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WP 02/2004

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Accepted for publication in the *Industrial Relations Journal*, 2004

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Changing Patterns of Human Resource Management in Contemporary China: WTO Accession and Enterprise Responses

Ying Zhu and Malcolm Warner

Abstract

This study examines the challenges facing China's increasingly complex human resource management (HRM) after its WTO accession and consequently the implications for further reform of government policy and enterprise-level HRM practices. The paper concludes that current HR practices are diverse between enterprises with different ownership, industry sector, location and history. The direction of future changes may depend on the level of involvement from external forces as well as internal strategies adopted by Chinese enterprises to survive.

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Key words: *China; employment relations; globalisation; human resource management; trade unions; WTO*

Acknowledgements: *This research was funded by the University of Melbourne. We thank officials, managers, and academic colleagues in China for their support. Thanks to John Benson (University of Melbourne) for comments on an earlier draft.*

Changing Patterns of Human Resource Management in Contemporary China: WTO Accession and Enterprise Responses

Introduction

Since the People's Republic of China (hereafter to be referred to as China) formally signed up to join the World Trade Organization (WTO) in December 2001, under the leadership of the outgoing Prime Minister, Zhu Rongji and the retiring State President, Jiang Zemin, both praise and criticism have emerged from different interest groups not only within China but also globally. One of the critical areas of debate related to the implications of WTO membership for employment relations in China over a wide range of issues: the implementation of international labour standards; the role of trade unions; working conditions; wage-price factors in relation to cost of production and export competition in global markets; social protection and social inequality; 'efficiency' versus 'fairness and justice'; power of multinational corporations (MNCs); global division of labour versus Chinese labour diversity; and 'industrial democracy' versus 'power control and corruption' (see Chan and Chuen, 2001).

There has been no explicit blueprint of future developments in employment relations. China's accession to the WTO added an international dimension into the complicated domestic employment relations system. Pressures came along from international governing bodies, such as the ILO and WTO and other organizations such as the International Confederation of Free Trade Unions (ICFTU). They related to the issues of labour rights, the role of unions, and labour standards, involving the All-China Federation of Trade Unions (ACFTU) with over 100 million members, a 'huge army of labour', as well as raising broader concerns over human rights, social protection and political reform in China.

Therefore, it is crucial for both the international community and the Chinese people to seek a more informed perspective on the current situation and the future engagement

of the Chinese economy into the global economic system, as well as China's further economic and political reforms. By considering these factors, the central theme of this paper aims to illustrate the state of current employment relations in China in relation to the global concern noted above, and the concerns and practices of HRM at enterprise-level in response to the recent WTO accession. Hence, this research enables us to tackle some theoretical and empirical issues including the question of convergence, the issue of change and consequence, and the policy implications.

This paper is structured as follows: Section 2 reviews the theoretical perspective of globalisation and debates on the labour market, employment and HRM. Section 3 provides background information on the external and internal factors that influence government policy and regulations. Section 4 presents a number of key case studies with different ownership, location, size, sector, market and histories in order to see the variety of challenges and HRM practices that may be associated with WTO accession. Section 5 discusses the findings of the case studies and identifies the need for improvement. Finally, we conclude the paper by highlighting current problems and possible future directions of China's engagement in the economy and its own future path of reform.

Theoretical perspectives

China's accession to the WTO opened a new page of China's reform and further engagement in the process of globalisation. So far, a clear division has emerged in the theoretical debates about globalisation between three major streams of thought: first, the positive *neo-Liberal* approach claims that the current process of globalisation will encourage free trade and investment across countries and eventually create more economic prosperity for everyone; second, the negative *neo-Marxist* approach claims that the outcome of globalisation would be more inequality and disparity between north and south and that the international governing bodies such as the WTO, World Bank and International Monetary Fund (IMF) are serving the interests of the powerful north and its alliance of MNCs; and third, a relatively *neutral* approach claims that globalisation is a 'double-edged sword' which may bring both benefits and

disadvantages to countries or communities, and the critical question is how well people manage it (see Zhu, 2000, 2002a and 2002b).

An important aspect of the debate is about the impact of globalisation on the division of labour and human resources in the East Asian region (see Warner, 2002: 384-398). Several important issues need to be considered here. The *first* issue is about the international division of labour. Since labour is one of the major resources of Asian developing countries, the labour market will be one of the first to register the effect of economic changes (Warner, 2002: 388). Certainly, China is possibly the most typical example. However, critics regard globalisation as being part of a 'zero-sum game' that suggests some people get all the benefit versus other people get nothing, in other words, there are uneven distributions between the players (Warner, 2002: 388). In addition, the competition between developing countries by providing cheap labour to attract foreign investment may eventually result in a 'race to the bottom' (Chuen, 2001: 34). Critics argue that the current agreement within the WTO has further consolidated the developed countries' already vested monopolies in technology, knowledge, and capital, and it is now impossible for developing countries to break through the existing international division of labour. In fact, one may argue, it is more likely that developing countries will become confined to an arena of competition in which they will be fighting among themselves for shares in the labour-intensive sector of export-processing industries (Chuen, 2001: 34).

