Relationships of HRM Functions, Chinese Culture and Employee Outcomes in Privately-owned SMEs in China

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**ABSTRACT**

**Purpose:** This research investigates the role of selected human resource management (HRM) functions and the influence of Chinese culture on employee outcomes in privately-owned small and medium-sized enterprises (SMEs) in China.

**Design/Methodology/Approach:** The study utilized a descriptive quantitative approach, in which a 5-point Likert scale questionnaire has been used during data collection. The research employs a regression model to analyze the relationship between selected HRM functions and employee outcomes using a sample of 308 respondents. The collected data were then analyzed using SPSS and the regression model to test the hypotheses.

**Findings:** The results indicate that HRM functions, such as recruitment, performance management, reward management, learning and development, and HR planning, significantly contribute to positive employee outcomes. Interestingly, the study finds that Chinese culture moderates the connection between HRM functions and employee outcomes, thus emphasizing the importance of cultural factors in HRM strategies.

**Implications/Originality/Value:** This study has added value to management literature and offers few practical managerial implications. It also provides valuable insights for SMEs in China, highlighting the necessity for culturally tailored HRM functions to achieve better employee outcomes.

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**Background**

According to Macke and Genari (2019), small and medium enterprises (SMEs) play a significant role in China’s economy, contributing to job creation, innovation, and economic growth. Official
data indicate that there were around 38 million SMEs in China as of 2021, accounting for more than 99% of all enterprises and generating over 60% of China’s Gross Domestic Products (GDP).

The Chinese government has implemented policies to support SMEs, such as providing tax breaks, reducing administrative procedures, and offering financing solutions. In recent years, the government has also emphasized innovation and entrepreneurship, encouraging SMEs to develop new products and technologies (Carnevale & Hatak, 2020). However, SMEs in China still face several challenges, including access to finance, high operating costs, and intense competition. Many smaller companies struggle to obtain bank loans, which often favor larger, state-owned enterprises. Additionally, the business environment can be complex and highly regulated, making it difficult for SMEs to navigate (Collings et al., 2021).

In the context of Human Resource Management (HRM), it is a vital component of any organization and plays a significant role in determining the organization’s success. The study of HRM in the context of small and medium-sized enterprises (SMEs) has gained considerable attention in recent years due to SMEs’ critical role in driving economic growth and employment in many countries. In China, SMEs constitute a significant proportion of the country’s economy, and their contribution to employment and economic growth cannot be disputed.

The cultural context of China has also been shown to influence HRM functions in organizations significantly. The collectivist culture of China emphasizes the importance of social relationships, loyalty, and harmony. It has implications on how HRM functions are carried out in Chinese organizations and the functions adopted by organizations to manage their human resources (Roundy, 2022). Despite the importance of HRM in SMEs, there is a relative paucity of research on the effects of HRM functions and Chinese culture on employee outcomes in privately-owned SMEs in China (Trullen, 2020). Understanding these effects is crucial for enhancing the effectiveness of HRM functions in SMEs, improving employee outcomes, and driving sustainable economic growth in China. This study aims to fill this gap in the literature by examining the relationship between HRM functions, Chinese culture and employee outcomes.

The following section will elaborate on the research problems and significance of the study. Subsequently, researchers present the research method and followed by discussion of findings. Finally, researchers highlight the potential future research and conclusions.

**Research Problem**

This study’s research problem lies in exploring and understanding the complex interplay between selected HRM functions (namely recruitment, performance management, reward management, learning and development, and HR planning) and employee outcomes in the context of privately-owned SMEs in China. Understanding these relationships is essential, yet there is a dearth of comprehensive research, particularly when considering the role of Chinese culture as a moderating variable.

For instance, Mehralian et al. (2020) investigated the effects of HRM functions and Chinese culture in privately-owned SMEs in China, presenting several research challenges. These include a scarcity of research in this specific context, cultural nuances that may influence the implementation and effectiveness of HRM functions, inherent challenges specific to Chinese SMEs that make it difficult to extrapolate findings, difficulties in quantifying employee outcomes, and the diverse range of HRM functions that can impact employee outcomes. Addressing these challenges is vital to developing a comprehensive understanding of the interplay between HRM functions and employee outcomes in privately-owned SMEs in China, thereby guiding enterprises in formulating effective HRM strategies (Xu et. al., 2022).
Irrefutably, SMEs play a pivotal role in fueling a country’s overall economic growth. Unfortunately, these enterprises encounter various obstacles hindering their operation and management. A pressing issue among these is HRM. According to Aslam et. al. (2021), HRM-related issues, such as recruitment, performance management, reward management, learning and development, and HR planning, are perceived as more problematic than issues related to culture or legislation. These HRM challenges pose a significant concern for SMEs, and addressing them is crucial for improving their overall performance and success.

