confucian system (e.g., long-term employment), while other HR practices are quite distinct (e.g., pay-for-performance versus seniority-based). Researchers reviewed each of the items in Bae's (1997) scales that served as dependent variables, deleting items where there might be ambiguity in distinguishing HPWSs from Confucian employment systems.

After excluding ambiguous items, the **HR flow scale** contained four items that assessed the extent to which the respondents indicated their firm relied on extensive selection and training procedures. Three items were used to assess **work structuring**, with higher values indicating workers enjoyed greater work autonomy and were expected to have multiple skills and abilities. The five items used in the **rewards scale** assessed the extent to which firms emphasized pay-for-performance at the individual or group levels, engaged in extensive performance appraisals, and linked promotions to performance. The **employee influence scale** was based on three items that measured the extent to which workers participated in organizational decision making and the presence
of only limited worker-manager status differentials. The perceived HR value scale contained four items that assessed the extent to which management saw nonmanagerial employees as substantially generating value for the organization and the extent to which HR management is perceived to be a strategic partner. Differentiation (i.e., organizational strategy) was measured with a Likert scale also used by Bae (1997).

The tests for Hypotheses 1a, 1b, 3a, and 3b required a dummy variable representing Taiwanese LOCs. Some of our secondary analyses compared MNC subsidiaries by home country, so we generated dummy variables to represent MNC home country or region (Europe, Japan, Asian countries other than Japan, and the United States). Finally, several control variables were included: firm size (natural logarithm of the number of full-time employees), the firm's unionization rate, the age of the firm (number of years of operation in Taiwan), a dummy variable indicating the firm lacked a central HR department, and a dummy variable indicating the year the company was surveyed (1996 versus 1999) in order to control for any effects associated with the 1997 financial crisis.

Data Analysis

Confirmatory factor analysis (CFA) was used to assess the validity of the HR system scales, the perceived HR value scale, and the differentiation strategy scale, as well as to test their equivalence between Taiwanese LOCs and MNC subsidiaries. We first estimated a measurement model using the four HR functions (HR flow, work structuring, rewards, and employee influence), perceived HR value, and differentiation strategy as latent constructs, with appropriate questionnaire items associated with each latent construct. LOC and MNC affiliate subsamples had similar factor structures, allowing us to treat the constructs used in this study equivalently between the two groups. Overall fit statistics were well within accepted norms for the preferred model in which factor loadings were restricted to the same values in the MNC and LOC subsamples (Comparative Fit Index [CFI] = .98; Root Mean Square Error of Approximation [RMSEA] = .05). CFA was also used to rule out the common method variance problem. A model containing six latent variables corresponding to the scales described above was contrasted to a single-factor model (see Takeuchi, Wakabayashi, & Chen, 2003). The result of this exercise supported the existence of six distinct factors rather than a single underlying factor (which would have suggested a significant common method variance problem).

As several of the independent variables were dichotomous, we used multiple regression rather than structural equation modeling to test the hypotheses. Our study also assessed some interaction effects that could not readily be measured with structural equation modeling techniques. Summated rating scales were constructed for each of the four HR subsystem scales, the perceived HR value scale, and the business strategy (differentiation) scale. The score of each scale was computed as the average value of the items associated with the scale and ranged in value from 0 to 5. The lower-end anchor point of 0 was used to examine structural convergence with respect to the HPWS activity, as is discussed below. All scales had reliability coefficients of .65 or higher. The limited number of missing values was replaced by item means. Descriptive statistics for all variables used in this analysis, along the correlation matrix and scale reliabilities, are reported in Table I.

Results

As this study had five dependent variables, multivariate multiple regression was used to obtain parameter estimates. The hypotheses that we have proposed allow us to assess the forms and extent of LOC-MNC affiliate convergence in Taiwan.

Tests of Hypotheses

Parameter estimates obtained by regressing each dependent variable against all of the control variables, the dummy variable indicating LOC status, and the differentiation strategy scale are reported in Table II. All of these equations were statistically significant.
and had adjusted $R^2$ values of between approximately .11 and .37. Our study applied nondirectional two-tailed t-tests for each control variable.

