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Chinese Human Resource
Management in Transition –
Trends and Challenges seen
through European Eyes

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1 Introduction

Since the beginning of China's Open Door Policy in the late 70's China, has experienced tremendous economic, institutional, legal and cultural change. So far, in research much attention has been devoted to the changes in the macro-economic context and its impact on the economy as well as its development as a whole. Over time the exposure to market forces and the increasing international integration of China's economy, however, has also brought about remarkable changes on microeconomic level. This paper will take a closer look at the changes of Chinese Human Resource Management.

According to the author's view it is basically the dynamic effects of three interrelated parameters that have shaped Chinese HRM practices and that constitute the actual HRM issues and challenges in China:

1. The evolution of China's Industrial Relations System since 1978
2. The prevailing forms of enterprise ownership in China
3. The progressing global integration of Chinese companies

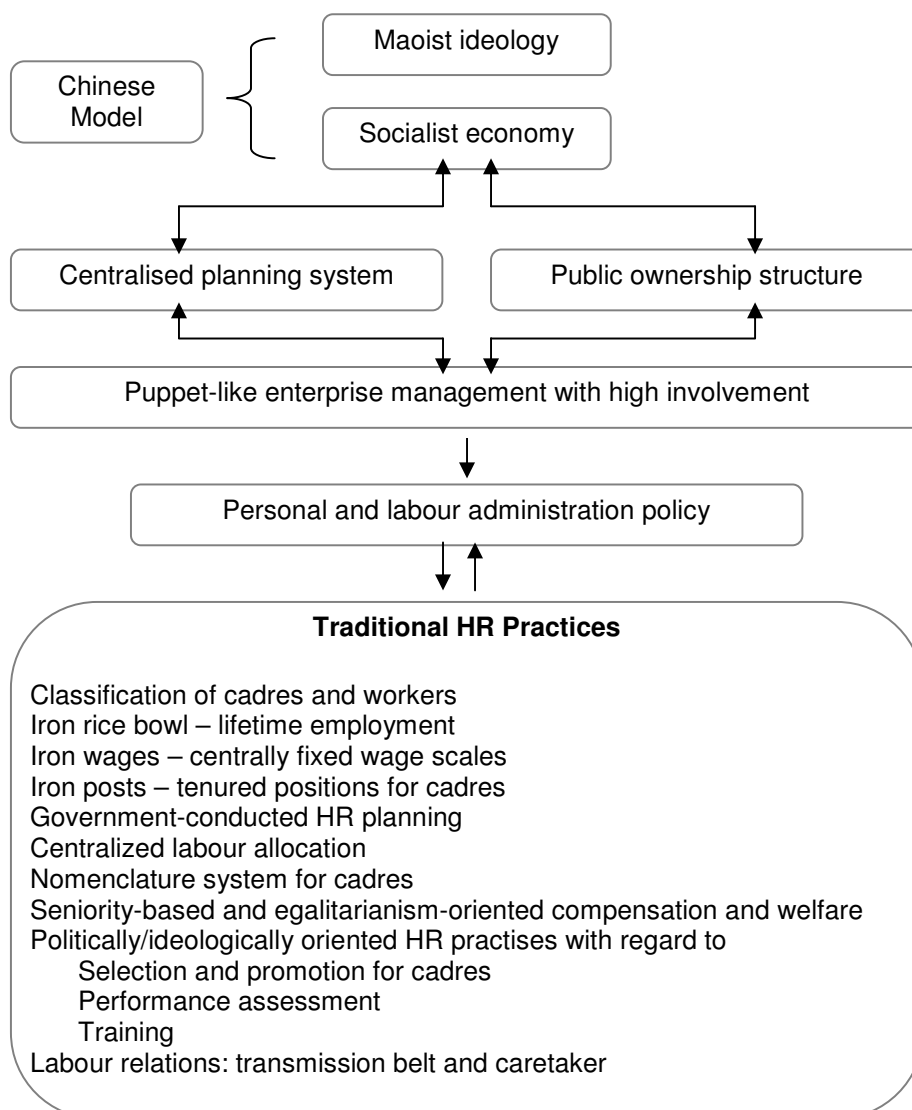
The considerations of this paper are of an exploratory character. They should help to better understand the current situation and evaluate possible future developments. They are based on the analysis of secondary data and on a review of studies concerning the respective parameters. Furthermore, they draw on the information gained from a small number of informal interviews with Chinese experts, colleagues and students during the author's recent teaching stay at East China University of Science and Technology in Shanghai. The aim is to contribute to the generation of hypotheses concerning the nature and future development of Chinese HRM.