The *second* issue is about changes in employment/unemployment via the process of globalisation. Advocates of the WTO argue that liberalized international trade will increase both employment and incomes among trading-partner nations. However, the opposition believes that entry into the WTO is unwise, as the odds are stacked against the new entrants whose domestic industries may be adversely affected once tariff and non-tariff barriers come down (Sachs and Woo, 2003; Warner, 2002: 388). The consequence would be greater labour surpluses, lower wages, more unemployment and economic stagnation. Other social problems would also emerge, such as insufficient social protection, greater inequality and social unrest.

The *third* issue relates to the enterprise-level management of human resources. The restructuring of industries under the political pressure of globalisation has led to a number of consequences, such as the relocation of factories, downsizing and retraining (Warner, 2002: 392). These shifts created new enterprise-level HRM practices, such as recruitment flexibility, fixed-term employment contracts (rather than life-time employment), performance-based compensation and rewards, training and career development, as well as an emphasis on commitment and motivation towards the organization and work. Those so-called Western-style HRM practices may be found in particular MNCs operating in Asian developing economies. However, it is not yet clear whether the general trend is towards a 'convergence' or 'divergence' of approaches (see Rowley and Bae, 2002), although China's WTO accession may have significant social and economic consequences outlined in the following sections.

Changing external and internal environments

WTO accession is the latest factor eroding Chinese economic and political isolation and its employment relations system responds to external pressures and internal demands.

The impact on economic sectors

Certainly, the impact of WTO entry is by no means uniform across economic sectors. The agriculture sector is predicted to experience strong overall consequences via the lowering of the average tariff below 17 percent and the wind-down of government subsidies to its exports (Chen, 2002). Resource reallocation, primarily of rural labour, will flow toward other sectors, such as to urban labour-intensive industries.

The manufacturing sector may experience an unclear overall outcome from WTO entry. Generally speaking, China agreed to reduce average tariffs from 24.6 percent in 1997 to 9.4 percent by 2005 (with a limited number of exceptions) (Chen, 2002). Some sub-sectors are said to benefit from expanded foreign markets and will further extend their comparative advantage, such as in the case of labour-intensive products

like footwear, textiles, toys and umbrellas. Industries that have recently developed out of their infancy and have become capable of competing with foreign firms are more likely to meet the challenge of increased trade and experience restructuring efforts to consolidate their businesses and become competitive. These include consumer electronic industries and the shipbuilding industry. Industries such as aerospace, beverages, computers and consumer chemical goods will have a more difficult time due to more foreign competition vis-à-vis relatively less productive local industries (Chen, 2002).

The service sector is predicted to experience strong overall effects from WTO accession via major reductions of entry barriers in the areas of distribution, professional services and telecommunications services. Foreign competition, it is predicted, will prevail in banking, insurance, professional and technical services (including accounting, engineering, legal, management, taxation and urban planning services). In fact, it is expected that foreign involvement in these areas will force local firms to reduce their costs and at the same time to provide better services (Chen, 2002).

The impact on employment relations

WTO accession also leads China to a situation where it is more likely that it will be closely monitored by international bodies, such as the WTO and the ILO, on trade regulations and labour standards, according to relevant international conventions and regulations. By the end of May 2003, China had ratified 23 ILO conventions, on paper at least, including three of the seven relating to fundamental rights (No. 100 on discrimination, and No. 138 and 182 on child labour) (ILO website, 2003; Lin, 2002). The conventions on freedom of association and forced labour have not been ratified yet.

WTO accession, additionally, builds up the international pressure on China to implement and follow international conventions. On the one hand, labour issues are no longer left in the domestic domain but are now linked with international trade and international diplomatic relations. Greater invigilation of trade and labour standards

within the WTO comes from Western trade unions, consumer groups, NGOs, and other countries' governments and international bodies.

On the other hand, there is an increasing pressure from different internal interest groups inside China. There had been existing problems within the Chinese employment relations system before China joined the WTO and these have been well documented in previous research (see Benson and Zhu, 1999; Ng and Warner, 1998; Zhu, 2002b; Zhu and Warner, 2001). However, WTO accession we would argue accelerates the conflict of interests among different groups, mainly due to further labour segmentation in China, accompanied by the growing diversity of ownership, new distribution patterns and restructuring of industries.

