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A NEW FORM OF CHINESE HUMAN RESOURCE MANAGEMENT? PERSONNEL AND LABOUR- MANAGEMENT RELATIONS IN CHINESE TOWNSHIP AND VILLAGE ENTERPRISES: A CASE-STUDY APPROACH

D Z Ding, Ge Lan and M Warner

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The Judge Institute of Management
University of Cambridge
Trumpington Street
Cambridge CB2 1AG, UK
www.jims.cam.ac.uk

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Daniel Z Ding
Department of Marketing
City University of Hong Kong
Email: mkding@cityu.edu.hk

Ge Lan
Department of Marketing
City University of Hong Kong
Email: mkgelan@cityu.edu.hk

Dr Malcolm Warner
Judge Institute of Management
University of Cambridge
Tel: +44 (0) 1223 339700
Fax: +44 (0) 1223 339701
Email: m.warner@jims.cam.ac.uk

Please address enquiries about the series to:

Research Support Manager
Judge Institute of Management
Trumpington Street
Cambridge CB2 1AG, UK
Tel: 01223 339700 Fax: 01223 339701
E-mail: research-support@jims.cam.ac.uk

**A New Form of Chinese Human Resource Management?
Personnel and Labour-Management Relations in
Chinese Township and Village Enterprises:
A case-study approach**

ABSTRACT

Township and Village Enterprises (TVEs) in China have in the last decade played an increasingly important role in the Chinese economy, employing over 120 million workers. They are becoming part of one of the largest industrial labour markets in the Chinese economy. This article examines their human resources, personnel and labour-management relations, based on in-depth case studies of a selected number of TVEs located in Southern China. The results reveals that they have greatly diversified their organizational structures and often incorporated characteristics and practices of state-owned enterprises (SOEs), foreign-invested enterprises (FIEs), and private enterprises (PEs). In turn, TVEs' human resource management practices and labour-management relations reflect the influence of such diversification, local labour market conditions and marketization.

KEYWORDS

ACFTU (All-China Federation of Trade Unions); Economic Reform; Human Resource Management; Industrial Relations; Labour-Management Relations; Organization; Personnel; Rewards systems; Town and Village Enterprises; Trade Unions; Wages; Workers Congress.

1. BACKGROUND

The success of economic reform in China has generated sustained rapid economic growth in the Chinese economy; the average GDP growth rate in the last 20 years reached 10 percent per annum (Clarke and Du 1998), making China the fastest-growing economy in the world. Although the output of state-owned enterprises (SOEs) increased significantly during this period, it was the explosive growth in industrial output of the collectively-owned enterprises (COEs), private enterprises (PEs) and others that significantly made the difference. COEs include urban and rural collective enterprises, and the latter are named as township and village enterprises, hereafter to be referred to as TVEs (Perotti et al. 1999).

In 1999, China had 20.71 million TVEs, employing a huge labour force of more than 120 million rural workers (more than the state sector). These rural enterprises had a combined added-value of over 2.48 trillion yuan (US\$298.7 billion). Statistics also show that in 1999, the industrial added-value realized by TVEs stood at 1.737 trillion yuan (US\$ 209.2 billion), or 50 percent of the country's total (*China Daily*, New York edition, May 13, 2000:1). Two decades ago, the TVEs' contribution to the national economy was insignificant but over time they absorbed an increasingly large number of mainly rural workers. Between 1978 and 1998, TVEs employment increased at an average rate of 7.4 percent per annum. TVEs, as the most dynamic component of the Chinese economy, show a Chinese 'transition path' different from that of both the former Soviet Union and Eastern Europe. The rapid growth of TVEs was also neither planned nor expected by Chinese government, their biggest unexpected achievement (Wong and Mu 1995). The TVE sector in fact provides critical support to agriculture in infrastructure, equipment, and capital; absorbs the surplus rural labour in agriculture production; generates huge tax revenues for the government and has become a significant source of income for rural residents.

The TVE 'economic miracle' suggests a series of interesting questions. First, how does the growth of such TVEs relate to existing organizational reforms carried out in Chinese enterprises? Second, how do the changes in the TVEs' organizational forms relate to the development of their human resources (*renli ziyuan*), personnel management (*renshi guanli*) and labour-management relations (*laodong guanli guanxi*) a term currently used for industrial relations in China (see Warner and Ng 1999; Warner and Yu 2000)? We conjecture in this article that the organizational environment of enterprises in the PRC has undertaken a 'sea

change' since Deng's market reforms were introduced in 1979 (Child 1994, Boisot and Child 1988, 1996) which directly shapes the structure and governance of the TVEs and the way their human resources, personnel and labour-management relations develops.