2 1978: At the outset of China's economic reforms

From 1949 - 1976, the communist regime under Mao Zedong imposed strict controls over every day life in China. The country was governed as a centrally planned economy. Almost all industries were either owned and run by the state (Public Ownership) or by collectives in the case of smaller and medium sized enterprises (Collective Ownership). All resources, including labour and management, were acquired by public administration and then allocated to the production units. Workers and managers (cadres) were assigned to the organizations and daily life was based on socialist systems, "such as the 'iron rice bowl' (tie-fan-wan) and 'iron wage' (tie-gong-zi), which ensured 'jobs for life' and a 'cradle to grave' welfare policy (Warner 2004). Each state owned enterprise (SOE) was, in effect, a 'company town' or, as sociologists dub it, almost a 'total institution'. Individual workers were thus born into, educated by and spent all their working lives in the institutionalized danwei (work unit) and then enjoyed their retirement, thanks to it" (Jie Shen; Edwards 2006: 7) As the enterprises were not allowed to decide about employment and utilization of their workforce, this approach often resulted in overstaffing and a mismatch of skills with enterprise needs. Dismissing workers or cutting down the workforce was almost inconceivable. Selection, wage fixing, performance assessment and

training were not prerogatives of the company management. Every employee - from the top leaders down to the shop floor workers were automatically members of the quasi-public Trade Union: the All China Federation of Trade Unions (ACFTU). The union itself functioned and acted as a kind of transmission belt of the Communist party on an enterprise level to keep political control of all enterprise activities. The union's role was confined to being a kind of watchdog and taking care of the employees' welfare and family matters. The personnel department was solely in charge of administration, discipline, conformity and punishment. The pre-reform set up of Chinese HRM is well illustrated by the figure below:

Figure 1:



Source: Adapted from Zhu, C.J. 2005, *Human Resource Management in China*, p 33

Deng Xiaoping (1904-1997) is mostly regarded as the chief architect of China's reforms starting in 1978. He was a prominent leader of the Chinese Communist Party (CCP) and after 1978, the dominant figure in Chinese politics (Xin-An Lu; Jie Lu 2008: 206-207). Deng's ideas developed in the early days of his period in office, were aimed at unleashing rural and urban economic and administrative transactions equally. In principle, his basic ideas already indicate some traits of later and current developments within the field of HRM and Industrial Relations. "Different from Mao's people's commune system, Deng's policy allowed farmers to manage their own piece of land and to directly benefit from their own labour according to a system of distributed responsibility, thus greatly arousing the enthusiasm of rural China. Scientific management methods were adopted to improve the efficiency of state owned enterprises and to allow the emergence of private enterprises."(Xin-An Lu; Jie Lu 2008: 23). Deng emphasized that China had to take note of the development of science and management in the Western world and envisioned the benefits of opening to and learning from the outside world by attracting foreign experts and flexibly facilitating the import of foreign resources (ibid). He criticized lifelong tenure of party leaders and government officials with promotions merely determined by seniority. He stressed: "Only with a vigorous leadership that has eliminated bureaucratism, raised efficiency and mobilized the grass- root units and the rank and file can we have real hope of success in our modernization drive" (Deng 1994, cited ibid).

3 From 1978 to now

3.1 Decentralization of HRM

From 1978 until today, China has transformed its centrally planned economy to a 'socialist market economy'. The reforms after 1978 began by allowing enterprises to retain a part of the profit. Thus managers and workers, as a first step, were given a certain incentive to improve performance. One of the next steps in the course of the 80's was the implementation of a price reform which authorized and forced the 'cadres' or leaders of the public enterprises to manage business transactions on the basis of market prices. This also substantially affected the labour management relations. With regard to HR, the price reform gradually led to first steps in the formation of a labour market. Over time, a decrease in the state's extensive responsibility for personnel administration was compensated by an increase in the enterprise's management authority and responsibility for Human Resources. "Over the past twenty years, more than twenty pieces of legislation affecting employment relations have been introduced. The directions of the reform allow enterprises increasingly to recruit, allocate and reward people according to their competence" (Benson et al. 2000). The flexible deployment of workers has been enhanced by individual contracting and, to a certain extent, individual compensation schemes, which recognize differences in educational background, skills, training and work effectiveness (Jie Shen/Edwards 2006: 10).