Despite the growing recognition of the importance of HRM functions in influencing employee outcomes in privately-owned SMEs in China and the moderating role of Chinese culture, there is a research gap in understanding how these relationships are intertwined. Prior studies have investigated the impact of HRM functions on employee outcomes. However, few have focused on the HRM functions most relevant to SMEs in China and how they interact with the cultural context. There is also a lack of research on how Chinese culture moderates the relationship between HRM functions and employee outcomes. Therefore, there is a need for empirical research to fill this gap, providing practical guidance for the development of effective HRM strategies considering the unique cultural environment of China. Consequently, this research aims to advance the understanding of the interplay between HRM functions, Chinese culture, and employee outcomes, thus aiding SMEs in enhancing employee outcomes.

From the above highlights, this present research investigates the relationship between selected HRM functions - recruitment, performance management, reward management, learning and development, and HR planning - and employee outcomes in privately-owned SMEs in China. Additionally, it seeks to understand the role of Chinese culture as a moderating variable influencing these relationships, with the ultimate goal of bolstering the SMEs’ growth and development in the country. All these are presented in the research framework for this study as shown in Figure 1.

![Figure 1: Research Framework](image)

**Research Significance**

This research is significant as it fosters a comprehensive understanding of the relationship between selected HRM functions, Chinese culture, and employee outcomes in privately-owned SMEs in China. Moreover, it guides these SMEs to formulate more effective and culturally appropriate HRM strategies addressing their unique challenges. This study’s findings also benefit policymakers, scholars, and HR practitioners interested in optimizing HRM functions and their impact on employee outcomes. By underlining the most significant HRM functions affecting employee outcomes and examining the moderating role of Chinese culture on these relationships, this study expands the understanding of HRM in the context of SMEs in China – an area warranting
further research. This research contributes to HRM theory by exploring these relationships within a unique cultural and organizational context. Ultimately, this research aims to facilitate the development and success of SMEs in China, which is vital for the country’s sustained economic growth.

Practically, this research is also significant as it aims to help privately-owned SMEs in China formulate more effective and culturally appropriate HRM strategies. By researching HRM functions and understanding the moderating role of Chinese culture, this study offers valuable insights to these organizations to navigate their unique challenges. This study’s findings can also benefit HR practitioners, policymakers, and business leaders interested in optimizing HRM functions for better employee outcomes.

This research also fills a crucial gap in HRM literature by exploring the relationship between selected HRM functions, Chinese culture, and employee outcomes within the context of privately-owned SMEs in China. This area warrants further scholarly attention. This research contributes to developing HRM theory by examining these relationships in a unique cultural and organizational setting. Doing so offers a broader understanding of the interplay between HRM functions, cultural factors, and employee outcomes, enriching the existing body of knowledge in the field.

**Scope, Research Design and Methodology**

The HRM function is an umbrella term referring to the activities, processes, and functions used to manage people in an organization. According to Cook (2020), these activities may include recruitment, performance evaluation, skills training and development, compensation and benefits, employee engagement, and overall SME improvement. The HRM function is designed to ensure that the organization has a quality workforce to meet the goals and objectives of the SMEs (Nasution & Prayogi, 2020).

According to the latest data in 2021, different countries and regions classify and define SMEs from multiple indicators. The following table lists the classification standards for local SMEs in five countries (Sanni, 2020; BPS, 2023).

<table>
<thead>
<tr>
<th>Country</th>
<th>Classification of SMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>There are less than 500 employees.</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>Manufacturing: less than 200 employees; Construction and mining: less than 25 employees</td>
</tr>
<tr>
<td>Japan</td>
<td>Manufacturing: less than 300 employees; Wholesale business: less than 100 employees; Retail: less than 50 employees; Services: less than 50 employees</td>
</tr>
<tr>
<td>China</td>
<td>Manufacturing: less than 1000 employees; Wholesale business: less than 200 employees; Retail: less than 300 employees; Service industry: less than 300 employees</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Microbusinesses are manufacturing companies with between 1-4 employees; Small enterprises are manufacturing companies with between 5-19 employees.</td>
</tr>
</tbody>
</table>

SMEs have production efficiency and cost advantages compared to large enterprises. Therefore, when conducting business operations, it is necessary to effectively integrate production, sales, research and development, and others, so that the effectiveness of internal communication can be significantly improved. When the market changes, it can respond immediately to ensure more rational decision-making (Mohamed et. al., 2019).
With the continuous acceleration of technological development, the market demand has also changed significantly, and the response of large enterprises is relatively slow. Although it has obvious advantages in process technology, the application effect is not ideal. SMEs can use advanced technology around the market to obtain more positive benefits (Gelle & Aguiling, 2021). Talent is an essential factor in developing any enterprise, and the management of human resources is to continuously stimulate employees’ enthusiasm, improve the team’s results, and then continuously improve the overall competitiveness of the enterprise. On this basis, the training, introduction, and re-education of talents are included in the long-term planning of enterprise development (Otoo, 2019). Facts have proved that large enterprises pay more attention to cultivating talents and team building because talents are essential wealth for enterprise development.