The rapid expansion and growing role of TVEs in the Chinese economy has in turn attracted a number of researchers (for example, Byrd and Lin 1990, Chang and Wang 1994, Ho 1994, Weizman and Xu 1994, Naughton 1994, Luo et al. 1998, 1999, Jin and Qian 1998, Zhang 1999). Researchers have traced a number of factors contributing to the TVEs' success, such as shortage of the major product markets in 1980s in China (Byrd and Lin 1990, Ho 1994); the institutional structure that facilitates cooperation through implicit contracts among community members (Weizman and Xu 1994); TVEs' capability to adapt and configure their strategy in response to the external competitive environment (Luo et al. 1998, 1999) and inter-organizational relationship between Township and Village Governments (TVGs) and TVEs (Jin and Qian 1998, Zhang 1999). Very few studies have focussed on human resources and labour-management relations in TVEs, with possibly one exception (Chow and Fu 2000).

This study, based on six in-depth case studies, attempts to fill these lacuna and generate a set of hypotheses that could be used as the basis for a wider study. The rest of the article is organized as follows. Section 2 discusses the research method and major characteristics of the sample firms; section 3 deals with the organizational governance forms of TVEs as reflected in our cases; section 4 presents human resources, personnel and labour-management relations in TVEs, based on the in-depth interviews with the general managers in the case-study companies; and discussion and concluding remarks are presented in the last two sections.

2. RESEARCH METHODOLOGY

We now set out our methodology, as considered appropriate for the emerging labour market in question. The study, the research team decided, would have to be as detailed as possible and therefore we adopted a case-study approach. Six TVEs were selected as sample cases from Guangdong Province, the heart of the Pearl River Delta, well known as the most prosperous region in southern China, for the purposes of initiating a pilot study. In 1998, Guangdong Province contributed 10 percent in China's total GDP and 41 percent in total exports, and absorbed 26 percent of utilized foreign direct investment in China. Guangdong is also the region where TVEs have proliferated. By the end of 1998, the number of TVEs with

total turnover exceeding 5 million *yuan* (also referred to as the *renminbi* or RMB, namely the unit of currency, currently approximately 8 to the US\$) reached more than 3200 firms, contributing a total of 30 billion *yuan* in industrial added-value.

In-depth case studies, based on semi-structured questionnaires and open-ended interviews with general managers, department heads, HR directors, and trade union officials were carried out over a period of one year, involving almost weekly visits to the firms in question. These interviews covered wide areas, including the history and major milestones of the firm, product range and competitive strategy, HR and personnel policies and practices, and relations with local government and other organizations. Company brochures, news reports, and other archival documents were also collected.

The six sample cases were all engaged in manufacturing industries, such as the making of home appliances and electronics. Their products include electronic cookers, water heaters, air conditioners, decorative construction materials, PVC materials and transformers. The major characteristics of the six cases are described in Table 1. The selected enterprises were each in different stages of development in their sector. Shenzhou and Midea were founded in the late 1950s and 1960s respectively as Commune and Brigade enterprises (*sheduiqiye*), which were the precursor of TVEs, and have grown as the 'leading players' in the industry. Heygey and Hehe were founded just after the 1978 Third Plenum of the Eleventh Central Committee of the Chinese Communist Party, when China embarked on economic reform. Longji was founded in the middle of 1980s, and Hongjian is the newest one, founded in 1995.

These TVEs varied widely in their size in the pilot study undertaken. The largest one, Midea, has about 30,000 employees and 8,000 million *yuan* sales turnover in 1999, while the smallest one, Longji has only 400 employees and 22 million *yuan* sales turnover in the same year. One of the most significant common characteristics of these firms was that all of them had been through the property reform programme, although they had different ownership structures; as mainly firms beyond this size band were significantly reformed, we did not study smaller TVEs. Longji, Hongjian, Heygey and Hehe all adopted share-holding cooperatives, but the form and distribution of the shares were quite different from case to case. For example, in Hongjian, a 50 percent share was held by the local government, and another half was distributed among employees at various levels. While in Heygey, more than

a 90 percent share was held by the general manager himself, and a few top managers shared the remaining. In 1993, Midea was listed on Shenzhen Stock Exchange; it became the first publicly listed corporation that was transformed from township enterprise in China. Shenzhou itself had formed a joint venture in 1993 with Bosch, a German MNC producing cookers. A wider size range of firms will in future be investigated at a later date.

Table 1: A Summary of the Major Characteristics of the TVEs

Characteristics	Longji	Shenzhou	Heygey	Hehe	Media	Hongjian
Location	Dong Guang	Shun De	Shun De	Nan Hai	Shun De	Dong Guang
Product	PVC material	Gas cookers	Electronic cookers	Decorative construction material	Electronic fans, air conditioners, compressors, and motors	Electric cables and transformers
Formation	1985	1958	1979	1981	1968	1995
Initial investment in thousand RMB	500-600	300	1.8	2.6	5	NA*
Total production value in millions RMB(1999)	22	500	200	130	8000	30
Product market	Mainly local; small percentage for export	Mainly local; small percentage for export	Totally local	Mainly local; small percentage for export	Mainly local; small percentage for export	Totally local
Number of employees	400	1400	1000	700	30000	500
Ownership type (after reform)	Share-holding co-operative (specific share distribution is not available)	51% held by Bosch (German) 49% held by China	More than 90% held by the general manager, top managers hold the remaining 10%	100% held by the general manager	Publicly-listed company	50% held by the local government 50% held by all the employees