In 1994, the reforms had reached a stage and brought up so many HR issues in Chinese business life, that the Chinese government felt the need to synthesize and codify the various legal norms and measures in the area of Labour within a comprehensive Labour Code, the Labour Law of the People's Republic of China. Figure 2 gives an overview of the HR items touched on by the new Labour Law.

Figure 2:

LABOUR LAW OF THE PEOPLE'S REPUBLIC OF CHINA

ISSUED: Adopted at the Eighth Meeting of the Standing Committee of the Eighth National People's Congress on July 5, 1994, promulgated by Order No.28 of the President of the People's Republic of China on July 5, 1994, and effective as of January 1, 1995

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Source: <http://www.jus.uio.no/lm/china.labour.law.1994/doc.html>

In many respects, the legal norms of the labour code reflect important conventions and recommendations passed by the International Labour Organization and are in line with a good number of legal provisions also common in Western countries. With regard to the further development of the Chinese economy, the implementation of the norms of the new labour code proved to be difficult. In the course of time, a number of provisions had to be amended and clarified by later laws and regulations. Although China has ratified a number of ILO-Conventions, so far it has abstained from ratifying one of the core labour standards of the ILO, namely Convention No. 87 on 'Freedom of

Association and Protection of the Right to Organize'. Convention No. 87 is closely linked with the right to strike. Strike as a means to achieve higher wages and better working conditions is, so far, regarded illegal in China.

In the author's opinion, there are, as yet, numerous differences in Chinese HRM compared with the substance and form of HRM practices of Western companies. Due to cultural differences as well as the very cautious piecemeal approach of government which is afraid of losing control over the economy, the evolution of China's industrial relations system and the implementation of new HRM practices in State Owned Enterprises (SOE) and in Collective Owned Enterprises (COE) has developed in a relatively conservative, clumsy and sluggish manner. The majority of SOE's and COE's have established almost all of the HR functions you find in Western companies but, due to cultural factors, they are implemented in slightly different ways. I will come back to this later.

Figure 3 illustrates HR features of the old employment system and the HR features of the new market driven employment systems

Figure 3:

Employment systems in Chinese enterprises	
OLD	NEW
Plan	Market
Cadres	Managers
SOEs and COEs	Diverse owners
Life-time employment	Labour contracts
Personnel management	Adapted-HRM
Flat reward structure	Performance-based wages
Zero labour turnover	Greater job mobility
Few dismissals	Labour discipline
Free medical care	Contributory insurance
Subsidised housing	Market rentals or sales
All-China Federation of Trade Unions presence	Often no union or Congress
Top-down IR	Tripartism

Source: HRM in East Asia in „International Human Resources Management, 2nd edition“/Zhu Y. and Warner M. 2005, p 211

3.2 Forms of ownership and its impact on Chinese HRM

A very important element of the reforms which impacted on Chinese HRM was the changes in China's property laws and regulations. Apart from giving more authority and autonomy to local officials and enterprise managers, the government permits the establishment of private small- and medium sized enterprises in manufacturing and services. Furthermore, it allows and encourages an increase of incoming and outgoing foreign trade and foreign investment. The outcome is the emergence of a variety of ownership forms.

Profitable SOE have been transformed into joint stock companies. Others have become part of foreign invested joint ventures. Besides this, the establishment of township enterprises and/or conglomerates of such undertakings have been made possible. Currently, there are 4 main forms of ownership in China. On the one hand, they represent different patterns of HRM practise, but, on the other hand, they are also interrelated in so far as they influence each other and push the government to move forward in developing and streamlining China's Industrial Relations System.

