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The Impact of Cross-Cultural Differences on Human Resource Management in Korean-Invested Enterprises in China

Hao Li
Department of Korean, Shandong Normal University, China

Yu Li†
Department of Business Administration, Jeonbuk National University, South Korea

Abstract

Purpose – In terms of human resource management, many Korean enterprises in China have experienced problems such as frequent resignations of Chinese employees and labor disputes. This can be mainly attributed to the fact that Chinese employees are not consistent with Korean vertical management methods, which is closely related to the national culture theory proposed by Hofstede, specifically the dimension of power distance and long- versus short-term orientation (LTO). Therefore, this research aims to investigate cultural differences between Korea and China from these two dimensions, and the impact on the human resource management of Korean-invested enterprises in China.

Design/methodology – This research first utilizes the latest data (Wave 7) of the World Values Survey (WVS) to verify the difference in power distance and long- versus short-term orientation between Korean and Chinese cultures using responses from Korea and China, and then uses case analysis to analyze the impact of this cultural difference on the human resource management of Korean enterprises in China.

Findings – Our main findings can be summarized as follows. Korea and China have significant differences in power distance and long- versus short-term orientation. In terms of power distance, Korean respondents show higher power distance compared to Chinese respondents. In the dimension of long- versus short-term orientation, it was found that Chinese respondents showed a shorter-term orientation, whereas Korean respondents showed a longer-term orientation.

Originality/value – Previous studies put focus on the power distance and individualism-collectivism dimensions to explain cultural differences between Korea and China, and generated contradictory results. This research further confirms the cultural differences between Korea and China from the dimensions of power distance and long-versus short-term orientation using secondary data. The comparative studies from this perspective have long been underexplored and lack empirical confirmation.

Keywords: Cross-Cultural Differences, Human Resource Management, World Value Survey (WVS)
JEL Classifications: D12, M14, M54

1. Introduction

Foreign entry approach from a cultural aspect is incredibly critical, regardless of which country an enterprise targets. As cross-border interactions grow at a rapid pace, it is increasingly important to be aware of the existence of cultural differences in perception and understanding, not only to avoid conflict and failure that have been reported in the area of cross-national joint ventures (Warner, 1995) but also to leverage these cultural differences to

† **Corresponding author:** yuerlee11@163.com

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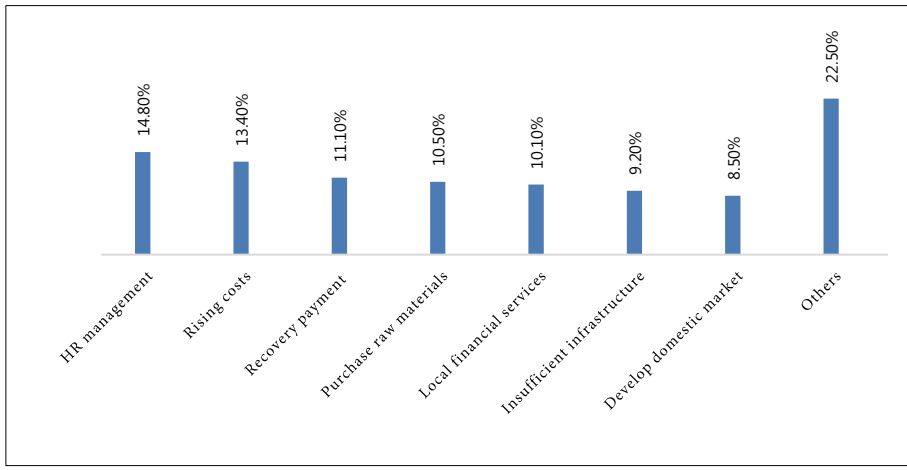
realize mutual gains. Minimizing cross-cultural risks is the first step toward successful overseas expansion. For Korean-invested enterprises in China, employees from Korea and China often show distinct understanding and attitudes in terms of communication and human resource management methods due to the different cultural values they possess, which may cause certain cultural conflicts. If a cultural conflict intensifies, it further increases the social and interpersonal distance between managers and employees, affects communication and collaboration within the enterprise, reduces organizational efficiency, and causes management difficulties.