The problems can be illustrated in the following ways. The first relates to labour market development and regulation. The Chinese labour market is still in a 'nascent' stage, where regulation is insufficient to match the demand for and the supply of labour in detail, as well as the lack of transparent information. A relevant phenomenon in China is that a combination of a relatively 'novel' kind of employment relations introduced by MNCs since the economic reforms, co-exists with a nineteenth-century type of master-servant employment relations mainly found in small domestic private firms, alongside half-way reformed state-owned enterprises (SOEs). This situation adds difficulties to the relatively homogeneous existing labour market regulation regarding implementation and enforcement, notwithstanding the difficulties of the concept of 'rule of law' and other political and cultural barriers to labour law reform in China (see Zhu, 2002b).

Second, the existing problems of shortages of skilled labour *versus* oversupply of unskilled labour leads to even sharper competition for qualified workers among SOEs, foreign-owned enterprises (FOEs) and domestic private enterprises (DPEs) than earlier in the reform process. Consequently, a reasonably adequate human resource development (HRD) system is needed, for both government and individual enterprises, to address the issue of skill shortages (see Benson and Zhu, 2002).

Third, there is an unregulated labour market of internal migrant workers who are predominately peasants who came from the countryside to the cities without government registration and work permits; in Chinese terms, they are known as *mangliu*, that is, the ‘floating population’. The estimated number of this population may be over 100 million (Zhu, 2000). Related issues such as employment contracts, wages and working conditions, and welfare entitlements are ill defined among this group of people.

Following further opening up of the domestic market in the next five years or so, according to the WTO agreement, the boundary between the Chinese domestic market and the international market will become even more blurred. As an international production location, China will, in our view, attract more foreign investment and that will increase the competition not only between indigenous companies and foreign companies but also among the FOEs themselves.

Furthermore, there are more complex labour-management relations in SOEs, FOEs and DPEs. Since the beginning of the economic reforms, labour-management relations has changed from an initially ‘symbolic’ status - as the Party/State claimed that workers were the ‘masters’ (*zhuren*) of SOEs and collective-owned enterprises (COEs) - to more recent explicitly ‘functional’ relationship as ‘employees and managers’ in most enterprises, including FOEs and DPEs (see Zhu and Warner, 2001). Under the new *status quo*, management enjoys increasing power over issues such as hiring and firing employees, the details within labour contracts, the determination of wage levels, the opportunity of promotion, and other welfare entitlements. Competition and insecurity among employees, it is alleged, have become even more apparent since China’s WTO accession (An, 2002).

The last issue is the social consequences of the transition process: that is, lay-offs, unemployment, insufficient social protection networks and social inequality. Since the government speeded up the reform of SOEs, there has been an increasing number of lay-offs and greater unemployment. According to official data, 26 million SOE employees were laid-off between 1998 and the middle of 2002 (*People’s Daily*

Overseas Edition, November 12, 2002)¹. The number of unemployed was 14 million in 2002 (Yuan, 2002). The *effective* rate of urban unemployment reached 7 percent, with total accumulated unemployment rising to 22 million but this did not include rural surplus labour (ibid). These figures are much lower than other independent reports, with more than a 10 percent unemployment rate estimated by one expert (ibid).

China, however, defines the jobless in a highly distinctive way (see Lee and Warner, 2004). According to the State Statistical Bureau, unemployment denotes the urban registered unemployed who (a) possess non-agricultural residence; (b) are within a certain age range (16 to 50 for males and 16 to 45 for females); (c) are able and willing to work; and (d) have registered with the local labour bureau for employment (Chinese Labour Statistical Yearbook, 1997: 588). Only the unemployed by these criteria qualify for what are known in China officially as ‘unemployment benefits’. We must also note another form of joblessness that is perhaps more pervasive - ‘hidden’ unemployment’ - referring to workers, often in the State sector, who have been ‘laid-off’ (*xiagang*). The State Statistical Bureau defines ‘laid-off’ workers to be ‘workers who have left their posts and are not engaged in other types of work in the same unit, but still maintain a relationship with the unit that they have worked’ (Chinese Labour Statistics Yearbook, 1997: 588). Those ‘laid-off’ are only given very basic living subsidies (*shenghuofei*) at subsistence level, instead of ‘the dole’; they are not included in the registered unemployment-rate.

¹ People who were laid-off would stay at the Centre of Re-employment within enterprises but not be registered as unemployed persons for three years. However, this scheme was phased out in 2003.

In contrast to the increasing number of unemployed, the number of re-employed has been deteriorating. For example, the official data shows that the rate of re-employment continues to decline from 50 percent in 1998 to 42 percent in 1999, and then a further decline to 35 percent in 2000 and 31 percent in 2001 (Huang, 2002).

There has been an incremental change vis-à-vis China's labour regulations (see Zhu, 2002b). In September 1990, the People's Congress of China approved the 'ILO Convention on Tripartite Negotiation'. In 1994, the Labour Law was approved by the Congress and implemented in the following year. In 2001, the Trade Union Law was revised in order to fit in certain international standards; as the Chinese put it, 'connecting the international tracks' (*yu guoji jiegui*).