The 4 types of ownership are:

- **State Owned Enterprises (SOE)**
- **Collective Owned Enterprises (COE)**
- **Private Owned Enterprises (POE)**
- **Foreign Invested Enterprises (FIE)**

Analyzing and assessing these forms of ownership as to their HRM, one must note that they represent different patterns and, to a certain extent, even different stages of HRM. During the era of the centrally planned economy, the differences between SOE's and COE's concerning HRM appear to be marginal and mainly formal. Whereas SOE's were under direct control of the state government, COE's in many cases were set up by local or district governments and represented in the form of township and village enterprises (TVE's) a kind of localized socialism. Theoretically, COE's are expected to differ in their HR practices from SOE's because of their differing ownership relation. Practically, however, the differences are relatively insignificant. In the course of the last 30 years since the beginning of the reforms, COEs have usually been smaller than SOE's and have had more casual relations with the state. They seem to be slightly more flexible with regard to their HR practices. But like SOE's, in their management practice they are still influenced by their quasi-governmental past. In present day SOE's and COE's one finds that, by and large, all of the relevant HR functions are represented and managed by HR staff. The style of practicing the HR functions, in many cases however, is still influenced by the 'old times' and shows typically Chinese characteristics. The system of corporate governance in SOE's and COE's still attracts considerable attention by the public authorities and the Communist party on the company's dealings. As a result of this, the philosophy of lifelong employment, job security, flat wage structure etc are still in the minds of many people. Generally, current labour law provides protection to all employees against individual and unfair dismissal. When companies experience economic difficulties, or if restructuring is required, management is entitled to lay off staff and even decide who will have to leave, after consultation with the ACFTU and the respective government authorities. Unlike private companies and companies, who have been transformed into joint stock companies, management of SOE's and COE's are, due to their traditions, said to be reluctant to raise efficiency by massively cutting down on personnel. Theoretically of course, productivity and competitiveness can also be improved

by measures such as adequate training and development and performance oriented compensation and reward policies. The people concerned, however, complain and case studies (Zhu, C. J. 2005: 46-69) confirm that activities in these HR areas are very often underdeveloped and leave much to be desired. In many companies, Job related training is only offered to new workers as a kind of induction training. Systematic performance management based on a standardized and transparent performance appraisal system is the exception rather than the rule. This means that clear criteria for feedback on pay, training and development, promotion, transfer etc are not available. This may partly be explained by the cultural characteristics of 'Paternalistic Leadership' – i.e. Authoritarianism, Morality, and Benevolence – which is regarded as typical for management attitudes and behaviour in traditional Chinese organizations (Jiing-Lih Farh et al. 2008: 171-181). Concerning pay systems, one may find premium and piece rate systems for determining the wages of certain groups of workers. The calculation of the piece-rates is mostly based on the minimum wage determined by the regional government authorities. Performance related variable pay based on performance appraisals, however, in China functions differently from Western performance management. According to statements of participants of my classes in Chinese MBA programs, the supervisor's decision about the relative size of individual bonus payments, for example, is frequently influenced by a 'central tendency or leniency behaviour' of supervisors and/or a dependence on good personal relationship between subordinate and superior.

The official trade union, ACFTU, in SOE's and COE's has not yet developed a new organizational culture which would allow it to redefine its role towards becoming a truly autonomous organization. The main task of which would be struggling for the interests of its members and negotiating with management for wage and salary increases and other labour relation issues of workers and employees. But it can be expected that market competition will, over time, increasingly pressurize SOE's and COE's to develop patterns of HRM practices that also take into account the needs and expectations of the employees concerning income and job satisfaction. Chinese Management will learn that working with motivated employees who feel inclined to stay with their employer will contribute to the company's competitiveness in the long run.

The role of SOEs within the Chinese economy in terms of output value and employment has continuously decreased over the past 30 years. Back in 1980 nearly 99% of GNP came from state or semi-state ownership forms. As it can be seen from the table below the share of SOEs has, in the mean time, been reduced to a mere 11 % of industrial output.

Table 1:

Share of Gross Value of Industrial Output by Ownership Forms

Year	SOEs(%)	COEs(%)	POEs(%)	Others(%) ^d
1980	75.97	23.54	0.02	0.48
1990	54.60	35.62	5.39	4.38
1999	28.50	38.50	12.0	21.00
2003	11.10			

d = enterprises of other ownership forms like foreign companies, international joint ventures etc.

Source: Adapted from Zhu, C.J. (2005) p 12; and Jie Shen/Edwards (2006) p 9; based on China Statistical Yearbook

The table also shows that China's economic development is characterized by a tremendous increase in the role and importance of Private Owned Enterprise (POE) and Foreign Invested Enterprises (FIE). HRM practices in China as well as the challenges for further government policies in the area of China's Industrial Relations, are heavily affected by this development.