In regard to the control variables, the absence of a central HR department within a firm decreased the level of all four of the HR function scales significantly, as might be anticipated. There was also a strong negative relationship between perceived HR value and the absence of a centralized HR department, although the direction of causation is perhaps more ambiguous in this case. The level of unionization had a significant effect (positive, but only at the .10 level) only in the case of HR flow, suggesting unionized employers spent more time looking for workers and training them. This finding is reasonable given that a union might make it more difficult to discharge or lay off workers. Further, there were differences related to the year of the survey. The reward system scale was somewhat lower in the 1999 period, reflecting the fact that incentives were more limited in the aftermath of the 1997 crisis (though Taiwan was only minimally affected). Perceived HR value also diminished marginally in 1999. Interestingly, there were no significant effects associated with age of the firm for any of the dependent variables. In addition, size had virtually no effect, except that perceived HR value was marginally lower in larger than smaller firms.

**TABLE 1** Descriptive Statistics and Correlations

<table>
<thead>
<tr>
<th>Mean</th>
<th>SD</th>
<th>Alpha</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.34</td>
<td>.79</td>
<td>.65</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.68</td>
<td>.88</td>
<td>.70</td>
<td>.43</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.24</td>
<td>.74</td>
<td>.80</td>
<td>.47</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.28</td>
<td>1.07</td>
<td>.66</td>
<td>.46</td>
<td>.42</td>
<td>.59</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>.84</td>
<td>.37</td>
<td>1</td>
<td>.10</td>
<td>.05</td>
<td>.08</td>
<td>.03</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>.23</td>
<td>.42</td>
<td>1</td>
<td>-.17</td>
<td>-.21</td>
<td>-.25</td>
<td>-.23</td>
<td>.12</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29.21</td>
<td>45.54</td>
<td>.18</td>
<td>.17</td>
<td>.10</td>
<td>.08</td>
<td>.17</td>
<td>-.07</td>
<td>-.06</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22.47</td>
<td>14.75</td>
<td>.12</td>
<td>.07</td>
<td>.08</td>
<td>.02</td>
<td>.04</td>
<td>.16</td>
<td>-.08</td>
<td>.20</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5.47</td>
<td>1.14</td>
<td>1</td>
<td>.14</td>
<td>.10</td>
<td>.18</td>
<td>.19</td>
<td>-.10</td>
<td>-.24</td>
<td>.35</td>
<td>.30</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.77</td>
<td>.73</td>
<td>.87</td>
<td>.43</td>
<td>.30</td>
<td>.55</td>
<td>.44</td>
<td>.20</td>
<td>-.13</td>
<td>.10</td>
<td>.05</td>
<td>.13</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.41</td>
<td>.96</td>
<td>.85</td>
<td>.48</td>
<td>.36</td>
<td>.59</td>
<td>.41</td>
<td>-.03</td>
<td>-.17</td>
<td>.05</td>
<td>-.02</td>
<td>-.01</td>
<td>.43</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>.68</td>
<td>.47</td>
<td>1</td>
<td>-.04</td>
<td>-.01</td>
<td>-.07</td>
<td>.11</td>
<td>.19</td>
<td>-.07</td>
<td>.12</td>
<td>.09</td>
<td>.01</td>
<td>-.14</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>.10</td>
<td>.31</td>
<td>1</td>
<td>-.02</td>
<td>.09</td>
<td>.16</td>
<td>-.01</td>
<td>-.24</td>
<td>-.09</td>
<td>.03</td>
<td>.03</td>
<td>-.05</td>
<td>.04</td>
<td>.10</td>
<td>.50</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>.11</td>
<td>.32</td>
<td>1</td>
<td>-.11</td>
<td>-.10</td>
<td>-.03</td>
<td>-.04</td>
<td>.11</td>
<td>.24</td>
<td>.10</td>
<td>-.08</td>
<td>-.09</td>
<td>.05</td>
<td>.08</td>
<td>-.53</td>
<td>-.12</td>
<td></td>
<td></td>
</tr>
<tr>
<td>.06</td>
<td>.24</td>
<td>1</td>
<td>-.05</td>
<td>.00</td>
<td>-.02</td>
<td>-.17</td>
<td>-.27</td>
<td>-.08</td>
<td>-.02</td>
<td>-.09</td>
<td>.01</td>
<td>-.08</td>
<td>.06</td>
<td>-.38</td>
<td>-.09</td>
<td>-.09</td>
<td></td>
</tr>
<tr>
<td>.03</td>
<td>.18</td>
<td>1</td>
<td>-.01</td>
<td>-.06</td>
<td>-.02</td>
<td>.04</td>
<td>.09</td>
<td>.02</td>
<td>-.01</td>
<td>-.02</td>
<td>-.07</td>
<td>-.04</td>
<td>-.28</td>
<td>-.07</td>
<td>-.07</td>
<td>-.05</td>
<td></td>
</tr>
</tbody>
</table>