China is Korea's largest market for exports, and the second-largest foreign investment destination. Since Korea and China formally established diplomatic relations in 1992, a large number of Korean-oriented enterprises have begun to invest in China, making full use of China's abundant labor resources and vast market, and have achieved economic benefits.

However, many Korean enterprises have encountered cultural conflicts caused by cultural differences between Korea and China during the management process, especially in human resource management, which often triggers varying degrees of labor disputes. In 2006, the Samsung Economic Research Institute of China conducted a survey of 507 Korean firms investing in China, and found that the biggest problem encountered by Korean companies was human resource management (14.8%), followed by rising costs (13.4 %), recovery payment (11.1%), purchase raw materials (10.5%), local financial services (10.1%), insufficient infrastructure (9.2%), and the development of domestic demand markets (8.5%). In addition, the survey results show that among the causes of labor disputes, wages and treatment issues accounted for the most at 31.2%, followed by cultural differences and cultural conflicts at 18.1%.

Fig. 1. Difficulties of Korean-Invested Enterprises in China

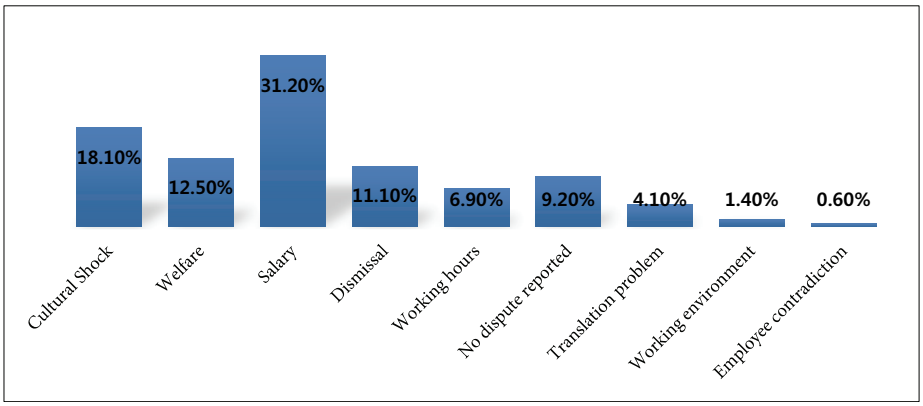


Source: Samsung Economic Research Institute of China, *Investigation report on the operating conditions of Korean-invested companies in China* 16, 2006.

In addition, in January 2008, the Korean Chamber of Commerce and Industry conducted a business environment survey on 350 Korean companies in China; the results also indicated that the biggest obstacles Korean enterprises encountered in the process of operation was labor and human resource management, such as employment and wages (43.1%), among

which 12.5% of large enterprises, and nearly half of small and medium-sized enterprises (46.1%), encountered human resource management obstacles during the localization process.

Fig. 2. Labor Dispute Causes of Korean-Invested Companes in China



Source: KCCI, *Investigation report on the Management Environment of Korean-invested companies in China*, 2008.

Both Korea and China have many shared similarities and a common cultural background of broadly defined Confucianism. Despite cultural and geographic proximity, however, close ties between Korea and China make differences easily ignored. Korea and China have undergone different historical development processes in modern times; specifically, as China gradually sheds its communist ideology and shiftsto a more market-oriented economic development strategy since Reform and Opening, Korean has experienced institutional changes from strong traditions of centralized formal authority to personalized authority (Lee, 2008). As a result, there have been significant differences in politics, economy, culture, and values between the two East Asian countries. Many Korean-invested enterprises have not realized this difference, and still use the original management methods of headquarters to manage Chinese employees with distinct cultural values, which in turn leads to many problems.