Concerning the private owned enterprises, we cannot assume that relatively uniform patterns of HRM will prevail in this sector. This is because of the fact that the POE sector consists of enterprises which differ considerably in terms of size, legal form, and funding. Individually funded enterprises, Private Partnerships, Private Limited Liability Companies and Private Shareholding Companies, for example, are to be found. The predominant form of Private Owned Enterprises in terms of number of companies and employees, are small and medium sized enterprises (SMEs). Regarding SME's, the HRM practices of Chinese SME's show, similar to other countries, a relatively low degree of formalization. They are mostly managed on an ad hoc basis and lack any professionalism. (Zhu, C. J. 2005: 98-122). Typically there is a lack of long-term orientation due to the uncertainty and insecurity surrounding private business in China. Many of these businesses practise a hire and fire policy, have informal selection procedures, offer training only for new workers, and tend to pay minimum wages and if bonuses are paid at all, then at the whim of the superior.

A bulk of people who had previously been working in SOE's are now working or seeking jobs in the private sector. Part of the private enterprises are organizational units and side businesses that formerly belonged to SOEs and were privatized in the course of the reform process. Since Chinese labour law has established a market oriented employment mechanism with free choice of jobs by employees and with autonomy of the employer to recruit and select staff but also to lay off surplus staff , many people have left the SOEs and found new

employment in the private sector. Between 1998 and 2003 overall employment in China's SOEs decreased by 28.1 million workers and employees who had to be reemployed elsewhere. (Xinhua 2004, with reference to http://www.chinadaily.com.cn/english/doc/2004-04/26/content_326356.htm.)

A large influx to the private sector has also come from masses of migrant rural workers trying to make a basic living in the urban industrialized regions. The newspaper Xinhua (2004) speaks of a total of 113.9 million rural migrant workers in 2003 out of which 70% headed for the urbanized eastern areas (http://www.chinadaily.com.cn/english/doc/2004-05/15/content_330991.htm).

Hence the labour market of the growing private sector is marked by fierce competition among the various groups of job seekers. Many POE- employers exploit this situation. Hire and fire, lack of protection, lack of social welfare and low pay, mostly on minimum wage level, has become a typical and widespread feature of HR-practices in small and medium sized POE's. Over the years, the situation has worsened. In the past, the labour contract system did not necessarily mean that employees were always recruited on the basis of a written labour-contract which stipulated the concrete conditions of employment. It has been a widespread practice to hire employees without a written contract. As a consequence, the social and economic situation of the people working for POEs has become very unstable and threatening. The Chinese media frequently report about embezzlement of wages or long delays in paying wages; employers neglecting to insure their employees; extremely long working hours and other infringements of workers' basic rights. Employers frequently terminate employment of individual employees overnight without giving any prior notice. Conversely and in many instances, the employers have also been troubled by employees who quit the company from one day to the next because they have "supposedly" found a better job.

This deficiency of current HR practices has become one of the major issues and challenges in the area of HR and Labour-Management relations in the recent years.

With two different policy measures – a revision of the Trade Union Law and the promulgation of the New Labour Contract Law – the Chinese Government has tried to achieve improvements and increased efficiency of current HR practices. But at the same time these policies also aim at gaining stronger political control of the private sector. Trade union representation in POE's is very low and weak. Employers of SME's try to avoid the establishment of a union that might act as a watchdog in their company. Equally, many of the employees find that it is by no means attractive being represented by a union which, by law, acts as the sole and uniform nationwide trade union. They are reluctant to pay membership fees to an organization that is controlled by the Communist party and that is not really capable and willing to effectively struggle for the interests of the members.

In 2001, the Trade Union Law of 1992 was amended in order to achieve broader trade union coverage in the non-state sector. China Labour Bulletin, a Hong Kong based NGO and critical observer of Chinese HRM takes note and reports about that amendment: The law stipulates that enterprises with more than 25 members shall set up a trade union committee (Article 10). According to Article 6 of the revised law the duties and functions of the trade union are "to

safeguard the legitimate rights and interests of workers and staff members. While protecting the overall interests of the entire Chinese people, trade unions shall represent and safeguard the legitimate rights and interests of workers and staff members". But the law also stipulates that the "All-China Federation of Trade Unions shall be established as the unified national organization" which in its role as a "trade union organization at a higher level shall exercise leadership over a trade union organization at a lower level" (Article 6) (<http://www.clb.org.hk/en/node/7031>).

