

## ABSTRACT

Attracting and retaining talented professionals are two of the biggest challenges in firms operating in China today. Although there are many studies exploring the effects of psychological factors or perception of HRM practices on labour turnover, few studies have investigated the effects of economic factors or tangible HRM practices. This thesis examines the determinants of separation in Japanese and Chinese subsidiaries of European multi-national company X, focusing on the role of economic and tangible HRM variables such as wages, individual performance, age, tenure, and gender. Furthermore, it compares HRM practices of the two subsidiaries to explain the different separation patterns of the two countries. That will also help understand the debate about the trade-off between centralisation and decentralisation of HRM practices in MNCs.

To investigate the determinants of separation, the personnel records of Company X were used to estimate the Probit model of separation. A common result in the two countries was that being female was negatively related to employee separation. Results found only in China were that the effects of age, job grade, performance evaluation, and promotion prospects were significantly negative to employees' separation. In Japan, on the other hand, the effect of tenure was negatively related to separation, but the effects of job grade, performance evaluation, and promotion prospects were all insignificant. That is, higher wages or higher performance contribute to lower separation in China, while that is not the case in Japan.

These different patterns between Japan and China can be explained by different HRM practices in the two countries. Although both subsidiaries of the company adopt a pay-for-job grade system, the resultant wage differentials are very different. This is because the range of job grades is wider and the percentage of performance-based pay is larger in China than in Japan. Furthermore, in China it is possible to fine-tune individual pay because line managers have the authority to determine the wages of their subordinates, while in Japan that is not possible because wage determination adheres more closely to the company-wide rules.

As for the debate on centralisation vs. localisation of HRM practices in MNCs, in the case of Company X, few specific HRM practices are imposed by the head office on local subsidiaries. In other words, Company X's international HRM policy is somewhat *autonomous*. However, it is worth noting that localisation does not necessarily mean complete integration with local practices. Some important differences often remain, which could constitute competitive advantages for MNCs.