3. FORMS OF ORGANIZATIONAL GOVERNANCE IN TVEs

The nature of the TVE and the forms of organizational governance in TVEs have been the subject of debate (Byrd and Lin 1990, Kornai 1992, Chang and Wang 1994, Naughton 1994, Singh et al. 1995, Rawski 1995, Bowles and Dong 1999). As early as 1992, Kornai argued that ‘the majority of rural collective enterprises (TVEs) are *de facto* privately owned enterprises’. Wong (1996) and Peng and Heath (1996) also note that ‘private enterprises in China are often registered as collectively-owned firms’ in order to avoid the discrimination against private enterprises (PEs) in the early reform years or to take advantage of special tax allowances, even after private enterprises were formally approved after 1984. However, not all the researchers accept this point of view. Weitzman and Xu (1994) describe TVEs as ‘vaguely defined cooperatives’, which are far from having a well-defined ownership structure. Different from the above opinions, Naughton (1994) and Rawski (1995) argue that TVEs’ property rights, even if ill-defined, are in practice clearly exercised by TVGs. Ho (1994) even suggests that ‘during 1980s, the relationship between TVGs and TVEs was similar to that between the state and SOEs in pre-reform periods.

In reality, TVEs are different from private enterprises in the way they get substantial assistance from TVGs and pursue employment generation other than profit maximization. While at the enterprise level, TVEs differ from SOEs mainly in the following three aspects. First, TVEs have never been under state allocation plans for either inputs or outputs. In the pre-reform period, the central government tolerated TVEs for the purpose of agricultural mechanization (i.e. many TVEs started as agricultural machine repair shops or fertilizer producers). Second, TVEs have endured much harder budget constraints than SOEs. They received proportionally fewer loans than SOEs, and they were badly hurt during the recent ‘retrenchment’ period. Third, unlike SOE employees, TVE workers do not enjoy job security and welfare benefits from the *danwei*.

In their process of development, a number of TVEs also sought new technology and capital from foreign direct investors. Some have entered into joint ventures arrangements with foreign firms. Foreign direct investors helped TVEs to

update not only products and technology, but also brought in new management concepts and so on. The extent by which foreign direct investment has changed TVEs' organizational governance varied on a case-by-case basis, depending upon organizational inertia, i.e. the internal barriers that constrain change.

4. HUMAN RESOURCES, PERSONNEL AND LABOUR MANAGEMENT

Industrial production in the PRC in the mid-1950s to at least the late-1980s was heavily dominated by the afore-mentioned state-owned enterprises (SOEs) (Chan 1995). The SOE work units (*danwei*) exemplified the so-called 'iron rice bowl' (*tie fan wan*) which assured 'jobs for life' and 'cradle to grave' welfare arrangements for Chinese urban industrial workers (Lu and Perry 1997). However, this system did not extend to all city-dwellers. The beginning of the break-up of the 'iron rice bowl' in the state sector began in the mid-1980s and was substantial by the end of the 1990s (Ding et al. 2000).

We specifically focus in the next section on human resources and labour management issues in TVEs, where for the most part, the 'iron rice bowl' was never implemented. The section will in future deal with the following sub-headings; *personnel management; recruitment; selection; training and development; employment contracts; reward systems; social security, labour turnover, dismissals and disputes; as well as the roles of the Party, trade unions and workers' congresses.* While presenting what we have observed in our cases, we now set out a set of hypotheses to highlight the likely general development of human resources in TVEs in the future.

Human Resources and Personnel management

Most Chinese firms had in the past practised 'Personnel Management' (*renshi guanli*) (see Child 1994). They had personnel directors in many cases but those in bigger firms these days describe themselves as HR directors. Whether they practice HRM (*renli ziyuan guanli*) is another matter (Warner 1995) to be discussed later. This is even less likely in most TVEs, although the larger firms in our sample like Midea for example may come closer to it.

Also the management of TVEs has not been researched as much as that of SOEs. TVEs' managers are also not a homogeneous group; some were redundant PLA (People's Liberation Army) officers (see Nee 1992). A number of them have in past years been local government officials or even local entrepreneurs. Personnel managers are often recruited from such ex-PLA officers. Since the human resource management in TVEs has to deal with unique characteristics of the rural environment, for instance, the relationship with TVG and surplus rural labour, we propose the following proposition:

Proposition 1: *TVEs will in future tend to evolve their own distinctive way of managing human resources.*

Recruitment and Selection

Most TVEs recruit locally, from the rural labour market (see Table 2). They select workers by interviews and in a few cases by using formal tests. Many technicians as well as most managers however are recruited from a wider labour market.

One such firm we studied, Longji (with over 400 employees) is located in Dongguang city, which is one of the most prosperous cities in Guangdong Province, and near to the Shenzhen SEZ. There are many non-local workers available and the income of the local citizens is relatively high compared to the national average level. More than 90 percent of the line-workers in Longji are non-local. Additionally, only some of its management personnel are local.