Institutionalisation and legalization constitute the main efforts made by the government to cope with the challenge from both internal and external pressures. It seems that external pressure is more effective to persuade the government to change, such as the release of independent union activists by the Chinese government under pressure from the US government, training union leaders and developing a tripartite system under the guidance and support of the ILO Beijing Office (Feng, 2002b), and engaging in anti-dumping legal action as well as restraining 'labour exploitation' and 'unacceptable working conditions' (Feng, 2002a). Due to the political system in China, internal pressure is rather cautious, even surreptitious, compared with external pressure that is more open and direct. The concerns of the Chinese regime about its national reputation, economic benefits and geo-political influence may lead to more constructive policies here as a result of such external pressure and criticism.

In order to understand what actually happens at enterprise-level in terms of human resource management as a result of WTO accession, we now turn to our empirical fieldwork investigation in 12 enterprises.

Enterprise case studies

One of the co-authors of this paper carried out on-site interviews in 12 enterprises between September and November 2002, to provide the data for both co-authors to analyse and evaluate. The cases were selected from among a larger set of enterprises that had contacts with the China Labour College in Beijing. The rationale of selecting these sample enterprises includes: first, different locations including the cities of Beijing, Chengdu, Nanjing and Shanghai that represent the balance between the coastal and inland regions; second, variety of representation in terms of *ownership*, *size*, *industry* and *history* (see Table 1). Each case study involved meetings with a senior manager, the personnel manager and the union leader. Additionally, meetings with employees were also held where appropriate. Company documents were collected for background information.

Table 1: Enterprise Profile (2002)

Firm	Ownership	Age (years)	Location	Size (No. of employees)	Business	Turnover (Yuan million)	Market
E1	SOE	30	Beijing	40,000 (in Beijing)	Bank	50,000	Domestic
E2	SOEs/Group	30 SOE 6 JSE	Nanjing	10,000	Manufacturing and trading of machinery and clothing, and other businesses	4,800	Overseas (75%) Domestic (25%)
E3	SOE/JSE	30 SOE 4 JSE	Nanjing	800	Wholesale & retail of electronic appliances	2,600	Domestic
E4	SOE/JSE	30 SOE 4 JSE	Chengdu	550	Manufacturing of machinery	300	Domestic
E5	JV (Sino-Japanese)	9	Shanghai	800	Manufacturing and trading of fax machines	1,000	EU & US (80%) Domestic (20%)
E6	WOFE (US)	9	Shanghai	1,600	Manufacturing and trading of medicine and equipment	5,800	Domestic
E7	WOFE (Dutch)	9	Shanghai	7,000	Manufacturing and trading of hi-definition TV and DVD	3,000	Domestic
E8	WOFE (US)	11	Beijing	700	Software R&D and marketing	5,000	Domestic
E9	DPE	9	Nanjing	150	Software R&D and marketing	100	Domestic
E10	DPE	12	Nanjing	1,000 (in Nanjing) 6,000 (nation-wide)	Trade and production of electronic and electrical products, automobile, and real estate.	4,800	Overseas (10%) Domestic (90%)
E11	DPE	5	Nanjing	1,900	Manufacturing and trading of DVD, telecom and PC	2,400	Overseas (50%) Domestic (50%)
E12	DPE	9	Chengdu	850	Manufacturing and trading of animal nutrition & agricultural goods	500	Domestic

SOE – state-owned enterprise; JSE – joint stock enterprise; JV – joint-ventures; WOFE – wholly-owned foreign enterprise; DPE – domestic private enterprise.

This research is based on the models devised by Benson *et al.* (1998), Benson and Zhu (1999), Benson *et al.* (2000) and Ding *et al.* (2000) from their previous research on the transformation of HRM in China. This paper attempts to continue the investigation of the development of HRM policies and practices in Chinese enterprises, in particular coinciding with the crucial time of WTO accession. Based on the previous research on China, we test the following six hypotheses:

1. *Ownership – enterprises with different ownership have different HRM practices and the greater the degree of foreign ownership, the more likely that formal HR practices will be adopted with fewer in SOEs and DPEs.*
2. *Size – the larger the number of workers employed in the enterprise, the more likely formal HR practices will be implemented.*
3. *Market – externally market-oriented enterprises are more likely to adopt formal HR practices.*
4. *Sector – new economy oriented or high value-added enterprises are more likely to carry out formal HR practices.*
5. *Region – coastally located enterprises are more likely to implement formal HR practices.*
6. *History – recently established enterprises that have a weaker relationship with the traditional State planning system are more likely to use formal HR practices*

Overview of enterprise case-study responses

Before getting into the details of HRM practices, we need to depict a general picture of the challenges facing these enterprises and their responses towards them in the context of WTO entry. We illustrate these issues using the categories of the three enterprise groups noted above, namely SOEs, FOEs and DPEs. We thus now set out the organizational and HR characteristics of each of the case studies we investigated.