Correlations greater than .11, p < .05.
Comparison of Locally Owned and MNC Subsidiaries in Taiwan

In testing specific hypotheses, this study applied one-tailed directional t-tests. For all dependent variables, we observed positive and significant effects related to the differentiation scale, thus supporting both Hypotheses 2a and 2b. This finding suggests that, in general, managers factor organizational strategy into decisions relating to the extent of HPWS utilization, as the SHRM contingency perspective indicates should be the case. However, these two hypotheses are not alone sufficient to establish decisional convergence, which is directly tested through Hypotheses 3a and 3b.

Hypothesis 1a was supported only in the case of the rewards scale. LOCs were somewhat less inclined than MNC subsidiaries to link pay to performance or have relatively high pay levels. However, this effect was not strong, and we found no differences in the expected directions between LOCs and MNC subsidiaries for the HR flow, employee influence, and work structuring scales. Thus, these findings indicate a moderate level of structural convergence between LOCs and MNC subsidiaries. On the other hand, perceived HR value was found to be somewhat less in LOCs than MNC subsidiaries, supporting Hypothesis 1b. The implication of this finding is that even though LOCs might utilize HPWS practices, the level of management commitment to the use of these approaches is likely to be less than in the case of MNC subsidiaries.

In order to test Hypotheses 3a and 3b, this study computed two-way interaction terms involving the LOC dummy variable and the firm's extent of differentiation strategy utilization. The continuous variables involved in the interaction terms were mean-normed to limit multicollinearity problems. These interaction effects were anticipated to be negative. However, neither of the interaction effects was found to be statistically signifi-

---

### Table II

Regression Results: LOCs vs. MNC Subsidiaries (n = 280), (t-value in parentheses)

<table>
<thead>
<tr>
<th></th>
<th>HR Flow</th>
<th>Work Structuring</th>
<th>Rewards</th>
<th>Employee Influence</th>
<th>HR Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>1.77a</td>
<td>1.55a</td>
<td>1.28a</td>
<td>.97a</td>
<td>1.55a</td>
</tr>
<tr>
<td></td>
<td>(7.55)</td>
<td>(5.60)</td>
<td>(5.87)</td>
<td>(3.18)</td>
<td>(5.61)</td>
</tr>
<tr>
<td>Year 1999</td>
<td>.11</td>
<td>-.23</td>
<td>-.29b</td>
<td>-.08</td>
<td>.28b</td>
</tr>
<tr>
<td></td>
<td>(.89)</td>
<td>(-1.61)</td>
<td>(-2.60)</td>
<td>(-.53)</td>
<td>(-1.98)</td>
</tr>
<tr>
<td>No Central HR Department</td>
<td>-.21b</td>
<td>-.32b</td>
<td>-.30a</td>
<td>-.52a</td>
<td>-.33b</td>
</tr>
<tr>
<td></td>
<td>(-2.03)</td>
<td>(-2.59)</td>
<td>(-3.12)</td>
<td>(-3.76)</td>
<td>(-2.67)</td>
</tr>
<tr>
<td>Percent</td>
<td>.002c</td>
<td>.001</td>
<td>-.001</td>
<td>.002</td>
<td>-.000</td>
</tr>
<tr>
<td></td>
<td>(1.70)</td>
<td>(.10)</td>
<td>(-1.04)</td>
<td>(1.52)</td>
<td>(-.001)</td>
</tr>
<tr>
<td>Years in Taiwan</td>
<td>.0002</td>
<td>.005</td>
<td>.000</td>
<td>-.003</td>
<td>.004</td>
</tr>
<tr>
<td></td>
<td>(.08)</td>
<td>(1.30)</td>
<td>(.03)</td>
<td>(-.70)</td>
<td>(.10)</td>
</tr>
<tr>
<td>Log of Number of Employees</td>
<td>.04</td>
<td>-.008</td>
<td>.06</td>
<td>.05</td>
<td>-.09c</td>
</tr>
<tr>
<td></td>
<td>(.86)</td>
<td>(-1.16)</td>
<td>(1.58)</td>
<td>(.91)</td>
<td>(-1.80)</td>
</tr>
<tr>
<td>Differentiation Strategy</td>
<td>.43d</td>
<td>.37d</td>
<td>.64d</td>
<td>.62d</td>
<td>.62d</td>
</tr>
<tr>
<td></td>
<td>(7.19)</td>
<td>(5.35)</td>
<td>(11.67)</td>
<td>(8.05)</td>
<td>(8.82)</td>
</tr>
<tr>
<td>Locally Owned Company</td>
<td>-.11</td>
<td>-.03</td>
<td>-.16f</td>
<td>.23</td>
<td>-.22c</td>
</tr>
<tr>
<td></td>
<td>(-1.20)</td>
<td>(-.23)</td>
<td>(-1.80)</td>
<td>(1.93)</td>
<td>(-2.00)</td>
</tr>
<tr>
<td>F (7, 294)</td>
<td>11.63a</td>
<td>6.78a</td>
<td>25.82a</td>
<td>15.69a</td>
<td>14.35a</td>
</tr>
<tr>
<td>Adjusted R-square</td>
<td>.20</td>
<td>.11</td>
<td>.37</td>
<td>.26</td>
<td>.24</td>
</tr>
</tbody>
</table>