A sample size of 308 employees from the SMEs in mainland China has been approached as the respondents. The study utilized a descriptive quantitative approach and conducted a survey using a questionnaire as the research instrument. A five-point Likert Scale was applied, and all collected data were then analyzed using SPSS software. An inferential analysis of regression was applied to test the hypotheses. The survey questionnaire was distributed to the respondents through online platform using the Google Form, which enabled the researchers to reach the targeted respondents more efficiently. An online survey has its advantages and is very practical these days. This approach (google form) has made the process easier for the respondents to fill up, respond and automatically post/submit back to the researcher (Brace, 2018).

A closed-ended questionnaire with a five (5) Likert Scale was used. The justification for choosing the 5-Point Likert Scale is to avoid any confusion for the respondents to answer any statements in the questionnaire where available points are not so close to each other. The points range from 1 to 5 represent strongly disagree to strongly agree, with the neutral point at scale 3.

Findings and Discussion

Influences of Recruitment Activities on Employee Outcomes

The regression analysis provides insights into how recruitment activities influence employee outcomes in China’s privately-owned SMEs. This understanding evolves through three models, each incorporating different variables. The focus is solely on recruitment. The positive coefficient of 0.306 indicates that as recruitment activities intensify, there’s a corresponding increase in employee outcomes. The p-value (p < 0.01) suggests the relationship is statistically significant. It implies that an average increase of 0.306 units in employee outcomes is projected for every unit increase in recruitment activities. It may translate into improved job performance, satisfaction, and overall retention rates within privately-owned SMEs in China.

While the influence of recruitment activities is undeniably critical, these models suggest a more nuanced picture. They indicate that the direct impact of recruitment activities on employee outcomes may not be as significant when other elements, such as organizational culture, are in play. Thus, privately-owned SMEs in China must recognize the multi-dimensional nature of factors affecting employee outcomes. Rather than focusing solely on recruitment activities, these enterprises should also nurture a positive and motivating organizational culture that can substantially influence employee performance and satisfaction.

Nonetheless, it is also crucial to consider that the variables included in these models do not encompass all possible factors impacting employee outcomes. Aspects such as learning and development opportunities, performance and reward management, leadership style, and work environment, among others, may also play significant roles. Hence, a comprehensive, multi-faceted approach would likely yield the best results for enhancing employee outcomes in privately-owned SMEs in China.
Impacts of Performance Management on Employee Outcomes
Based on the regression analysis results, it can be concluded that performance management has significant positive impacts on employee outcomes in privately-owned SMEs in China. Performance management involves goal setting, continuous progress review, feedback, employee development programs, and rewarding achievements. These practices help create a shared understanding of organizational goals and expectations among employees, leading to improved performance, productivity, and job satisfaction.

Performance management provides employees with clear and measurable goals, enhancing their focus and direction in their work. Regular performance reviews and feedback sessions help employees understand their strengths and areas for improvement, leading to personal and professional growth. Learning and development programs tailored to individual needs and career aspirations improve employees' skills and make them feel valued, resulting in higher motivation and engagement. Additionally, performance management systems often include reward mechanisms, such as bonuses, raises, and promotions, which offers incentive employees to perform at their best. It, in turn, positively impacts both SMEs' performance outcomes. However, it is essential to consider that various factors, including organizational culture, leadership style, and the specific design and implementation of the performance management system, can influence the effectiveness of performance management. Therefore, further empirical studies and surveys within the context of privately-owned SMEs in China would be valuable to gain a deeper understanding of the specific impact of performance management on employee outcomes in this setting.

Influences of Reward Management on Employee Outcomes
Based on the regression analysis results, it can be seen that reward management significantly influences employee outcomes in privately-owned SMEs in China.