Among the four SOEs, Case E1 was one of the leading banks in China of over 30 years standing. WTO accession has built up competition in financial markets as well as in

labour markets, so capable employees now have more choice and foreign-owned banks offer more attractive compensation packages to attract the experienced employees of State-owned banks. The crucial challenges for the bank are the urgent need to train their existing employees and upgrade the entire quality of their staff and to retain capable and experienced employees. Policies on HRD, the salary/incentive package, performance evaluation, and promotion have become crucial part of HRM strategies in E1 (field-survey).

Case E2 is a State-owned group corporation, formed after a merger in 1996 between two former State-owned machinery and clothing export-import companies, each with over 30 years' history. Its businesses had been diversified and the company shares were publicly sold on the Shanghai and Shenzhen Special Economic Zone (SEZ) Stock Market in recent years. The difficulties in E2 were related to its history with many older and superfluous employees and the burden of providing social insurance for retirees who were predominately not contributors². New HR policies, such as introducing a new salary system, more training, wider promotion, and autonomous working environment emerged as important requirements for E2 to improve its competitiveness.

Case E3 was a firm established in 1956 as a SOE, in charge of planning and distribution of electrical machinery and chemical products, under the leadership of the Jiangsu Provincial Bureau of Commerce. It adopted the 'managerial responsibility system' with autonomy and self-reliance in 1990 and converted into a JSE in 1998 with 30 percent of State shares, 20 percent of other corporate shares, and 50 percent of staff shares. The management believed that WTO accession had a limited influence on how the firm would compete. Their policies on HRM were mainly about implementing goal-oriented (eg. total sales) performance and reward systems. A flexible model with an emphasis on qualifications, experiences and skills was seen as more important than the traditional seniority based system.

Similarly, Case E4 was also a firm established in the 1950s as a relatively small SOE located in the Western region (Chengdu). Under the government policy of 'holding the

² Most of these retirees left work and retired before the social security system was established and now their benefits are obtained by using the current employees' contribution scheme.

big ones and letting the small ones go' (*zhuada fangxiao*) in the middle 1990s, E4 became a JSE in 1996 with 20 percent of staff shares and 80 percent of other corporate shares. E4 experienced the difficulties of implementing the so-called 'modern management system', due to resistance based on its past practices. E4 adopted a new HR system as part of its responses towards WTO accession, such as the 'post and skills' rewards system (*gangji gongzi*) and better communications for improving efficiency.

The second group of enterprises comprised four FOEs. E5 is a Sino-Japanese joint venture with Chinese control of 60 percent of shares and Japanese control of 40 percent. It was an export-oriented enterprise with an 80 percent export rate. It had a mixed management system combining Chinese and Japanese ways of managing. The labour force was very stable and its group-orientation in terms of rewards, performance evaluation, and business operation in both production and trade sections was noteworthy in E5. The challenge it faced was the competition from other FOEs in both domestic and overseas markets. The focus of its HRM policy was on training and upgrading skills and technology. Recruiting and retaining capable employees were also important concerns.

Case E6 is one of the leading US-based MNCs operating in China as a wholly-owned foreign enterprise (WOFE). It had adopted an ambitious plan of production and marketing operations in China. HRM had been seen as critical for realizing their business goals. Most HRM measurements were introduced from the US headquarters and an individual-oriented performance evaluation system, as well as a similarly geared reward and career-development system were set up. The management believed that WTO accession would lead to a further opening up of the domestic market and that the 'rule of law' may become more of a reality enhancing their business operations in China.

In turn, Case E7 is a Dutch-investment MNC subsidiary with many branches in China, with its national HQ located in Shanghai. It had 'leading-edge' technology and appropriate management expertise in China and most of the employees were young and well educated. The management system, including HRM, was copied from its Singaporean regional headquarters and the HR manager was trained in Singapore. A combination between Western systems, with some East Asian modification (certainly the influence of Singaporean and Chinese management systems) was found in E7. The

challenges in the area of HR would be finding experienced managerial and sales staff, training and upgrading skills, and retaining capable employees in order to avoid losing them to other FOEs.

Case E8 is another leading US-based MNC operating in Beijing in the business of software research and development (R&D) as well as in marketing. The management system and key managerial posts in the firm were in effect 'Americanised'. In this context, E8 did not experience the difficulty of recruiting capable and talented young IT professionals. However, careful selection and training were most important for E8's HRM functions. Certainly, effective communications and cross-cultural issues challenged the American-dominated managerial team. E8 wholeheartedly welcomed China's WTO accession and the management was very confident about their business future in China.