Two-tailed significance levels: a = p < .01; b = p < .05; c = p < .10.
One-tailed significance levels: d = p < .01; e = p < .05; f = p < .10.
cant. In the interest of space, we have not presented the regression results with the two-way interaction terms included. Support for Hypotheses 3a and 3b would have suggested that Taiwanese LOCs are less inclined than MNC subsidiaries to connect differentiation strategy to the use of HPWSs. That these two hypotheses were not supported suggests that organizational strategy information was treated similarly by LOCs and MNC subsidiaries in Taiwan, a finding consistent with the decisional convergence argument.

**Country-of-Origin Effects**

For the sake of parsimony in assessing convergence, this study compared Taiwanese LOCs to all MNC subsidiaries grouped together. There may well be differences among MNC subsidiaries based on their countries or regions of origin, since the cultural or institutional characteristics of the home country might influence HR strategy in host countries. Consequently, we have done some post hoc analysis. We re-estimated our model, substituting dummy variables indicating country or region of origin for the companies in the sample. The dummy variables indicated if the company was primarily American-owned, Japanese-owned, European-owned, or owned by an Asian-based MNC from a country other than Japan (e.g., Korea). This analysis (Table III) is analogous to what is reported in Table II, except that Taiwanese

<table>
<thead>
<tr>
<th>HR Flow</th>
<th>Work Structuring</th>
<th>Rewards</th>
<th>Employee Influence</th>
<th>HR Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Intercept</strong></td>
<td>1.74</td>
<td>1.50</td>
<td>1.14</td>
<td>1.33</td>
</tr>
<tr>
<td>(7.44)</td>
<td>(5.44)</td>
<td>(5.24)</td>
<td>(4.42)</td>
<td>(4.91)</td>
</tr>
<tr>
<td><strong>Year 1999</strong></td>
<td>.02</td>
<td>-.25</td>
<td>-.27</td>
<td>-.26</td>
</tr>
<tr>
<td>(.14)</td>
<td>(-1.63)</td>
<td>(-2.45)</td>
<td>(-1.57)</td>
<td>(-2.01)</td>
</tr>
<tr>
<td><strong>No Central HR Department</strong></td>
<td>-.25</td>
<td>-.30</td>
<td>-.30</td>
<td>-.57</td>
</tr>
<tr>
<td>(-2.37)</td>
<td>(-2.42)</td>
<td>(-3.04)</td>
<td>(-4.14)</td>
<td>(-2.74)</td>
</tr>
<tr>
<td><strong>Percentage of Union</strong></td>
<td>-.002</td>
<td>.000</td>
<td>-.001</td>
<td>.002</td>
</tr>
<tr>
<td>(-1.42)</td>
<td>(.24)</td>
<td>(-1.01)</td>
<td>(1.31)</td>
<td>(-1.11)</td>
</tr>
<tr>
<td><strong>Years in Taiwan</strong></td>
<td>.000</td>
<td>.004</td>
<td>.000</td>
<td>-.003</td>
</tr>
<tr>
<td>(.24)</td>
<td>(1.12)</td>
<td>(-.07)</td>
<td>(-.65)</td>
<td>(.18)</td>
</tr>
<tr>
<td><strong>Log of Number of Employees</strong></td>
<td>.03</td>
<td>-.01</td>
<td>.06</td>
<td>.05</td>
</tr>
<tr>
<td>(.82)</td>
<td>(-.22)</td>
<td>(1.63)</td>
<td>(.86)</td>
<td>(-1.80)</td>
</tr>
<tr>
<td><strong>Differentiation Strategy</strong></td>
<td>.43</td>
<td>.39</td>
<td>.64</td>
<td>.64</td>
</tr>
<tr>
<td>(7.20)</td>
<td>(5.48)</td>
<td>(11.47)</td>
<td>(8.28)</td>
<td>(8.69)</td>
</tr>
<tr>
<td><strong>US MNC</strong></td>
<td>-.06</td>
<td>.08</td>
<td>.25</td>
<td>-.37</td>
</tr>
<tr>
<td>(-.43)</td>
<td>(.49)</td>
<td>(1.88)</td>
<td>(-1.98)</td>
<td>(.78)</td>
</tr>
<tr>
<td><strong>European MNC</strong></td>
<td>-.06</td>
<td>-.08</td>
<td>.000</td>
<td>-.82</td>
</tr>
<tr>
<td>(-.33)</td>
<td>(-.38)</td>
<td>(.000)</td>
<td>(-3.38)</td>
<td>(.99)</td>
</tr>
<tr>
<td><strong>Japanese MNC</strong></td>
<td>.30</td>
<td>-.14</td>
<td>.12</td>
<td>-.11</td>
</tr>
<tr>
<td>(2.17)</td>
<td>(-.86)</td>
<td>(.92)</td>
<td>(.61)</td>
<td>(1.98)</td>
</tr>
<tr>
<td><strong>Other Asian MNC</strong></td>
<td>.22</td>
<td>.52</td>
<td>.23</td>
<td>.51</td>
</tr>
<tr>
<td>(Non-Japanese)</td>
<td>(.97)</td>
<td>(1.91)</td>
<td>(1.06)</td>
<td>(1.73)</td>
</tr>
</tbody>
</table>