In this study we first reviewed literature to analyze cultural differences between Korea and China and the associated factors, and then, building on Hofstede's cultural dimension theory, the World Value Survey (WVS) database was employed to analyze the differences in power distance and long- versus short-term orientation in Korean and Chinese cultures. Finally, we investigated the impact of cultural differences on the human resource management of Korean-invested enterprises in China using case analysis based on the above, and targeted practical impactions were provided for the successful localization of multinational companies under the background of globalization.

2. Literature Review

2.1. Cross-Cultural Differences and Cultural Dimensions

Hofstede (1991) defined culture as a concept that can distinguish a group of members from different groups of other groups. Bartels (1982) also believed that the culture of a country or

a society often influenced and shaped the patterns of behavior in a region. Following this line of research, Markus and Kitayama (1991) further identified cultural differences as the main factors that lead to differences in individual and organizational behaviors, and believed that normative awareness and belief support cultivated by individuals in a culture are the key reasons that affect perception, character, and behavior. Integrating cultural dimension and organizational behavior in their research, Kedia and Bhagat (1988) elaborated on the idea that management-related issues were caused by cultural differences in different countries. A large amount of literature in organizational theory argues that firms incorporate into their decision-making not only past experience but also the immediate cultural environment (Abrahamson and Rosenkopf, 1993; Miner and Haunschild, 1995). According to Yao's survey in 2007, almost all foreign-invested enterprises in Shenzhen, China, reported a certain degree of cultural conflict, which negatively affected the harmonious relationship among employees from different cultural backgrounds, thus leading to inefficiency in work and affecting the achievement of corporate performance goals.

Hofstede's theory of cultural dimensions is frequently used when studying cultural differences across different countries. Hofstede collected more than 116,000 samples from IBM's branches in 72 countries to construct questionnaires. After rigorous research design and systematic data collection, Hofstede (1991) examined similarities and differences in the four core dimensions of power distance, masculinity-feminism, uncertainty avoidance, and individualism-collectivism. Further, Hofstede added long- versus short-term orientation (LTO) as the fifth dimension.

This research employs the most related cultural dimensions of Hofstede's theory, power distance and long- versus short-term orientation, to examine cultural differences between Korea and China that belong to the same Confucian cultural circle. Power distance refers to the degree to which people in a society accept the phenomenon of the unequal distribution of power in a society (Hofstede, 1980). Prior research (Smith and Hume, 2005) also found that power distance affects employee acceptance of inappropriate behaviors by senior employees at higher levels; specifically, employees from high power distance backgrounds are more likely to accept and obey authority (Smith and Hume, 2005; Kirkman et al., 2009; Brockner et al., 2001), and believe that hierarchical stratification in society is inevitable and even reasonable (Zhang et al., 2010; Winterich and Zhang, 2014). The long- versus short-term orientation dimension can reflect the degree of employment stability to a certain extent. Long-term orientation focuses on long-term benefit planning and investment, whereas short-term orientation concentrates more on the current short-term input-output ratio from a myopia view, and tries to obtain returns (e.g., wages) as soon as possible. This dimension can be used to analyze the high turnover rate in Korean-invested companies in China. Although many studies have shown that East Asian countries are relatively close in these two dimensions (Cheng and Stokdale, 2003), this study tries to further investigate whether there are cultural differences between the two Confucius-impacted countries, and the influence of such differences on the human resource management in Korean-invested enterprises.