The third group of enterprises includes four DPEs. DPEs have been defined by the national statistical yearbook as privately-owned businesses with commercial registration and employment of others than family members, that is different from the definition of the individual household economic unit (the Chinese term of '*getihu*'). Most DPEs are small and medium sized and with shorter histories than SOEs.

In our sample, two were large DPEs with thousands of employees, one was medium sized with over 850 employees and the other small sized with over 150 employees. E9 is a small information technology (IT) enterprise but has grown rapidly. It had over 150 employees and most of them have university degrees, including over 30 PhD and Masters graduates. They developed their unique IT products for policing and transportation systems. The management of E9 believed that both opportunities and challenges exist since China's WTO accession and their policy was to develop their products and the company with unique characteristics. The slogan of 'open thought' was in the company booklets. In fact, a wide range of formal HR policies had been implemented and priorities included training, upgrading skills, creating an autonomous working environment, and developing goal-oriented evaluation and compensation systems.

Case E10 is one of the leading DPEs in China with its headquarters located in Nanjing and over a hundred branches around the country. Its business had been enlarged from initially retailing electronic appliances to a wider range of businesses, including the production of electronic and electrical products, automobiles and real estate development. However, due to its rapid business increase, HR was far behind the needs of business expansion. Key problems included: a shortage of experienced employees to cover a wide range of business sectors; a shortage of experienced managerial staff; its key HR practices such as compensation, performance evaluation, promotion and training were not consistent within the group nationally and across sectors; a high level of labour turnover indicated low employee commitment, created instability of skills and damaged customer service. The challenges faced by E10 were seen as major, in particular vis-à-vis WTO accession, as everyone was trying to seek a greater market-share and obtain more capable human resources.

In Case E11, we find a similar situation to E9 and E10. Its business had been increasing rapidly in the past five years but HRM was neglected during this rapid growth period. Now further competition, not purely based on price, but on 'know-how' and human resources, intensified the need for improving HRM policies and practices. Common problems were to be found in E11 such as: a lack of experienced professional and managerial staff; not fully established systems for performance evaluation, compensation, promotion and training; high labour turnover and poor decision-making based on only short-term considerations.

Case E12 was an example of a DPE that was located in the inland region to the West (Chengdu) and was established by three brothers from one family to produce animal nutrition products for local farmers. E12 did not have a HR department and personnel issues were handled in a traditional Chinese family business manner, such that the boss (*laoban*) made all decisions. There were no fully established systems for compensation, performance evaluation, promotion and training. Casual employees and employees with less than one year contracts were common and piece-rate pay was the predominant wage system. Due to its location and business characteristics, WTO accession was not seen by managers as an important factor.

Enterprise-level HRM

To help us analyse the HRM practices we found in the sample, labour-management categories were selected based on the Benson *et al.* (1998) model, derived from the earlier conceptual work of Gospel (1992). The term ‘work relations’ refers to the way work is organized and the development of workers around the prevailing technologies and production processes. Employment relations cover the various personnel management practices used, such as recruitment, training, remuneration and work conditions. Employee involvement highlights the important issues related to participation, information sharing, grievance and sharing the benefits of the company’s achievement (Benson *et al.*, 1998).

Table 2. HRM in the sample enterprises

Dimension	Enterprises												Total*
	E1	E2	E3	E4	E5	E6	E7	E8	E9	E10	E11	E12	
<i>Work relations:</i>													
Teamwork	v	v	v	v	v	v	v	v	v	v	v	v	12
Multi-task/responsibility	%	x	x	x	%	%	%	%	%	%	%	x	4
Quality control	%	v	v	v	v	v	v	v	v	v	v	%	11
New technology	v	v	%	%	v	v	v	v	v	v	v	x	10
<i>Employment relations:</i>													
Transformational managerial role	%	v	v	x	v	v	v	v	x	x	x	x	6.5
Importance of line managers	v	v	v	v	v	v	v	v	%	v	v	v	11.5
Freedom in personnel selection	%	%	v	v	v	v	v	v	v	v	v	v	11
Individual performance pay	%	%	v	x	x	v	%	v	%	%	x	v	6.5
Harmonization of work environment	v	v	v	v	v	v	v	v	v	v	v	v	12
In-house training	v	v	v	%	v	v	v	v	%	%	%	%	9.5
Strategic role for HR manager	%	%	%	x	v	v	v	v	x	x	x	x	5.5
<i>Employee involvement:</i>													
Involvement/participation	%	%	v	%	v	v	v	v	v	%	x	x	8
Information-sharing	%	v	v	%	v	v	v	v	v	%	v	%	10
Individual grievance/complaint procedure	%	v	%	%	v	v	v	v	%	%	%	x	8
Employee stock-ownership	x	x	v	v	x	x	x	x	x	x	x	x	2
Profit sharing	x	x	v	x	x	x	x	x	x	x	x	x	1
Total*	9.5	11	13.5	8.5	12.5	13.5	13	13.5	9.5	9	7.5	6.5	

Key: v – practice present (v=1); % - practice present to some degree (%=0.5); x – practice not present (x=0); *Total: sum number of practices.