Like Shengzhou, Heygey (with over 1000 employees) recruits line workers locally, in order to 'get along' with the local government. In order to adapt to the intensive competition in the home appliance industry, and satisfy the future development of the firm, a 'human resource storage plan' has been implemented in Huyquey from 1999. Up to now, more than 80 percent of its management personnel were non-local and have bachelors' degrees. The new deputy manager once was a department manager of Heygey's major competitor; the general manager encountered him formerly at the negotiation table, and was impressed by his capabilities. The

deputy manager joined Heygey in the May 1999. Most of the management personnel were recruited from the ‘talent fairs’ (*rencai shichang*) held every two weeks in Guangzhou, the capital city of Guangdong Province.

Unlike Shengzhou or Heygey, there is no straight difference in Hehe’s (with around 700 employees) resources of line-workers and management personnel. However, all of its technicians were recruited from a large-sized SOE in Northern China. One of its deputy managers once worked in the SOE, and he recruited 12 technicians from the SOE after he settled down. Hehe provides higher salaries than the SOE did, and more importantly, offered good accommodation and welfare benefits to these technicians, who retired from the SOE before they reached the prescribed age for retirement.

Midea (with over 30,000 employees) found recruiting from the local market promoted good relations with the TVG. However, more than 90 percent of its management personnel are non-local. The average age of management personnel has become lower and lower. The average age of sales managers in 2000 is only 25, and the average age of division managers is only 40.

In all the six firms, selection is based on the candidate’s capability. Since Hongjian’s main product is electric cable, an industrial product mainly bought by Communication Bureaux, it tends to recruit those marketing personnel having good relationships with the Bureaux. As to Heygey, although the general manager will in future make the final decision, the key is the opinion of the deputy manager who told us that the resume of the candidate is only a reference. He would try various ways to test the capabilities of the candidate during the interview. Compared to Heygey’s subjective selection criteria, Midea’s selection of job candidates seemed to be more formal and objective. Midea had a consulting company design a series of test papers as the tools to measure the candidates’ ability. Thus, the education level of employees of Midea has been rising. As Chow and Wu (2000: 825) noted more formal testing services were being used for managerial staff.

Proposition 2: *TVEs will in future tend to recruit line-workers locally to satisfy the employment objective of TVG, but managerial and technical staff from broader labour market.*

Table 2: Personnel and HRM in TVEs

Characteristics	Longji	Shenzhou	Heygey	Hehe	Media	Hongjian
Recruitment	Line-workers: non-local Management: local	Line-workers: local Management: non-local	Line-workers: local Management: non-local	No specific characteristics	Line-workers: local Management: non-local	No specific characteristics
Training	Not emphasized	Emphasized and formalized	Emphasized but not formalized	Not emphasized	Emphasized and formalized	Not emphasized
Rewards	Line-workers: around 700 <i>yuan</i> Technician: 1500-2100 <i>yuan</i> Marketing personnel: 6% of the sales	Line-workers: around 800 <i>yuan</i> Technician: 1600-2400 <i>yuan</i> Marketing personnel: basic + 5% of the sales	Line-workers: 500-1200 <i>yuan</i> Technician: 2000-3500 <i>yuan</i> Marketing personnel: basic + commission	Line-workers: 800 <i>yuan</i> Technician: 1600-2500 <i>yuan</i> Marketing personnel: basic + commission	Line-workers: 1000-1200 <i>yuan</i> Technician: 2000-3000 <i>yuan</i> Marketing personnel: basic + commission Elite share holding system ¹	Line-workers: around 800 <i>yuan</i> Technician: 1600-2400 <i>yuan</i> Marketing personnel: basic + commission
Social Security²	Abide by the Labour Law except the pension fund.	All five funds according to the Labour Law	All five funds according to the Labour Law	Medical fund only	All five funds according to the Labour Law	Pension and medical funds only
Turnover	Low for line-workers; high for managers, marketing and technical personnel	Low for line-workers; high for managers, marketing and technical personnel	High for both line-workers and managerial personnel	Low for line-workers, managers and technicians	High for both line-workers and managerial personnel	Low for line-workers; high for managers, marketing and technical personnel
Disputes	Few	Some	Some	Few	Few	Few

Note: 1: Elite share holding system is both a reward and an incentive system in which elite (top managers of Midea) have the right to hold the 'legal entity share' of the company.

2: The 1994 Labour Law requires all the employers and employees join and make contributions to five separate funds: pension, accident and injury, maternity, unemployment and medical funds.

Training and Development

Training in most Chinese enterprises varies in its organization and intensity. In many TVEs, it is not very advanced or elaborate (Warner 1992). In our sample of such firms, some emphasized training but a minority did not. In the former cases, it was formalized but in the latter it was relatively informal (see Table 2).