2.2. Cross-Cultural Differences of Korea vs. China and Human Resource Management

Lee Hoon-Sup (1998) indicated that Korean culture has significant characteristics of a community or familial culture, which emphasizes respect and obedience to elders. Affected by the hierarchical cultural environment, Korean corporate culture also put an emphasis on obedience to a boss or superiors. In some traditional Korean enterprises, employees are accustomed to a paternalistic vertical management method with strong up-and-down

concepts, and can strictly obey and follow the instructions of superiors. Piao Xue-Hao (2014) also suggested that Korea's corporate culture emphasizes a clear distinction between superiors and subordinates. However, although originally influenced by Confucian teaching, China attaches great importance to the equality of interpersonal relations in the socialist system of China, suggesting that there are only differences in the division of labor, and no hierarchical differences. The cross-cultural differences between Korea and China in this regard are very significant, and have triggered many cultural conflicts. In addition, although Korea's strong hierarchical corporate culture is evolving and is being challenged by the rapid emergence of startups, from the perspective of Chinese employees, the core corporate values of Korea still overemphasizes etiquette and obedience to superiors, which causes personal thinking to be largely ignored. Although Korean firms have attempted to break away from traditional HRM practices based on Confucianism and have experimented with Western style HRM practices, such as performance-based appraisal and compensation, the prevalent Korean management style is still largely characterized as paternalistic and authoritarian-benevolent (Miles, 2008). Korean companies often transplanted original human resources systems characterized as top-down vertical decision-making in overseas expansion, which contradicts Chinese employee cultural values; hence, dissatisfaction toward Korean companies may be intensified.

According to research on a Samsung SDI Shanghai subsidiary conducted by Li Hong-Hua (2019), Korea and China have obvious differences in the dimension of power distance. Korean employees generally serve the management of a superior unconditionally, while Chinese employees will usually complete the task according to the instructions based on personal consciousness, which can cause Korean manager dissatisfaction and feelings that their status has been challenged.

Chang Yeong-Seok (2007) investigated the human resources management of large Korean corporates and subsidiary small and medium-sized enterprises that entered China in the automotive and electronics industries from 2004 to 2006. The results of the investigation showed several specific problems compared with other foreign-invested enterprises. First, the high turnover rate of Chinese employees was a common problem encountered by almost all Korean-invested companies in China, especially the turnover rate of administrative staff and senior technical personnel. The second was that local Chinese employees disagreed with, or were even dissatisfied with Korean management's vertical business operation methods.

As mentioned above, the human resource management problems encountered by Korean firms seeking localization in China mainly included two aspects. First, wages do not meet the expectations of employees. Second, they do not agree with the vertical management and strong hierarchical corporate culture of Korean firms. Both have contributed to the high turnover rate of Chinese employees.

3. Empirical Analysis

3.1. Data Collection

To understand the cultural differences between the two countries and the impact on human resource management, we investigate the differences in the most related cultural dimensions, power distance and long-versus short-term orientation, between Korea and China from a macro level. This paper draws on the latest dataset (Wave-7) from the World Values Survey (WVS). In this study, World Value Survey data was collected from the mid-2017 to early 2020. Korean and Chinese data were employed to identify differences in power distance and LTO levels.

The World Value Survey is a survey monitoring cultural values, attitudes, and beliefs toward gender, attitude, poverty, education, health, security, family, religion, trust issues, attitudes toward multilateral institutions, and cultural differences and similarities between regions and societies. Data from World Value Survey has been collected and released seven times from 1981 to 2020 (http://www.worldvaluessurvey.org). The seventh wave of the World Value Survey employed nationwide random probability representative sample designs with a sample size of more than 3,200 respondents.

This study used data from Korean and Chinese respondents, and data that did not correspond to the survey questions were excluded from the analysis. The use of World Value Survey data is challenging since Minkov and Hofstede (2014a) argued that the WVS does not contain all items necessary to replicate all four dimensions. In light of these data limitations, this study has chosen measurement items related to power distance and long- versus short-term orientation between Korea and China based on previous literature support.