| F (10, 291) | 8.64 | 5.08 | 18.20 | 12.71 | 10.02 |
| Adjusted R-square | .21 | .12 | .37 | .29 | .24 |

Two-tailed significance levels: a = p < .01; b = p < .05; c = p < .10.
LOCs serve as the reference group and are compared to each of the four MNC affiliate groups. Here the research relied on two-tailed nondirectional significance tests due to unspecified directional hypotheses with regard to country-of-origin effects.

Grouping by country of origin clearly impacted our analysis, notwithstanding major conclusions with respect to the principal hypotheses discussed earlier. In addition, this work helps to determine if there are differences in MNC affiliate HR practices across countries of origin or, rather, if MNC subsidiaries function in a similar manner regardless of country of origin. Results show that, other things being equal, Japanese-owned affiliates score higher than LOCs (and all other MNC subsidiaries) on the HR flow scale, indicating greater reliance on selective hiring and internal training and development. This finding is consistent with the stereotypical notion of Japanese HR practices. Affiliates of all non-Japanese MNCs did not significantly differ from Taiwanese LOCs on this dimension. In fact, the HR flow values for American and European MNC subsidiaries were lower than for Taiwanese LOCs, although not significantly. In the case of rewards, the American MNC subsidiaries generally utilized greater pay-for-performance and incentive methods than LOCs, while Japanese, other Asian, and European MNC subsidiaries were not significantly different from LOCs.

Results varied quite a bit with respect to employee influence, which was significantly lower in LOCs than in either American or European MNC subsidiaries. In contrast, employee influence in Japanese MNC subsidiaries was no different from that of LOCs and actually was significantly higher than LOCs in the "Other Asian" category.

Direction of Structural Convergence

This empirical work provides strong evidence of decisional convergence and moderately strong evidence of structural convergence. The post hoc analysis focusing on country-of-origin effects indicates that where there were LOC-MNC affiliate differences in the dependent variables, these differences were often linked to a particular MNC home country, as opposed to being a general phenomenon across MNC subsidiaries. Structural convergence, however, could occur either because LOCs and MNCs both applied the argument of the universalistic SHRM framework (i.e., that all companies benefit from at least some degree of HPWS perspective) or because LOCs and MNC subsidiaries utilized control-based HR systems under certain circumstances (which could indicate MNC subsidiaries at times localizing to Confucian employment practices). Future research should investigate the baseline level of HPWS utilization under conditions of low differentiation strategy utilization. This approach should help theorists understand
whether or not the firms in this sample had a strong propensity to utilize HPWS techniques even under business strategies focusing on efficiency and cost containment.