Shengzhou and Midea both have systematic and formal training programmes but Shengzhou emphasizes the training of technicians, while Midea emphasizes the training of management personnel. By 2000, there was no university in China providing a 'major' on the techniques that Shengzhou uses, and Shengzhou is 'the leader in its market', thus it has to train its technicians itself. The general manager of Shengzhou said that normally it took two or three years to 'grow' a new graduate into to an independent engineer. Now, there are around 100 engineers in its Research and Development Centre, which has become one of the largest on Gas Utensils in China. While Midea imported its major technology from Japanese and European firms, its independent capability of research and development is not strong. Midea has such a large scale (i.e. 30,000 employees, six divisions, 1.5 billion *yuan* net assets and 8 billion *yuan* output in 1999) that it emphasizes its own company management style. Each year Midea invites experts from university campuses in China to give seminars, and sends managers at various levels to attend MBA or equivalent courses. In 1999, they sent some top managers abroad to the National University of Singapore. We concur with Chow and Wu (2000:825) that, in contrast to larger firms like Midea, training was minimal in small TVEs.

Proposition 3: *TVEs will in future tend to develop an appropriate training model to suit their needs and stages of development.*

Employment Contracts

State-legislated personnel-related reforms in 1992, especially the so-called 'three systems reforms' (*san gaige*), entailed the introduction of labour contracts, performance-linked rewards systems, and contributory social insurance (see Korzec 1992, Ng and Warner 1998). Many JVs had already built in such practices into their management systems prior to reform (Child 1994). At first, JVs and SOEs were each subject to separate legislation. Recent legislation, however, (most critically the 1994

Labour Law) has been directed at all firms regardless the ownership structure (see Warner 1996). Codification of the legal parameters (see Josephs 1995) of personnel or HR practices has been a key step in creating an institutional framework in which reform in people-management practices might then take place (see Zhu and Dowling 1994, Zhu 1995, Verburg 1996, Yip 1996, Ding et al. 1997).

Most TVEs, however, unlike SOEs, had never explicitly implemented the ‘iron rice bowl’ system, as noted earlier. Conditions of employment in the former were less stable. Not only were fixed-term individual labour contracts (*geren hetong*) common but they were sometimes temporary ones. There was little evidence of collective contracts or ‘nascent’ collective bargaining. Most employees were on short-term contracts and could be hired and fired as needed, subject to the constraints adumbrated earlier. Managers in at least one firm expressed the intention to avoid pension responsibilities, since they did not expect those working to keep their posts up to retirement.

Proposition 4: *TVEs will in future tend to apply individual rather than collective contracts.*

Rewards systems

A reasonable amount has been written on rewards systems in Chinese enterprises (Takahara 1994, Warner 1995). In the pre-reform period, rewards systems were flat, even egalitarian at times. In the SOEs, under the ‘iron rice bowl’, it was said that ‘everyone ate out of one big pot’ (*daguo fan*). More recently, rewards have become more linked to effort, especially since the 1992 reforms. As we found in an earlier study, wage levels were correlated with ownership, size and location of enterprises (Ding et al. 2000). Wages, for example, were higher in South China compared with the North.

In our sample, rewards for line-workers in coastal Guangdong Province in 1998 were higher than the national monthly average of 623.25 *yuan* (approximately 70 US\$ at the exchange rate valid at the time of writing, possibly four to five times higher in Purchasing Power Parity terms, according World Bank estimates). The rewards ranged from 700 to 1200 *yuan* per month, with an average of 919.33 *yuan*

(China Statistical Yearbook, 1999). Generally speaking, all the six firms' reward policies are performance-based. However there are differences in the specific level and structure of their reward policies; here again we concur with Chow and Wu (2000:826) but stress the variation found in specific cases.

In most cases, the monthly salary of line-workers is around 700 *yuan* (see Table 2). The only exception is Heygey, which has a wide range of the salaries of line-workers from 500 *yuan* to 1200 *yuan*. All the six cases adopted a fixed salary (and no or little bonus) system to compensate their line-workers. This is different from the piecework wage system, because this piecework is used when performance can be precisely measured, such as in a garment factory. The general manager of Longji told us that as there are sufficient workers available, there is no need to use the bonus as an incentive means. Similarly, the general manager of Hehe said that although the company has not increased the line-worker's salary since 1997, turnover is still very low. Another common characteristic of the six cases is that the salary of the technicians is 2-3 times of that of the line-workers.

In all the six cases, the marketing and personnel staff's salaries are directly linked to their own performance. Most firms adopted a basic salary plus commission system. For example in Shengzhou, the commission rate is 5 percent of the sales. The commission rate of other companies is not available, because these firms consider the rate to be confidential and are not will in future to release the specific rate.

Researchers found a positive correlation between the profit sharing of managers and the multi-factor productivity in Chinese firms (Lin and Li 1996, Liu 1995). In recent years, an increasing number of TVEs have come to realize that it is more important to keep senior executives highly motivated to improve company performance. More and more TVEs allow directing managers to have a large share of a company's residual profits. For example, in Heygey and Hehe, the general manager has almost 100 percent of the firm's share; in Midea, this practice is institutionalized as the 'elite share holding system'.