3.2. Measurement

Power distance refers to the acceptance of unequal power distribution in society (Hofstede, 1980). Compared to those with low power distance, societies with high power distance are more inclined to stratify people based on power and status. Because they admire higher power and status more than individuals with low power distance, the differences they perceive between people of different status levels are greater and more obvious (Hofstede, 1980; Gaertner et al., 1994). Individuals with high power distance tend to accept unequal distribution of power more easily, and believe that social hierarchical stratification is inevitable, and even reasonable (Zhang et al., 2010; Winterich and Zhang, 2014). Based on this assumption, this paper creates a measurement item for income equality (item with 10-scale; 1: Incomes should be made more equal, 10: There should be greater incentives for individual effort) from the economic value section of the World Value Survey.

The LTO dimension was defined by Minkov (2007) using items in the World Value Survey that measured various types of pride, which Minkov (2007) interpreted as similar to a concern for face, and measurement items about religiousness, which Minkov (2007) interpreted as similar to personal stability. Minkov and Hofstede (2012) replicated the LTO dimension at a national level using items from World Value Survey data, and confirmed these items were theoretically similar to the original LTO items, although perfect validity would be impossible to achieve (Minkov and Hofstede, 2014b).

None of the available WVS items directly address the concept of tradition, but many of the items do so indirectly. Religion, parental pride, and national pride can be seen as traditional values (Inglehart and Baker, 2000). Little literature has perfromed empirical research involving the LTO dimension. Even meta-analysis conducted by Taras et al. (2010) did not include the LTO dimension for the lack of empirical studies.

Recent studies have attempted to overcome this limitation using the WVS to capture cultural dimensions of LTO. Minkov and Hofstede (2012) developed a scale that replicates the LTO dimension using WVS items, and first picked ten items in the WVS that replicated the original Confucian dynamism factor conceptually; however, they identified that the dimension would be best represented by seven items. Two of the items were not included and captured in the newest wave of the WVS; therefore, five items were used and developed specifically for the WVS by Minkov and Hofstede (2012). Each of the five items was carefully selected to map a specific domain of the LTO construct. For instance, the concept of thrift is represented by the "thrift" item, which asked respondents how desirable thrift was as a quality for children. The domain of perseverance is represented by the item "perseverance", which

asked respondents how desirable perseverance was as a quality for children. Finally, the concepts of personal stability and consistency are represented by three other items: "religion", "make parents proud", and "nation pride".

3.3. Results

Income equality was measured using a 1-10 scale (1: Incomes should be made more equal, 10: There should be greater incentives for individual effort). The economic values of Korean respondents showed a greater tendency toward lager income differences being accepted (M=6.66), whereas Chinese respondents were more likely to believe income equality should be achieved (M=5.53; $p<0.05$).

Table 1. Mean Statistics for Power Distance Dimension

Country Code		N	Mean	Std. Deviation	Std. Error Mean
Income Equality vs Larger Income Differences	ROK	1245	6.66	1.644	0.047
	CHN	3029	5.53	2.665	0.048

Drawing on previous research suggesting that those with higher power distance were more likely to accept income and power inequality (Zhang et al., 2010; Winterich and Zhang, 2014), the results of Table 1 and Table 2 indicate that people in Korea show a higher level of power distance than people in China.

Table 2. Significance Test for Power Distance Dimension

UPPER: Equal variance assumed LOWER: Equal variancenot assumed	Levene's Test for Equality of Variances		T-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference Lower	Upper
Income Equality	491.014	0.000	13.917	4272	0.000	1.130	0.081	0.971	1.290
			16.821	3638.139	0.000	1.130	0.067	0.999	1.262

Consistent with what this research proposes, Korean respondents at the aggregate level more indicated thrift as a desirable trait for children (M=1.55) than Chinese respondents (M=1.60; $p<0.05$). Moreover, in terms of perseverance, Korean respondents also considered perseverance more as a critical quality for children (M=1.50) compared to respondents in China (M=1.79; $p<0.05$).