HRM dimensions

Table 2 shows that a majority of firms developed flexible work relations at the time of the survey. However, there is a diverse pattern of employment relations and employee involvement in these enterprises.

On the one hand, the influences of cultural tradition and the political environment (as a socialist State) are reflected in several dimensions, such as less individual performance pay and harmonisation of work environment among the majority of SOEs and DPEs. On the other hand, some formal HRM practices have been introduced in some enterprises, in particular in FOEs, such as the ‘transformational’ managerial role, importance of line-managers, freedom in personnel selection, in-house training and a strategic role for HR managers, although the development is uneven among the sample enterprises. A ‘strategic’ role for HR managers, in particular, is less developed among the indigenous enterprises, namely SOEs and DPEs. This point indicates that the traditional personnel management function still plays a crucial role among these enterprises in China.

Employee involvement is adopted by several firms but is not a widespread practice, especially in the areas of employee stock-ownership and profit sharing. Information-sharing is the most common employee involvement practice. However, an encouraging sign comes from the two former SOEs (E3 and E4) that had been transformed into JSEs reporting employee stock ownership.

HRM ‘clusters’

By vertically examining the HRM clusters of work relations, employment relations and employee involvement in Table 2, we can see that E6 and E8 (two US-invested FOEs) adopted 15 HRM practices out of 18, followed by E3, E5 and E7 (one JSE and two FOEs) with 14 practices, then E2 (SOE) with 11, E1, E9 and E11 (one SOE and two DPEs) with 9, E4 and E10 (one JSE and one DPE) with 8, and last of E12 (DPE) with 6 HRM practices.

The major areas of HRM adoption thus appear to be in *teamwork, quality control, new*

technology, importance of line managers, harmonization of work environment, and in-house training. In contrast, enterprises with fewer HRM dimensions being adopted are related to factors such as: location in the inland region rather than a developed coastal region (eg. E4 and E12 in Chengdu); a history of involvement in the State planning-system (eg. E1 and E2 as typical SOEs); a lack of experience in so-called ‘modern management systems’ and internationalisation (eg. several DPEs). Other factors seem to be less significant.

Discussion

In the light of the HRM data revealed in the interviews (summarised in Table 2 and described above) concerning the different kind of enterprises under study, the following findings related to the hypotheses that were outlined earlier can now be set out.

In terms of ownership, we predicted that ownership would affect HRM practices and the greater the degree of foreign ownership, the more likely that formal HR practices will be adopted with fewer in SOEs and DPEs. It seems that it is the case that the greater the degree of foreign ownership, the more likely formal HR practices would be adopted. However, one former SOE has caught up in recent years since it was transformed into a JSE (E3). Certainly, adopting formal HR practices is also related to other factors.

We also predicted size would be an important factor. The larger the number of workers employed in the enterprises, the more likely formal HR practices would be implemented. This hypothesis seems less significant among the sampled firms. Size could be an important factor leading to management adopting more formal HRM practices, at least in this study. However, other factors are more powerful in terms of influencing management systems and that makes the factor of size less relevant here. For example, E1 is the largest enterprise among the sample but it only reports some formal HRM practices.

The hypothesis regarding market orientation, namely ‘externally market-oriented enterprises are more likely to adopt formal HR practices’, is partly supported, in particular during the period of export-oriented policies dominating economic decision

making in the pre-WTO era. If enterprises rely on overseas markets, then the quality of products and services must be up to international standards. Consequently, international-oriented management systems, including HRM, may be likely to help them to achieve their goals. However, in the post-WTO era, the boundary between domestic and international markets becomes blurred. Eventually, MNCs see the Chinese market as part of the global one and the purpose of investing in China is part of a global strategy of market expansion. Among our sampled FOEs, most of them focus on the domestic market. For the indigenous enterprises, like SOEs and DPEs, market competition at home is not very much different from international competition anymore.

The hypothesis regarding sector, namely ‘new economy oriented or high value-added enterprises are more likely to carry out formal HR practices’, seems to be supported, given the fact that the majority of enterprises reporting more formal HRM practices are in relatively high value-added sectors, with more up-to-date technology and ‘know-how’. Enterprises with less developed HRM practices are related to the sectors they are involved in, such as agriculture-oriented production and labour intensive/low level production in the electronic industry, as their management style has more constraints.