In order to establish the direction of structural convergence, our research team coded the independent variables so as to allow interpretation of the intercept terms in each of the equations reported in Table II in assessing convergence direction. Organizational age, unionization rate, and organizational size have all been mean-normed, and the differentiation scale ranges from 0 to 5 (though not mean-normed). Thus, given average organizational size, age, and unionization rate, the intercept represents the level of HPWS activity or perceived HR value for MNC subsidiaries in 1999 (after the Asian financial crisis) in companies lacking a central HR department and pursuing an efficiency-based rather than differentiation strategy.

The scales for the dependent variables range between 0 and 5, with a midpoint of 3.0. Intercepts in the upper end of this distribution indicate MNC subsidiaries used HPWSs to some extent, regardless of business strategy. This finding is consistent with the universalistic perspective. In fact, all of the intercepts in Table II were in the lower end of this range, varying between .97 and 1.77. All intercepts also were significantly less than the scale midpoint (3.0) at the .05 level. There is no evidence to suggest MNC subsidiaries generally utilized HPWSs regardless of business strategy. Given that LOCs are usually at or below MNC affiliate levels on each of these scales, this finding would apply to them as well. As the intercept for perceived HR value is also in the low end of the range of possible values, managers in both LOCs and MNC subsidiaries did not view human resources as a particularly significant source of value or competitive advantage under these circumstances.

This study must be somewhat guarded in the interpretation of these findings. Had the intercept terms been in the upper range of the HR subsystem scales, then there would be strong evidence, as mentioned, for management acceptance of the universalistic perspective. That the intercepts are at the lower ends of this range could mean that MNC subsidiaries pursuing cost-leader rather than differentiation business strategies had localized HR policies and practices and are emulating the traditional Confucian management practices of Taiwanese firms. The lower ends of the HR subsystem scales are consistent with the more traditional control-based HR systems often found in Western countries, so the MNCs might have imported these approaches and utilized them under cost-leader business strategies. What we can say unequivocally is that these intercept values are totally inconsistent with the implementation of HPWSs under these conditions; our study definitely rules out a strong propensity for either MNC subsidiaries or LOCs to utilize some level of HPWS activity regardless of business strategy.

Discussion

This research supports both decisional and structural convergence. Holding constant other factors, this study found few inherent structural differences between the HR subsystems of LOCs and MNC subsidiaries. Differences that were identified tended to be specific to a particular MNC home country or region rather than general across all MNCs (e.g., greater emphasis on merit-based rewards in American MNCs and more attention given to selection and training in Japanese MNCs). In addition, MNC subsidiaries and LOCs responded in a similar manner to variations in business strategy, with all dimensions of HPWS activity increasing as firms moved further toward a differentiation strategy.

Regarding the internalization aspect of convergence, LOC management reported lower levels of perceived HR value than did management in MNC subsidiaries. This finding might suggest less commitment on the part of LOC managers to the full utilization of their workforces, especially when implementing HPWSs. However, there also was a strong positive relationship between differentiation strategy and perceived HR value in LOCs as well as MNC subsidiaries, which means that perceived value would climb in LOCs as they utilized HPWSs (also positively related to differentiation strategy).
In addition, our post hoc analysis indicated that the structural difference between LOCs and MNC subsidiaries with regard to perceived HR value was largely limited to Japanese companies, which had significantly higher perceived HR value levels than both LOCs and other MNC subsidiaries. In fact, there were no significant structural differences among American MNC subsidiaries, European MNC subsidiaries, and LOCs. Finally, the post hoc analysis also ruled out the possibility that the relationship between business strategy and HPWS implementation and internalization was substantially higher in the case of American firms than in LOCs and other MNC subsidiaries combined.

Although this study found evidence of structural convergence, we could not find evidence of a general use of HPWSs in most circumstances. We conclude that managers in both LOCs and MNC subsidiaries have not embraced the SHRM perspective that at least some aspects of HPWSs are desirable regardless of business strategy. MNC subsidiaries and LOCs that pursued efficiency-driven, cost-leadership strategies tended to use more control-based HR strategies, as might be consistent with traditional Confucian management (or with traditional bureaucratic systems in Western countries).

Nonetheless, HPWS techniques are utilized quite a bit in Taiwan, as the average values for all four HR subsystem scales are greater than the scale midpoints of 3.0 (see Table I). Such HPWS utilization is primarily driven by business strategy, so that managers respond in ways similar to the traditional formulation of the contingency model. That is, when business strategy is primarily cost- and efficiency-driven, firms rely on more traditional, control-based HR strategies; when business strategy is driven by differentiation, they move more toward HPWSs.