For religious faith, there also exists a significant difference between Korean and Chinese values, in that Korean respondents thought religious faith an important quality for children (M=1.90), whereas Chinese respondents mentioned it less (M=1.99; $p<0.05$). However, the difference concerning the "make parents proud" items between Korea and China did not achieve a significant level.

In the last aspect of the LTO dimension, national pride, the difference between Korea and

China was significant. Specifically, Chinese respondents showed more national pride (M=1.65) than Korean respondents (M=2.09; p<0.05).

Table 3. Mean Statistics for the LTO Dimension

Country Code		N	Mean	Std. Deviation	Std. Error Mean
Thrift	ROK	1245	1.55	0.498	0.014
	CHN	3022	1.60	0.491	0.009
Perseverance	ROK	1245	1.50	0.500	0.014
	CHN	3022	1.79	0.404	0.007
Religious Faith	ROK	1245	1.90	0.300	0.008
	CHN	3022	1.99	0.105	0.002
Make Parents Proud	ROK	1245	2.01	0.615	0.017
	CHN	3028	2.03	0.737	0.013
National Pride	ROK	1245	2.09	0.549	0.016
	CHN	3003	1.65	0.634	0.012

Among all the five items representing LTO, four of the items showed that there exists a significant difference between Korea and China national culture. Although previous research assumed the LTO level to be similar among East Asian countries (Hofstede, 2011), the results of this research show that Korea and China still have significant differences in the LTO aspect; specifically, this represents that in the dimension of long- versus short-term orientation, Chinese respondents showed a shorter-term orientation, whereas Korean respondents showed a longer-term orientation.

Table 4. Significance Test for the LTO Dimension

UPPER: Equal variances assumed LOWER: Equal variances not assumed	Levene's Test for Equality of Variances		T-test for Equality of Means						
	F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std.error Difference	95% Confidence Interval	
								Lower	Upper
Thrift	22.097	0.000	2.73	4265	0.006	-0.045	0.017	0.078	0.013
			2.71	2289.55	0.007	-0.045	0.017	0.078	0.013
Perseverance	658.992	0.000	19.86	4265	0.000	-0.291	0.015	0.319	0.262
			18.19	1945.82	0.000	-0.291	0.016	0.322	0.259
Religious Faith	896.399	0.000	14.22	4265	0.000	-0.088	0.006	0.101	0.076
			10.15	1372.49	0.000	-0.088	0.009	0.105	0.071
Make Parents Proud	66.776	0.000	0.90	4271	0.368	-0.021	0.024	0.068	0.025
			0.97	2752.78	0.332	-0.021	0.022	0.064	0.022
National Pride	316.913	0.000	21.47	4246	0.000	0.442	0.021	0.401	0.482
			22.78	2663.93	0.000	0.442	0.019	0.404	0.480

4. Discussion and Implications

Previous research showed that human resource management problems encountered by Korean-invested enterprises in China during localization operations mainly included two aspects: the dissatisfaction of local employees with regard to wages, and the disagreement of local employees with the vertical management methods of Korean firms.

The inconsistency between Chinese employee expectations and real wages may cause conflicts. In order to reduce labor costs, many companies set wage standards in accordance with local average wages, or even minimum wage. However, employees who apply for foreign-companies expect a higher level of wage over local companies. Although many Korean-invested enterprises employ incremental wages emphasizing incentives, expectations of local employees pursuing short-term goals are not fully achieved, which contributes partly to the high turnover rate of Chinese employees.

The second problem addresses the focus of current research, which is associated with the vertical management approach and hierarchical corporate culture emphasizing obedience to superiors. Although the strong corporate culture of Korean companies used to be considered a strength, it may not be fully compatible with an increasingly diverse workforce. Chinese employees are increasingly attaching greater importance to the equality of interpersonal relationships in the workplace. For example, if superiors reprimand the subordinates with a strict attitude, which Korean employees may be accustomed to, it may be regarded by many Chinese as a personal insult due to cultural differences. This can possibly lead to cultural conflicts.