The hypothesis regarding location, namely ‘coastally located enterprises are more likely to implement formal HR practices’, seems to be one of the most significant variables that help determine the outcomes of HR performance. It is true that enterprises located in the developed coastal region are under more pressure to innovate in order to be able to compete and survive, and adopting a formal HR system appears to be part of their strategy for achieving the goal. However, enterprises located in the inland areas, remote from competition and the influence of globalisation, are less concerned about formal HRM practices (eg. E4 and E12).

Finally, the hypothesis regarding history influence, namely ‘recently established enterprises that have a weaker relationship with the traditional State planning system are more likely to use formal HR practices’, is also supported, but with the opposite examples of two SOEs (E1 and E2), and to some degree of JSEs as well, that they have the obligation to fulfil ‘the will of the State’ but meanwhile carry the ‘burden’ of their history. In contrast, FOEs and DPEs are in a better position as relatively new enterprises

engaging in market-oriented business operation without much burden from the past.

Conclusion

Since China started its economic reforms in the late 1970s, its enterprises and management have changed dramatically. Characterized by high economic growth over two or more decades, it has become a 'magnet' for international production and investment. However, rapid change has also brought uncertainties and anxieties for the average Chinese citizen, and this is no less the case than vis-à-vis WTO accession. However, we are aware that generalizations about any or all of the factors discussed in this article must be cautious, given the limited nature of the 'snap-shot' study undertaken. Hence, future research should focus on the changes from an evolutionary point of view through longitudinal study.

In responding to the questions raised at the beginning of the paper, the following findings are set out here. Globalisation, a market-oriented economy, a multi-ownership system and an emerging new labour market have intensified the pressure on the government, trade unions, and enterprises, as well as on individual workers to find ways of surviving from year to year. In addition, the problem of income disparity between the urban and rural population and even between urban rich and poor has become even wider. The '*international division of labour*' has now been brought into the Chinese domestic domain even more with WTO accession; many more people are today engaged in high value-added 'hi-tech' industries and the new economy, with a higher income on the one hand, coexisting with a declining manual labour force working in labour intensive/low value-added industries and rural production. The latter are at least 'in work', alongside significant numbers being laid-off and unemployed but only with a minimum income (see Lee and Warner, 2004). Therefore, it is not a 'clear-cut' statistical profile, especially in terms of the alleged 'race to the bottom' (Chan and Chuen, 2001).

Furthermore, the imbalance between the shortage of skilled labour and oversupply of unskilled and semi-skilled workers will not be resolved in the near future, even though the policy on HRD at both national and enterprise levels has become so critical in recent

years (see Benson and Zhu, 2002).

Last, we would highlight the contribution of these empirical findings on the reactions of Chinese enterprises towards the challenges of globalisation and WTO entry: we find here a division between an active response through innovative strategies and new HR practices on the one hand (described as '*proactive*') and being passive and less dynamic towards challenges on the other hand (described as '*reactive*') (see Figure 1). Enterprises with foreign-ownership, or those transformed from SOEs to JSEs, are more likely to have *proactive* responses than SOEs and DPEs; enterprises located in the coastal region are more likely to have *proactive* responses than enterprises located in the inland regions; enterprises with weaker links with the traditional State planning system are more likely to have *proactive* responses than enterprises under the shadow of the past; enterprises that have experienced modern management systems and internationalisation are more likely to have *proactive* responses than enterprises with experience of the planning management system or the family business management system; enterprises in high value-added sectors and the new economy are more likely to have *proactive* responses than enterprises in low value added and labour intensive industries; and finally size and market orientation proved less significant.

Figure 1: Enterprise managerial reaction

		<u>VARIABLES</u>						
		Ownership	Location	History	Experiences	Sectors	Size	Market
<u>MANAGERIAL RESPONSE</u>	<i>Proactive</i>	FOEs/JSEs	Coastal	New	Modern management Internationalisation	High-value/ New economy	No difference	No difference
	<i>Reactive</i>	SOEs/DPEs	Inland	Traditional	Planning system/ Family business	Low-value/ Labour intensive	No difference	No difference

These conclusions have both theoretical as well as empirical implications for the way Chinese HRM is likely to develop in the future. Certainly, a formalised HR paradigm mainly exists in FIEs and there are clearly gaps of management policy and practices between foreign and indigenous enterprises. However, WTO accession may enable the influence of foreign ownership to become even more profound. Our study, therefore, we believe, demonstrates that the current HR practices possess both *diverse* as well as *transitional* characteristics, that is, those depending as much on the level of involvement from external forces, as on strategies adopted by specific enterprises to survive. They are diverse, in that there is no one model extant and they are transitional in that they are mainly short- and medium-term adaptations to the challenges of globalisation rather than long-term ones, whether reactive or proactive. It is for this reason, as well the limitations of the study undertaken, that we are cautious about over generalisation as well as projecting present trends too far into the future.

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