It is also worth noting that the responsiveness of different HR subsystems varies, as indicated by the values of the coefficients for the differentiation variable reported in Table II. The coefficient is relatively high in the case of rewards and employee influence, but lowest in the case of work structuring (i.e., empowerment). Thus, not all HPWS techniques were equally utilized in Taiwan. Lower-level workers might be given more training, be more selectively chosen, and, in particular, be provided greater financial incentives under conditions as differentiation increases, but not provided correspondingly higher levels of responsibility and autonomy. This tendency is quite consistent with the hierarchical nature of Asian society and Confucian values where there is resistance to decentralization, and is evidenced by the fact that the work structuring scale has the lowest average value of the four HR subsystem scales.

The results of this study are relevant elsewhere in Asia. Processes very similar to those ongoing in Taiwan are likewise taking place. For example, in Korea (Kim & Bae, 2004), some of Korea's leading corporations are opting to implement HPWS techniques. Similar change may be under way elsewhere in Asia. Lawler and Atmiyanandana (2003) have noted these processes in Thailand as well, despite the fact that Thailand's economy is significantly less developed than that of Korea or Taiwan. There is reason to believe these mechanisms are relevant elsewhere in East Asia, and possibly as far as India, at least in the latter country's rapidly growing high-technology sector.

Clearly, further research in other contexts and countries is necessary to provide support for the conclusions of this study. Comparing Europe, where this sort of convergence process is not as evident, with East Asia would provide multiple insights into the differing mechanisms at work across distinct cultures. This study found evidence that HPWSs might be designed differently in Asia than in the United States. For starters, HPWSs in Asia are not as heavily based on empowerment practices as is thought to be the case in the United States. Therefore, comparative analysis with U.S.-based operations would be useful. In addition, time series analysis that examines convergence processes over time would provide stronger evidence of such a trend.

Implications for Practice

The empirical findings show evidence of both structural and decisional convergence...
but no significant evidence of widespread use of HPWS in all circumstances. MNC subsidiaries and LOCs both utilize control-based HR strategies in certain circumstances, perhaps partly due to the traditional Confucian management system in Taiwan. Certain practical implications can be highlighted further.

Most evident in these findings is that it is feasible for foreign companies to implement HPWSs in Taiwan, though the workability of this approach depends on organizational business strategy. Although not explicitly tested here, anecdotal evidence obtained in discussions with Taiwanese HR managers indicated that organizational demographics are important, with younger, more individualistic workers more open to working in such environments. There is no general tendency to pursue either an HR system rooted in traditional Confucian practices or a Western-based system dominated by HPWS techniques. HPWSs appear to be most extensively utilized by firms operating in markets that emphasize high levels of product differentiation, change, and responsiveness to customer needs. It does not seem to matter a great deal if these are MNC subsidiaries or LOCs.

Taiwan’s burgeoning high-technology sector represents one such area. MNCs entering this market through “greenfield sites” should be able to transfer HPWS approaches with some ease to Taiwan. In addition, foreign companies entering such areas as Taiwan’s high-technology market via joint ventures with, or acquisitions of, LOCs will find implementation of HPWSs not so difficult. Taiwanese firms involved in these transactions may very well have already put such systems into practice, so integrating HR policies and practices of Taiwanese operations with operations elsewhere in a global company will not be so difficult. Taiwanese firms involved in these transactions may very well have already put such systems into practice, so integrating HR policies and practices of Taiwanese operations with operations elsewhere in a global company will not be so difficult. Taiwanese firms involved in these transactions may very well have already put such systems into practice, so integrating HR policies and practices of Taiwanese operations with operations elsewhere in a global company will not be so difficult. Taiwanese firms involved in these transactions may very well have already put such systems into practice, so integrating HR policies and practices of Taiwanese operations with operations elsewhere in a global company will not be so difficult. Taiwanese firms involved in these transactions may very well have already put such systems into practice, so integrating HR policies and practices of Taiwanese operations with operations elsewhere in a global company will not be so difficult. Taiwanese firms involved in these transactions may very well have already put such systems into practice, so integrating HR policies and practices of Taiwanese operations with operations elsewhere in a global company will not be so difficult. Taiwanese firms involved in these transactions may very well have already put such systems into practice, so integrating HR policies and practices of Taiwanese operations with operations elsewhere in a global company will not be so difficult. Taiwanese firms involved in these transactions may very well have already put such systems into practice, so integrating H...
Many management practices relevant to HPWSs exist, but this study uses a number of practices suggested, for example, by Pfeffer (1998). We could classify these practices as they appear in Taiwan into four groups based upon the extent of applicability, which can be determined by the level and the direction of HRM system: (1) practices similar to the HPWS type and expected to remain so; (2) practices similar to the HPWS type but under change toward the control type; (3) practices similar to the control type but moving toward the HPWS type; and (4) practices similar to control type and expected to remain so.

