

Chinese Human Resource Practices at the Firm Level: The Migrant Worker Issue

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Abstract

China is in transition. As such it contains a diversity of practices; residues from the past exist alongside modern, global ways of working and managing. This is very evident if we look at the question of recruitment, retention, labour turnover and labour mobility within the firm. This paper draws upon a case study of HR practices from a Jewellery factory in Shenzhen, Guangdong province, which we call JEWELLERY-CO. It argues that managers have, compared with the situation in the State-Owned Enterprises (SOEs), expanded their power over labour hiring and firing. That following established Western practice, decisions on selection, internal labour allocation and labour retention are largely made at the enterprise level, by managers acting autonomously, free from state or worker direction. Interviews with managers reveal a strong desire to maintain this local power. Power is exercised through the short-term nature of employment contracts, housing of migrant workers in industrial dormitories, a graded wage system, fines and deposits to retain labour and both a paternalistic and directive or authoritarian management style. Yet such powers do not go unchallenged and are partial, with the autonomy of management constrained by several forces. Firstly, local state actors can place employees in the firm, using “political *guanxi*”, or connections. Managers are unable or unwilling to refuse workers referred through these elite, politicised channels. Secondly, worker-referred networks of recruitment continue to operate to place workers in the firm, despite the formal opposition of senior management to such connection-based forms of recruitment. Thirdly, kin-ethnic and work-based forms of referral can operate to distribute workers internally, acting against formal principles of merit or ability based allocation to which senior management formally subscribe. Finally, workers can express opposition through ‘wild-cat’ industrial action, which while rare, nevertheless periodically reminds management that there is an H in HRM, and that workers cannot be treated as disposable and replaceable resources.

Introduction

China has undergone significant economic reform over the past two decades. The goal of reform has been to move away from the mandatory central planning to a market-oriented system. Outcomes of the reform process have been the emergence of a variety of ownership forms (Naughton, 1995) and labour reforms (Han and Morishima, 1992; Maurer-Fazio, 1995). Ownership reform aims to change the predominately state ownership pattern to new forms of ownership structure, replacing government direction with enterprise autonomy. The result has had a substantial impact on employment in state-owned enterprises (SOEs). From 1998 to 2001, over 25.5 million state-owned enterprises (SOEs) workers were laid off, representing more than one in five employees (*China Daily*, April 30, 02). Meanwhile, SOEs declined steadily from 76 per cent in 1980 to 29 per cent in 1999 (*State Statistical Yearbook*, 2000). Nolan and Wang (1995:183) indicate that by mid-1990s, 99 per cent of total industrial enterprises were *not* owned by the state.

The thrust of the ownership reform has been the 'open-door policy' and has produced a rapid growth of enterprises in the private sector including privately owned enterprises and foreign-invested enterprises (FIEs). From 1995 to 1999, SOEs declined by 48 per cent, while private firms grew 8 per cent per annum over this period (see *State Statistical Yearbook*, 2000). SOEs share in the economy, declined from around 76 per cent of total industrial output in 1980 to just 28.5 per cent in 1999 (Zhu and Nyland, 2002: 860). This shift to a more decentralized and flexible labour market has meant that the location and social relations of the Chinese working class has changed considerably. By the end of 2001, there were about 135 million people working in the private sector (*State Statistical Yearbook*, 2002) and there were about 150 million surplus rural labourers flooding into cities for jobs (*China Daily*, April 29, 02). From 1998-2002 around 30 million SOE workers were laid off yet China's economy continued to advance. The private economy grew at an annual rate of 20 per cent, faster than the growth rate of the national economy at 9.5 per cent over the two decades (*China Daily*, April 30, 02). By the end of 2001, annual per capita wages for urban workers had reached 10,870 RMB (US\$1,309), 16.3 times the figure for 1978 (*China Daily*, April 30,02).

Summarising these changes a recent book on HRM in China noted:

'Old HR practices have undergone unprecedented changes: the responsibility for labour allocation has shifted from a centralized planning authority to forecasting and planning departments within enterprises; a contract labour system has replaced traditional lifetime employment; open competition replaced authority-nominated cadre appointments for managerial positions; and production and reward systems moved from emphasizing egalitarianism to rewarding efficiency and performance. Managers in China have started to show an increased interest in using HR practices, such as compensation and motivational systems, to increase productivity at the individual, group and enterprise level' (Zhu 2005: 17).