Proposition 5: *TVEs will in future tend to adopt a performance-driven rewards system.*

Social Security

Whereas the 'iron rice bowl' model prevailed in state firms and to some degree in urban collectives since the 1950s, other kinds of firms like TVEs had fewer privileges. The mini welfare state of the state-owned danwei, with its particular Chinese form of social security, did not extend to rural firms. Peasants enjoy markedly weaker social protection than urban workers; rural workers constitute a half-way house in this respect. SOEs have, in the past, accumulated vast pension obligations, with over one third of the wage bill going into payments to retirees. In our sample of TVEs, most firms conformed to the legal minimum requirement set out by the Ministry of Labour but little with more than that.

The 1994 Labour Law (see Ng and Warner 1998) requires all the employers and employees to join the social security system, and make contributions to five separate funds: pension, accident and injury, maternity, unemployment and medical funds. However, from the six cases (see Table 2) we found the Labour Law has not been fully implemented in the TVEs. Only Shengzhou and Midea have all the five funds, and they contributed 50 percent and 80 percent of the premium of the insurance rates respectively. Hehe has only a medical fund, and when we interviewed the general manager about pensions, he told us that employees would be fired before they reach the retirement age. Hongjian's general manager told us the burden has already too high for the company, although Hongjian has only joined the pension and medical funds.

Proposition 6: *TVEs will in future tend to have by-passed the 'iron rice bowl' model.*

Labour Turnover

Once, turnover in Chinese enterprises was close to zero; today, this has all changed. In SOEs, workers were allocated by labour bureaux; job choice was limited. Hardly any workers were sacked; very few moved on. This situation has now changed as labour markets and labour mobility have emerged. Turnover is now high in many SOEs, as workers seek higher wages elsewhere, often in non-State firms.

Since China now has a huge, if 'emergent' labour market, all the TVE general managers told us that the turnover of the line-workers had a very small effect on the operation and performance of the company, so it was meaningless to discuss the turnover of the line-workers here. All the six firms (see Table 2), except Hehe, have a high turnover of technicians, marketing personnel and management personnel. Hehe is a special case in that all its technicians are from a SOE in Northern China, and all the technicians are around 50 years old. They are attracted by the new higher salary and better conditions (compared to their original work unit). We found two patterns of the high turnover, one is 'active flow of employees', and the other is 'passive flow of employees'. To Longji and Hongjian, the two small-sized and technology-based firms, it is important but difficult to retain their marketing personnel and technicians. Since Shengzhou spent a great deal of resources in training its own engineers (we have mentioned before that it needs 2 to 3 years to cultivate an independent engineer), it cannot afford that its technicians flow out. Up to now, all the three firms could only revert to the labour contract to control the flow of the marketing personnel and technicians. However, Heygey and Midea implemented an active *taotai* (screening-out) system.

Proposition 7: *TVEs will in future tend to have a moderately buoyant labour turnover.*

Dismissals and Disputes

In the classic SOE, dismissals were rare and only used perhaps for malfeasance or the like. In earlier studies, we found that only very small numbers were sacked even in the mid 1990s (see Goodall and Warner 1997). The replacement of a large number of redundant employees in SOEs is another matter and the reform of the SOEs in the late 1990s had started a wave of transferring them to different industries or to the re-employment centres, waiting for placement. In TVEs, where labour was hired on short-term contracts in response to cyclical changes in demand, redundancies were minimized. In most such firms we studied, only a few cases of dismissal occurred due to the misconduct or wrongdoing on the part of employees that had caused damages to the enterprises.

Labour disputes were officially rare in the past. The ‘right to strike’ was formerly in the Chinese Constitution but was removed in 1982. With the 1994 Labour Law, labour arbitration and conciliation were formalized and legalized (see Ng and Warner 1998). With the enterprise reforms, labour disputes are now more common.

In our sample of TVEs however, all the managers (except Hehe’s deputy manager) said that there were no or few disputes. However, when we interviewed the shop floor employees in Heygey, they revealed that there were some disputes in the company, but they thought that ‘it was not good to talk about it’ inside the plant. Hehe’s deputy manager said that it was the role of the administrative director (*xingzhen jinli*) to coordinate the non-adversarial relationship between employees and company, and to resolve the conflict. Normally the disputes can be resolved by conciliation; otherwise the employee can choose to leave the company.

Proposition 8: *TVEs will in future tend to have a modicum of dismissals but few disputes.*

The Party

The role the Chinese Communist Party organization in Chinese enterprises has lately been down-played as the reform separated party activities from business operations and held the factory director accountable for enterprise performance. Although almost all the general managers in our sample firms are members of the party, the party organizations in TVEs do not play any significant role in enterprise management. The large firms in our cases, such as Media and Heygey, had party branches with a membership of about 2 percent of total employees, but their functions are limited to ideological education and to heighten the morale of the employees.