The second thrust of government is related to the problems connected with unwritten contracts as well to the question of how to achieve higher wages, better training and working conditions for the workers and employees. The New Labour Contract Law that took effect on 1 January 2008 takes account of these issues. Parts of the law are heavily disputed by the employers' side. The law clearly stipulates "To establish an employment relationship, a written employment contract shall be concluded". It further makes clear that the "conclusion of employment contracts shall comply with the principles of lawfulness, fairness, equality, free will, negotiated consensus and good faith. A lawfully concluded employment contract is binding, and both the Employer and the worker" shall perform their respective obligations stipulated therein." And Article 6 strengthens the position of the employees by explicitly assigning the trade unions with the task of "assisting and guiding workers in the conclusion of employment contracts with their Employer and the performance thereof in accordance with the law, and establishing a collective bargaining mechanism with the Employer in order to safeguard the lawful rights and interests of workers." Herewith, the Government has, very guardedly, started to redefine the role of the trade union by holding it responsible of actively taking care of the employees' interests. Perhaps the new labour contract law may be regarded as a very cautious and small first step towards a future establishment of a collective bargaining system. Even a critical voice from the director of China Labour Bulletin, a Hong Kong based NGO, expresses certain hopes with regard to the new Labour Contract law: "But if the All-China Federation of Trade Unions (ACFTU) and its branch unions grasp the opportunity presented by the *Labour Contract Law* at this key juncture, I believe that after a couple of years of finding their way and gaining experience, the unions ought to be able to create a genuine and effective collective bargaining system in China. In addition, a well-designed collective bargaining system would also lay the foundations for grassroots unions. Right now, the vast majority of "trade unions" in enterprises are controlled by the management. They do not speak for workers and, in fact, do not even listen to the higher-level unions that are supposed to supervise them. Thus, by developing collective bargaining at the grassroots level, enterprise-level unions will be transformed into labour organizations that genuinely represent the rights and interests of workers and once again have become a functioning part of the ACFTU. In short, a collective bargaining system can fundamentally protect workers' rights and provide the ACFTU with an excellent opportunity to rebuild itself as a genuinely representative trade union" (<http://www.clb.org.hk/en/node/100210>).

Another provision of the law that has been very much disputed by the employers regulates the unlawfulness of consecutive fixed-term employments. Article 14 states that every employee after having concluded 2 fixed-term contracts with the same employer shall be entitled to get an open ended labour

contract. This provision might encourage the employers to pay more attention to training and development of employees.

A Chinese judge who is an expert on Chinese labour law and labour court practices reported to me that, since enforcement of the new contract law, the number of disputes that have been brought before the court has increased tremendously. According to him, the new labour contract law has crucially strengthened the position of the workers to exercise their rights vis-à-vis the employer. He thinks that the union could and would do even more if it were a juridical person and could sue the employer. As the trade union, however, does not have the status of a juridical person its assistance is limited to giving advice, consulting and mediating with regard to the resolution of recurring disputes.

The Chinese administrative system allows legislative measures on a provincial or municipal government level as long as such legislation does not contravene central law. Shenzhen Special Economic Zone, where a great number of foreign companies and foreign invested joint ventures reside has, since the beginning of the reforms, served as a kind of laboratory for central government to test the effects of free market oriented regulations. Shenzhen has, for years, been known for increasing conflictuous labour relations. Currently, the 'Draft Regulations on the Growth and Development of Harmonious Labour Relations in the Shenzhen Special Economic Zone' are being put before Shenzhen municipal legislature. Probably with the silent consent of central government – perhaps intended and carried out as a kind of pilot project -, the draft regulations for Shenzhen Special Economic Zone concerning the employment relationship, go even further than the New Labour Contract Law. Article 10 of the draft states that companies must establish a 'Mechanism to regulate labour relations' and suggests that 'enterprises establish a system of dialogue with workers and hold face-to-face meetings to listen to workers' opinions, proposals and other reasonable demands.' Article 24 states that the 'collective consultation process' must encompass procedures and rules for the 'prevention and handling of labour disputes. These articles together with Articles 44, 45 47 that refer to a 'comprehensive mediation' system for disputes, a 'special mediation' system for major disputes and 'negotiations' between the trade union and management in case of 'work stoppage' (strike) obviously lead Shenzhen industrial relations and the HR practices associated herewith in a direction of genuine 'collective bargaining' (China Labour Bulletin 2008: <http://www.china-labour.org.hk/en/node/100292>). It is the first time that a regulation explicitly refers to the phenomenon of 'work stoppages'.