In the first model, the coefficient for reward management is $\beta = 0.297$, indicating a positive relationship between reward management and employee outcomes. It is statistically significant, as indicated by a p-value of less than 0.01 ($p = 0.000$). It suggests that as reward management improves or intensifies, there is a corresponding improvement in employee outcomes. In terms of practical implications, this suggests that effective reward management strategies must align with the company's culture to influence employee outcomes positively. Thus, in privately-owned SMEs in China, a well-designed reward system acknowledging and aligning with Chinese cultural practices and values might be more effective in motivating employees, enhancing job satisfaction, and improving overall performance. Overall, reward management is critical in shaping employee outcomes. However, it is crucial to remember that these strategies' success relies on other organizational variables, such as the cultural context.

Impacts of Learning and Development on Employee Outcomes
Based on the earlier regression analysis, learning and development has significant positive impact on employee outcomes in privately-owned SMEs in China.

The coefficient for learning and development is $\beta = 0.132$, suggesting that for every unit increase in learning and development activities, we can expect an average increase of 0.132 units in employee outcomes. It is statistically significant, as indicated by a p-value less than 0.01 ($p = 0.008$). This result suggests that learning and development activities positively affect employee outcomes. It could be due to several reasons:

**Skill Improvement**: Learning and development activities often focus on enhancing employees' skills and knowledge, which can lead to improved performance and productivity.

**Employee Engagement**: When companies invest in their employees' learning and development, it
can lead to increased employee engagement. Employees may feel more valued, which can improve job satisfaction and retention.

**Career Development**: Learning and development opportunities can provide employees with a clear career path, motivating them and improving their job performance. However, while the statistical data shows a positive correlation, it is also essential to consider how these learning and development activities are implemented. These activities' quality, relevance, and delivery can also significantly influence employee outcomes. Additionally, cultural factors may also play a role. For instance, in Chinese culture, respect for authority and collective orientation may influence how learning and development activities are perceived and their ultimate impact on employee outcomes.

In brief, learning and development activities are critical, thus should be properly planned and implemented since they can affect employee outcomes significantly in privately-owned SMEs in China.

**Influences of HR Planning on Employee Outcomes**

Then the researchers examine the relationship between HR planning and employee outcomes in privately-owned SMEs in China based on the regression analysis results. The analysis provides information on the variables' coefficients ($\beta$) and statistical significance ($p$-values). The coefficient for HR planning is $\beta = 0.210$, with a standard error of 0.048. The $p$-value is 0.000**, indicating a significant relationship between HR planning and employee outcomes. It suggests that HR planning positively affects employee outcomes in privately-owned SMEs in China.

The regression analysis suggests that HR planning positively influences employee outcomes in privately-owned SMEs in China. HR planning involves forecasting needs, developing recruitment strategies, and designing learning and development programs. By effectively planning their human resources, SMEs can ensure they have the right employees in the right positions, with the necessary skills and competencies, to drive organizational success. HR planning helps SMEs optimize their workforce, improving productivity, job satisfaction, and employee engagement. It ensures a match between the skills and capabilities of employees and the organization's requirements, resulting in better performance outcomes. However, it is essential to consider that various factors, including organizational culture, can influence the effectiveness of HR planning. The interaction effect between HR planning and culture suggests that the impact of HR planning on employee outcomes may be further enhanced or moderated by the cultural context. Further research and understanding of the specific cultural dynamics in privately-owned SMEs in China would provide deeper insights into the relationship between HR planning, culture, and employee outcomes in this context.

In general, the overall analysis revealed that all of the tested HRM functions substantially impact employee outcomes, presenting a significant positive correlation. It suggests that effective HRM functions can contribute significantly to improved outcomes, including productivity, satisfaction, and retention among employees. Recruitment practices appear to have a strong positive impact on employee outcomes, meaning that when SMEs are successful in these areas, they tend to see better employee outcomes. Learning and development also positively correlated with employee outcomes, implying that firms investing in their employees' skills see more positive results. The performance management function was also found to impact employee outcomes significantly. Effective systems that regularly assess, provide feedback, and manage employee performance can result in better outcomes. Reward management, including compensation, benefits, recognition programs, and others, positively correlates with employee outcomes. Interestingly, the effect of reward management on outcomes seemed to be significantly influenced by the organizational culture. Similarly, effective HR planning is positively correlated with employee outcomes. In short, this analysis clearly shows that HRM functions are critical contributors to positive employee outcomes in privately-owned SMEs in China.
Does Chinese culture moderate the relationship between those selected HRM functions and employee outcomes?

From the linear regression analysis results show the relationship between HRM functions (HR planning, recruitment, performance management, learning and development, and reward management) and employee outcomes. To understand whether Chinese culture moderates the relationships, the followings are the findings and their explanations.