Proposition 9: *TVEs will in future tend to have a low profile for the Party.*

Trade Unions

As far as the levels of unionization in Chinese urban enterprises are concerned, we find that it ranges from ‘high’ (in SOEs and large JVs, in particular) to ‘low’ in most non-state firms. In the rural sector, it is ‘low’ for most TVEs and non-State firms such as FIEs. The All China Federation of Trade Unions (ACFTU) has

been under pressure to extend its domain to FIEs in general but with mixed success. It is widely believed that only a small percentage of TVEs are unionized but there has to date been very little empirical research on this topic. Since trade unions (*gonghui*) in the PRC are mainly an urban phenomena, it is not surprising that the ACFTU's remit has been concentrated, at least historically, in the cities. Since the TVE sector's growth has been relatively recent, it would follow that the pattern of worker representation would be less influenced by existing and well-established urban-based institutional patterns were. The ACFTU therefore would be expected to be 'thinner on the ground', in these circumstances; as indeed, they decidedly were.

Conventional wisdom holds that rewards and conditions of employment in the TVEs are less advantageous than in the predominantly urban SOEs and or even the industrial collectives (see Naughton 1995). The relationship between the managers and the employees is straightforward, as it is in rural-based FIEs, especially those in South China such as in the Pearl Valley Delta. As Chan (1995) has pointed out, the potential for 'exploitation' is greater where there are no or few restraints on the power of compatriot 'factory bosses'. Whether this situation is mirrored in domestically-owned TVEs is another matter.

Most TVEs in this respect have no trade union (nor for that matter 'nascent' collective bargaining). Those who do have a union keep a low profile *vis a vis* its role. In our six cases, only two, Shengzhou and Midea have a trade union and the role is weak. In Shengzhou, the trade union is only responsible for taking care of employees' welfare. While in Midea, the trade union only organizes one or two recreational and sports activities each year.

Proposition 10: *TVEs will in future tend to have a moderate-to-low degree of unionization.*

Workers Congresses

The system of the workers congress in SOEs is designed (on paper at least) to represent the interests of workers to supervise the management of enterprises. The workers congress, with a trade union as its executive agent, is entitled by law to approve or disapprove the strategic plan and major issues related to the welfare of

workers, and to elect the factory directors and senior managers. However, accompanied with a very low unionization in the TVE sector, the workers' congress is non-existent in many TVEs. Among our six cases, only the two large enterprises had high union participation and the workers' congress was convened once a year, but its function is limited 'to electing and awarding 'model' staff and workers'.

Proposition 11: TVEs will in future tend to have few Workers' Congresses.

**Table 3:
Summary of hypotheses in various areas of Human Resources in TVEs**

Areas of Human Resources	Hypotheses
HR and Personnel Management	TVEs will in future tend to evolve their own distinctive way of managing human resources.
Recruitment and Selection	TVEs will in future tend to recruit line-workers locally to satisfy the employment objective of TVG, but managerial and technical staff from broader labour market.
Training and Development	TVEs will in future tend to develop an appropriate training model to suit their needs and stages of development.
Employment Contracts	TVEs will in future tend to apply individual rather than collective contracts.
Rewards systems	TVEs will in future tend to adopt a performance-driven rewards system.
Social Security	TVEs will in future tend to have by-passed the 'iron rice bowl' model.
Labour Turnover	TVEs will in future tend to have a moderately buoyant labour turnover.
Dismissals and Disputes	TVEs will in future tend to have a modicum of dismissals but few disputes.
The Party	TVEs will in future tend to have a low profile for the Party.
Trade Unions	TVEs will in future tend to have a moderate-to-low degree of unionization.
Workers Congresses	TVEs will in future tend to have few Workers Congresses.

5. DISCUSSION

Deng's reforms have clearly brought about wide changes in the Chinese economy; when different ownerships, employee size, and location of enterprises are taken into account, we have found that there exist wide variations in human resources practices (Ding et al. 2000) as between SOEs and JVs. We have also noted that we must take account of these variables in examining the impact of 'top-down' reforms (in this particular instance, of property rights) on the extent of change in HRM, personnel and labour-management practices. Notwithstanding the effect of what we may call 'organizational inertia'- these factors have served as barriers to organizational change - as well as external constraints (e.g. by local governments) on enterprise structure and behaviour.

The ownership and organizational structure of such TVE firms has undergone a significant evolution. We would expect them to have become more formalized, standardized and decentralized in their management as they grew in size (see Child 1994). The case-study approach may not enable us to measure this with statistical precision at this stage. However we have been able to distinguish the broad-brush elements of this evolution as between the six cases. What has been described in Section 4 has revealed the complexity and diversity of the organizational governance forms and management. The TVE sector may share some elements of SOEs, PEs and FIEs and has to be dealt with on case-by-case basis.

The main argument we would advance, to link the deepening reforms of the TVE sector companies with their human resources, personnel and labour management, is that making such firms (especially the larger ones) more 'marketized' through property rights reforms will in future be more likely to make their people management policies and practices resemble those of non-public owned enterprises, such as JVs, FIEs, and so on. Again, the 'devil is always in the details' and it can be seen from the case studies we have presented that there is some persuasive evidence that the above proposition is increasingly the case. In terms of recruitment, selection, rewards systems, training and so on, most of the TVEs we have studied are beginning to look less and less like the stereotypical Chinese work units (*danwei*) associated with old Soviet-inspired model.