The policy measures described above aim at a solid and effective stabilization of China's employment relations that will bring down the unacceptably high turnover rates and thus contribute to raising the quality and competence of the Chinese workforce as well as of Chinese HR-Management.

3.3 Global Integration of Chinese Companies- Its significance for HRM

Chinese economic reforms are not limited to the establishment of market mechanisms within the economy. They are equally aimed at slowly opening the country to the outside world and driving the country forward towards an increased global integration of the Chinese economy. Particularly since China's accession to WTO in 2001 internationalization of Chinese companies has considerably increased. The internationalization has evolved in two ways. On the one hand the volume of FDI flowing to China and the number of foreign invested companies operating in China has multiplied. An estimate in 2004 supposes that there were about 78.000 foreign companies and in addition 74.000 businesses from Hong Kong, Macao and Taiwan operating in mainland China

(http://findarticles.com/p/articles/mi_qa5478/is_/ai_n21391240?tag=artBody:col1).

On the other hand, Chinese companies have also successfully started to internationalize by entering the global market and by establishing subsidiaries in foreign countries. Companies like 'China Ocean Shipping Group', 'China National Petroleum Corporation', 'China, Shanghai Baosteel Corporation', Haier Group Corporation and several other Chinese Companies have, in the course of the time, become truly multinational companies with large volumes of foreign assets and foreign sales. By 2002 about 7.000 FDI projects (ie foreign subsidiaries) of Chinese companies were involved in trade, transport, resources exploration, manufacturing and other operations in 160 countries (Jie Shen/Edwards 2006: 13, based on UNCTAD figures from 2002).

Quite some research has been done so far with regard to HRM practices of foreign subsidiaries and foreign joint ventures in China. One common finding in most of the studies is that, compared with domestic Chinese enterprises, the scope of HRM practiced in foreign companies is more comprehensive and the HR tools used in these companies are more elaborate. Zhu's study (Zhu 2005: 123-242) of HRM in Foreign Invested Companies (FIEs), which consists of interview based case studies as well as a questionnaire based survey – although the empirical research work already dates back some years – gives a very good picture of the status and the trend-lines of HRM in these kinds of companies.

From Zhu's study, it can be concluded that foreign companies being active in China from the beginning tend, of course, to transfer their home HRM practices to the new establishments. In the case of Western multinational companies, HR is relatively highly developed at the home base and in Western affiliates. In the Chinese subsidiaries of foreign companies, therefore, you will find a wider scope of HR tools. But mostly the way that they are implemented in a Chinese environment will be different from their concrete application at their respective parent companies. This is due to Chinese traditions and culture. As far as HR planning is concerned, FIE's mostly carry out their planning in order to have overall control of employee numbers. Recruitment and selection follow a standardized procedure; are mostly merit-based and use interviews and tests as selection techniques. For wage administration purposes, the average foreign company will also conduct formalized performance appraisals. Compared to

current practices, the foreign managers would probably mostly prefer to have compensation more strongly linked to performance and to use performance appraisal for feedback. But due to the impact of a culture shaped by collective orientation of the people, wage differentials in China cannot be too large and direct personal feedback might make the employees feel uncomfortable. Training is carried out mainly in the form of on-the-job training and is felt necessary to solve emerging production problems. But for most of the HR functions and tools it can be observed that as far as the application is concerned, there is quite a considerable gap between theory and local practice and between the substance of home practice and local practice in a Chinese environment. Nevertheless, it can be assumed that Chinese managers working for FIE's will, over the years, take over a number of tools developed in foreign companies and adapt them according to their local conditions and needs. The degree of implementing foreign HR tools and practices in Chinese companies will depend on how far Chinese managers feel that these HR-practices are conducive to raising competitiveness of their companies.