For the first group of practices, it seems that no HRM practice in Taiwan belongs to this group. The second group of practices appears mainly in Taiwanese LOCs and is well aligned with both the traditional Chinese management and the HPWS approach. One example would be employment security. Many LOCs in Taiwan provide employment security. However, a typical LOC in Taiwan tends to be a more numerically flexible organization. In addition, both traditional Chinese HRM system and cultural features make no challenge when MNC subsidiaries really want to adopt the policy.

The third group of practices includes selective hiring, extensive training, and comparatively high compensation. Although these practices are not part of the traditional Taiwanese HRM system, many LOCs have started to adopt these practices. These practices are consistent with the traditional Chinese culture, particularly with the Confucian emphasis on learning and education. One concern from the organizational perspective is the labor market's increasing flexibility and potential negative impact on training levels. In the case of compensation, since LOCs are now changing their pay systems toward more performance-based ones, this is not a primary concern.

The final group of practices presents the most severe challenge to the integration of HPWSs in Taiwan. These practices include self-management teams and decentralization, reduced status distinctions and barriers, and extensive sharing of information. The Taiwanese emphasis on cooperation and harmony, closely related to collectivism and Confucianism, helps facilitate the efficacy of work teams. However, hierarchical and paternalistic leadership could result in difficulty in adopting empowerment and decentralization practices. Designing work teams that allow autonomy on workgroup issues would be a preferred way to adopt. In addition, since Chinese collectivism is relation-based and guanxi-oriented (Redding, 1990), people generally have high trust within an inner circle but low trust beyond the circle. A formal system of extensive sharing of information can be challenged by this tradition. Hence, a more solid systematic and formal approach to these practices would be helpful, because many local people have various expectations (i.e., traditional Confucianism and HPWSs) and willingly follow the policy.

The authors wish to acknowledge the University of Illinois Center for East Asian and Pacific Studies, the University of Illinois Research Board, and the National Science Council of Taiwan for partial funding in support of this study. We also wish to acknowledge the insightful and helpful comments of associate editor Dr. Paula Caligiuri and the four anonymous reviewers, as well as the great assistance of Ms. Chiung-wen Tsao in this study.

SHYH-JER CHEN is a professor in the Institute of Human Resource Management at National Sun Yat-sen University, Taiwan. He received his PhD in labor and industrial relations from the University of Illinois at Urbana-Champaign. His research interests include strategic and international human resource management and industrial relations. His work has appeared in Industrial Relations, the International Journal of Human Resource Management, Human Resource Development Quarterly, Research and Practice in Human Resource Management, the Asia Pacific Business Review, and International Migration.
JOHN J. LAWLER is a professor in the Institute of Labor and Industrial Relations at the University of Illinois at Urbana-Champaign. He earned his PhD in business administration at the University of California-Berkeley. His research interests focus on both the macro and micro aspects of international HRM, as well as comparative employment practices. He has had recent publications in Industrial Relations, the International Journal of Human Resource Management, the Academy of Management Journal, Human Resource Development Quarterly, and the Journal of Applied Psychology.

JOHNGSEOK BAE is an associate professor of management at Korea University Business School, Seoul. He received a master's degree and a PhD in labor and industrial relations from the University of Illinois at Urbana-Champaign. His research interests include strategic management of human resources, global HRM, and innovation. He is co-author of Employment Relations and HRM in South Korea (Ashgate, 2004), and his work has been published in the Academy of Management Journal, Industrial Relations, the Journal of World Business, the International Journal of Human Resource Management, Human Resource Development Quarterly, and the Asia Pacific Business Review.

REFERENCES


Doeringer, P. B., Lorenz, E., & Terkla, D. (2003). The adoption and diffusion of high-perform-
Comparison of Locally Owned and MNC Subsidiaries in Taiwan