The question of whether some TVEs have now implemented HRM, as opposed to Personnel Management, is an empirical question (see Warner 1995). The evidence thus far is decidedly mixed. Many TVEs have a mainly conventional Personnel Management system and we would be more cautious than concurrent research (for example, Chow and Fu, 2000) in labelling the system we found as recognizably HRM. On the other hand, the personnel characteristics as described in the section above may not resemble most SOEs (or indeed some larger JVs) either. The ‘fuzzy’ or overlapping nature of the organizational characteristics of Chinese enterprises may make labelling in western terms the kind of HR they have somewhat challenging.

Again, we would point to the influence of the key variables shaping human resource practices (see Ding et al. 2000) noted above, namely ownership, employee size and location. We conjecture, taking these variables into account, that larger TVEs that have been transformed to public listed companies will in future begin to have formal organizational structures, which include a fully functional human resources department. This kind of company will in future have a relatively complete management system, strategic planning and human resource planning. For example, Midea (with its reform of ownership, size and location) fits this description; its human resource management policy has the objectives of ‘securing the most capable personnel for the position throughout the country’; ‘bringing employee potential into full play through the internal labour market’; and ‘encouraging job rotation and providing training’ for at least 70 percent of employees in 2000. Opportunity for career development in Midea has attracted many university graduates each year, including MBAs and PhDs from universities at home and abroad.

The policy of ‘separation of government from enterprises’ (*zhengqi fenkai*) has gone much further in Southern China than elsewhere (see Rawski 1999 for further details). The TVEs that have sold majority shares to individuals, typically to the general managers, operate more like privately run firms. The decision-making power is concentrated in the hands of a general manager, such as in Heygey. If the majority of shares of a TVE is held by the institutions representing TVGs, or by the collective entity, it will in future carry the institutional and organizational characteristics of

SOEs, such as Hongjian. It is clear that no 'pure' organizational models now exist in Chinese industry, indeed if they ever did. While change may be a matter of degree, we would argue that some apparently dissimilar organizations may have common characteristics with each other, as we noted earlier.

The institutional framework of the state-run sector has failed to extend itself in the labour management relations domain. While the 1994 Labour Law applies to TVEs as well as other sectors, its meaningful implementation has been limited and labour inspection has been fairly minimal. For example, the role of trade unions in the TVEs we have studied has been either non-existent or, where present, adapted to the changing needs of such enterprises. Labour-management relations in TVEs are basically non-adversarial, more like those in non-State firms than in SOEs for the most part. However, there are residual elements of the old system in larger firms, due to organizational inertia. Individual contracts (*geren hetong*) were the norm in TVEs; frequent use of temporary labour was also made. Employment statuses were therefore increasingly 'marketized'; organizational loyalty was correspondingly mitigated by the high labour turnover rate. Collective labour contracts (*jiti hetong*) and the 'nascent' collective bargaining in the PRC (see Ng and Warner 1999) were not prominent in this set of firms and the industrial relations theory invoked to point to such 'bargaining' did not appear to be relevant here as yet in the TVE sector (see Warner and Ng 1999).

The question of who has benefited from the property rights reforms is an open question. Certainly, many new jobs have been created in TVEs although net gains in employment have slowed down in recent years. Wages are not particularly high, given the lack of substantial in-house welfare benefits and the absence of lifetime employment status. Indeed, labour flexibility was one of the strong competitive advantages of rural industry. Managers did not need to provide generous rewards, as there was a labour surplus in the broader geographical areas in which they operated. This has led to an absence of 'bargaining' on the worker's side. Managers did not need to retain workers by offering high wages and benefits. Moreover, the close link of rewards to performance will in future put pressure on line-workers in particular. If demand is slack, line-workers may be laid off more easily than urban workers.

On the other hand, some top managers have certainly done well out of the reforms, particularly where share-holding companies have been created and they have been allocated a sizeable number of shares. This shift of benefits to top managers is part of the income and wealth re-distribution process which is ongoing in China. As illustrated in other research this represents a lower share for workers and this is leading to a more unequal Gini-coefficient (see Ng and Warner 1998).

6. CONCLUDING REMARKS

To sum up, organization, human resources, personnel and labour-management relations in TVEs are all undergoing significant changes, much of it due to the property rights reforms of the last decade. The more Chinese organizations become 'marketized', the more flexible and non-adversarial their human resources, personnel and labour-management have developed, although varying by sector. We see this process taking place in a number of SOE workplaces, many privately-owned firms, the bulk of JVs, most FIEs and recently in a range of TVEs, we had investigated in our pilot study. If this evolution continues through the next decade, people management in the PRC will in future look dramatically different from past years. This change may represent the 'soft convergence' phenomenon noted elsewhere by Warner (2000), other things being equal.

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