Cultural conflicts caused by cultural differences and the impact on human resource management have become an increasingly important topic of discussion for Multinational Corporations (MNCs). For example, when a French-based medical supply manufacturing company, Companie General de Radiologie (CGR), was acquired by General Electric (GE), it experienced severe cultural conflicts caused by cultural differences. Unaware of these cultural differences, French employees of CGR could no longer identify with the core values of GE. According to Hutnek (2016), this conflictual phenomenon can be partly attributed to the fact that power distance in the French view was not well matched with the power distance concept in American national culture.

The academic implications of this research are that it contributes to the comparative literature, and suggests that despite similar Confucian cultural backgrounds and historical ties between Korea and China, there exist very distinct cultural differences along two critical dimensions. In this study, we applied Hofstede's cultural dimension theory on human resource management and investigated cultural influences on the dimensions of long- versus short-term orientation and power distance between Korea and China. Generally, Chinese respondents showed a shorter-term orientation than Korean respondents. In the aspect of power distance, Koreans show a higher level of power distance than Chinese respondents.

This research also provides several practical implications for Korean enterprises for international-level HRM strategies. Global expansion can be both a challenge and an opportunity. To achieve successful expansion into the international environment, cultural differences need to be first fully understood before any specific strategy can be adopted. Many Korean companies in China are mainly affected by the corporate culture of headquarters; the resource management methods adopted in different branches should be adjusted to cater to varied cultural backgrounds. Adler (1983) indicated that the successful human resource management of multinational companies requires an initial examination of cross-cultural management under different cultural backgrounds, and the understanding of different cultural values, motivations, and behavioral intentions is the first step. Specifically, it is critical

to focus on the various activities of human resource management from the perspective of culture and values by analyzing the similarities and differences of cultural values and the resulting behavioral value characteristics; effective cross-cultural human resource management can be achieved in this manner. To pursue long-term and stable development in China, Korean enterprises should first fully understand the cultural characteristics and values of Chinese employees. Establishing a targeted corporate culture that is consistent with the recognition, mutual understanding, and respect of employees of the two countries is in line with corporate interests. This will also help to establish mutual trust with Chinese employees. Evidence suggests that Korean enterprises are now facing a decreasing speed of economic growth, especially in the Chinese market, which is related to the corporate cultures of Korean enterprises that can be characterized as strictly hierarchical, having paternalistic leadership styles, and collectivist with longer working hours (Froese, 2020).

Second, Korean enterprises should consider providing targeted strategies for Korean and Chinese employees. As the workforces in Korean firms are becoming increasingly diverse, Korean enterprises in China can consider reducing headquarter culture-centric thinking, and give Chinese employees opportunities for opinion expression and decision-making, which would not only enhance the satisfaction level of local employees with diverse backgrounds but also can stimulate innovation. For example, a stream of literature has cited localization of management a crucial element during the global expansion process. For example, the Korean enterprise LG has documented a plan to localize management strategies in all of its China ventures. Many Western international enterprises have also utilized the strategy of developing local talents to avoid cultural conflict problems. Meanwhile, developing local talent can be more beneficial in saving on expatriate costs. However, the 'glass-ceiling' phenomenon exists in many international enterprises (Gamble, 2000). Therefore, Korean enterprises need to develop targeted strategies to retain, disseminate, and institutionalize local talents within the organization. Korean enterprises can also enhance mutual trust and efficient human resource management by improving vertical management methods and creating an equal atmosphere through cross-cultural training and cross-cultural communication.

This research is not without limitations and shortcomings. Although this study confirmed cultural differences between Korea and China at the national level along two cultural dimensions, it did not empirically test the impact in actual organizational settings. Therefore, future research may utilize empirical hypotheses for comparison based on literature. Other than quantitative methods, they may also use interviews or other qualitative techniques to systematically examine the influence of cultural differences and the underlying mechanisms of how cultural differences affect workplace performance.

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