- **HR planning**: has a statistically significant influence on the relationship with employee outcomes in Chinese culture. The non-standardized coefficient for HR planning is $\beta = 0.024$, and it is statistically significant ($p = 0.000^{**}$). It suggests that Chinese culture significantly influences HR planning and employee outcomes. Cultural factors specific to the Chinese context, such as the importance of strategic workforce planning and aligning HR functions with organizational goals, does play a role in determining the impact of HR planning on employee outcomes.

- **Recruitment**: The non-standardized coefficient for recruitment is $\beta = 0.131$, which is statistically significant ($p = 0.026^*$). Chinese culture may shape the relationship between recruitment functions and employee outcomes. It suggests that cultural factors, such as the importance of interpersonal relationships and harmonious work environments in Chinese culture, might also influence the effectiveness of recruitment functions in impacting employee outcomes.

- **Performance Management**: The non-standardized coefficient for performance management is $\beta = 0.168$, which is statistically significant ($p = 0.004^{**}$). It suggests that Chinese culture may influence the relationship between performance management functions and employee outcomes. Cultural factors, such as the emphasis on hierarchical relationships and harmony, do impact the effectiveness of performance management functions in influencing employee outcomes.

- **Learning and Development**: The non-standardized coefficient for learning and development is $\beta = 0.132$, statistically significant ($p = 0.008^{**}$). Chinese culture may influence the relationship between learning and development initiatives and employee outcomes. Cultural factors, such as the value placed on collective learning and skill development, do influence the effectiveness of learning and development programs in impacting employee outcomes.

- **Reward Management**: The non-standardized coefficient for reward management is $\beta = 0.163$, which is statistically significant ($p = 0.003^{**}$). It suggests that Chinese culture may influence the relationship between reward management functions and employee outcomes. Cultural factors, such as the importance of collective efforts and group harmony, have contributed to the effectiveness of reward management strategies in influencing employee outcomes.

In summary, Chinese culture has moderated the relationship between HRM functions (recruitment, performance management, learning and development, and reward management) and employee outcomes. Cultural factors, including the significance of interpersonal relationships, harmony, hierarchical relationships, and collective efforts, may dominate in shaping this influence. Understanding and incorporating these cultural factors into HRM functions can help optimize the impact of these functions on employee outcomes in the context of Chinese culture.
**Recommendation for Future Research**

Given the increasing trend of Chinese enterprises investing in Southeast Asia, future studies could provide a comparative analysis between the HRM functions of SMEs in China and those in Southeast Asian countries. It could offer insights into the adoption and effectiveness of these functions across different cultural and economic landscapes. Additionally, research can delve into the influence of 'Chinese values', such as collectivism and loyalty, on HRM functions in SMEs, particularly in recruitment, learning and development, performance management, reward management, and HR planning strategies.

It would be intriguing to explore the extent to which cultural determinants shape HRM functions within Chinese SMEs. Deeper exploration could reveal the unique cultural values and principles informing HRM decisions in these entities. For instance, examining how collectivism and respect for hierarchy play into HRM functions within Chinese SMEs could be a potential research area. Such a study would highlight Chinese SMEs' unique challenges and opportunities in their HRM functions.

**Conclusion**

To bolster the study’s implications, the role of the Chinese cultural context as a moderating variable is imperative. The investigation revealed the influence of HRM functions on employee outcomes being significantly moderated by it. Thus, gaining a nuanced understanding of this cultural backdrop is vital for executing effective HRM strategies. Subsequent research should delve into how Chinese cultural dimensions, such as collectivism and power distance, may affect the execution and success of HRM functions in privately-owned SMEs. Further, the study emphasizes the role of HRM functions like recruitment, performance management, reward management, learning and development, and HR planning in shaping employee outcomes in SMEs. Such functions are instrumental in fostering employee motivation and retention, augmenting their skill sets, and guaranteeing job satisfaction and commitment. Thus, it becomes essential for managers and HR practitioners in privately-owned SMEs to emphasize the design, implementation, and assessment of these HRM functions for superior outcomes.

The study also elucidates the necessity for extensive research on the nexus between HRM functions and employee outcomes within the SME sphere. Despite this study bridging the research void within the Chinese milieu, additional studies are needed to corroborate and expand these findings to different enterprise categories within China and beyond. This study's theoretical construct and sub-scales can guide future explorations to understand the multifaceted relationships among HRM strategies, cultural aspects, and employee outcomes in SMEs.

In short, this paper answered the research questions, provides corresponding suggestions, and explains the implications, limitations, and suggestions for future research. Overall, further research is needed to address these limitations and to gain a deeper understanding of the HRM functions and their effectiveness in improving employee outcomes in SMEs in China.

**References**