If we look at outward internationalization of Chinese companies current research findings also suggest that Chinese HRM is increasingly influenced by HR experiences made in their subsidiaries in foreign countries (Miao Zhang 2003; Jie Shen/Edwards 2006). The findings of both studies are based on a number of in-depth case studies. Their main concern is to investigate up to which degree Chinese multinationals use their foreign subsidiaries for organisational learning and for transferring 'best practice' in the area of HRM back to the home country and possibly to other foreign subsidiaries. The companies investigated are of different industries or services, of different size and different degree of internationalization. Besides a lot of interesting information concerning company specific details of HRM the studies contain general findings that are very important for the purpose of this paper: Chinese managers, mostly working as expatriates at the top of the foreign subsidiaries, did not try to copy Chinese HR practices in their foreign subsidiaries. Being assigned from Chinese headquarters to a foreign subsidiary, the main purpose was to retain overall control of foreign operations. Of course strategic decision making and communication between subsidiary management and headquarters were handled the Chinese way. But with regard to the day to day operations of their foreign companies Chinese management tried very hard to adapt to and learn from the local practices. Being aware that it is rather difficult for foreigners to understand the unfamiliar system of industrial relations and the habits and expectations of foreign employees, they leave the practical handling of HR issues to the local managers and accept that HR was carried out according to local standards. Thus the empirical findings confirm Bartlett/Ghoshal's (1989) theory that worldwide organizational learning and the global adoption and diffusion of best HRM practice within a multinational company is critical to its success and competitiveness. This also applies in a Chinese context.

4 Conclusion

Since the beginning of China's open door policy, Chinese HRM has gone through substantial changes. But the transition of Chinese HRM has not yet come to a halt. The examination of the factors determining the pace and shape of HR transition shows that it is mainly influenced by the close interrelationship between 1. governments' industrial relations policies on central, province and municipal level, 2. the different types of enterprises that have evolved over time, and 3. the influence of globalisation. With growing significance of market forces this interrelationship has triggered off a dynamic and ambiguous development which continuously produces new challenges for employers, labour and government. For a certain group of companies, particularly the larger ones and companies with international relations, the changes may result in a remarkable widening, enrichment and modernization of HRM. On the other hand, the growing autonomy and discretion of employers in decision making has led to unacceptably poor working conditions and excessively insecure employment in many small and medium sized enterprises. Government appears to be in a dilemma. In order to strengthen the role of labour in HR matters it must loosen its grip on workers and liberalize the possibilities of workers and employers to organize freely. It must give more room for free collective bargaining and endow workers with the power and means to effectively struggle for their interests regarding wages, working conditions and other HR matters. On the other hand, government should fear that this might end up in a situation where it completely loses control of the economy and cannot keep course any more on its way to strengthen and develop the 'Socialist market economy'.

Regarding scope and kind of tools, under market conditions Chinese HRM most probably will adjust to standards of companies from advanced economies and increasingly adopt foreign HR practices. It can be expected that the future institutional environment in China will pave the way for these developments in Chinese HR.

But the increasing adoption of foreign HR practices in China does not mean that they will be implemented and handled the same way as in other countries. The features of Chinese national culture will somehow relativize the transfer of new HR practices in Chinese enterprises. Cultural differences may act as a constraint and limit both the motivation and ability to accurately absorb and adopt HR practices typical for countries with a differing culture. There is widespread agreement amongst researchers that Chinese culture can be described as high in 'power distance', moderate in 'uncertainty avoidance' low in 'individualism' (i.e high in 'collectivism'), low in 'universalism' and high in 'egalitarian orientation' (Miao Zhang 2003: 616; Hofstede 2005; Trompenaars 2004). Even if it may be expected that Chinese HRM in future will encompass all HR functions and activities that are to be found in enterprises of advanced capitalist market economies, the concrete ways of handling of HR matters such as the established magnitude of wage differentials; the proportion of fixed and variable pay in management compensation; the purposes of using performance appraisals; kind and quality of feed back practice, preferences as to the criteria governing selection; training and development; styles of leadership and patterns of communication and motivation will largely be influenced by these cultural traits and will modify Chinese HRM. It can be assumed that the formal set up and scope of HR-systems, i.e. its 'hardware' will be determined by

institutional factors. Within the prevailing international market environment the 'hardware' will become similar to Western systems in China. But it may also be assumed that cultural particularities of the country will influence the inner quality, its 'software', thus shaping the particular ways in which the HR systems are used in daily HR management. China's HRM - development tends towards a 'hybrid' model combining Western HRM tools with Chinese authoritarianism and neo-corporatism.

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