China with its gradual reform rather than shock therapy appears to have been more successful than Eastern Europe in managing a transition away from the command economy (Guthrie, 1999; 2006). At the same time several important questions remain, in particular with regard to labour relations. As Goodall and Warner (1998) point out, a degree of caution is necessary in any categorization of 'local' practices in China, as local government responses to the labour reform vary from region to region. This paper offers an in-depth case study of the current situation and current dilemmas concerning labour relations at a Sino-Hong Kong joint venture in Shenzhen, Guangdong. The purpose of the paper is to examine management-labour relations, employment practices and human resource, and the extent to which the Joint Venture (JV) case study was able and willing to implement market-driven labour management practices. Managing human resources are considered as more of a key to profitability in China than infusing additional capital or installing the latest technology (Kearney, 1999). The paper looks at the meaning of HRM when the workforce is migrant. It suggests that the flow of labour through the firm, the short-term contractual engagement and the peasant-worker status of employees makes produces a particular type of employment relationship, than is unique to China. The paper challenges the institutionalists, such as Guthrie (1999; 2006) who suggest that the adoption of business institutions, the labour market, private property and labour law, all push China down a path of 'convergence' with the West. The paper is closer to the work of Lee (2007), who suggests that the peasant-worker status of Chinese migrant workers gives them a loose attachment to the enterprise and waged labour. Lee has explored the implications of this for labour protest, whereas we want to look inside the labour process and employment relationship and examine the implication of managing people when the labourforce is composed of migrants. Lee (2007: X) has noted that the worker-peasant may be a temporary juncture, as selling labour power becomes the dominant element in the lives of peasant-workers, and the possibilities of living as peasants declines. ¹

Literature Review

Human Resources in the Post-reform State-owned Enterprises

Enterprise reform focuses on economic structures and the establishment of a modern enterprise, which has direct relevance to changes in the way the enterprise approaches HRM. Among the different reforms, the 1988 and 1995

¹ Pun Ngai (has recently analysed the class discourse in China, and highlighted this shift to more permanent position of proletarianisation for so-called 'peasant-workers': The new Chinese *dagong* subjects have to live out their own class experience as part of their life struggles in concrete lived spaces. And if the Chinese subject was once traumatically interpellated by an alien language of class from above, then the *dagongmei/zai*, as the new subjects that have emerged at the intersection of global capitalism and the Chinese modernity project, invoke a desire for a return to "class analysis" at the workers' dormitories, a space where the workers live out their own complexities and their conflictual life experiences.'

The Subsumption of Class Discourse in China

PUN Ngai and Chris, King Chi Chan (2007)

laws on employment relations have had the most direct and profound impact upon the HRM practices in China today, especially when linked with recruitment, compensation and retention of labour. The labour reform comprised four main elements, according to Hu and Li (1993), they were:

- (1) Regulation on Labour Contracts - implementing fixed-term contract system in place of the traditional system of life-time employment, the so-called 'iron rice bowl';
- (2) Regulation on the Employment of Staff and Workers - reforming the recruitment system from a nationally unified system of labour allocation and internal recruitment to open job-application and selection with objective standards;
- (3) Regulation on Discharging Employees - giving the enterprises the power to dismiss workers;
- (4) Regulation on the Insurance of Employees - establishing a system of social security for the unemployed to guarantee basic livelihood and old age pensions for retirees.

A central aim of economic reforms has been to wind back centralized economic decision-making, including recruitment, development, and organization of personnel resources.

Since economic reform, top managers have devoted more time to tasks that involve strategic planning, and there is more delegation of decision-making power to lower levels. Labour is increasingly being viewed as 'human resources', which has strategic and financial implications (Benson and Zhu, 1999). The administration of personnel, wage decisions within the work unit, distribution of fringe benefits, and the evaluation of the performance of individuals are becoming decentralized. Department heads are given greater flexibility to carry out the daily activities and they receive more power to employ contract staff without the bureau's approval (*South China Morning Post*, April 7, 1998). In addition, in the '80s, a new managerial system named the Management Responsibility System under the Leadership of Board of Directors has been implemented in many SOEs. Under this system enterprise managers take equal responsibilities to investors, employees and customers. To satisfy the investors' profitability objectives and the customer's desire for quality products at reasonable prices, management have reorganized the production system and workforce in order to reduce costs and improve productivity (Benson and Zhu, 1999). This may necessitate recruiting more skilled workers, the introduction of more intensive and continuous training programmes, and the involvement of employees in production and quality issues. To achieve these objectives, however, would require early retirements and lay-offs, the introduction of new reward systems, and a reorganization of workflow.

Notwithstanding these developments, Child (1994) has contended that the concept of HR is absent in Chinese enterprises. Freedom in personnel selection remains limited, which is due mainly to problems or the difficulties in recruiting

and retaining quality staff. Moreover, there remains much resistance to breaking the “iron rice bowl” practices, both from sections of the labour force and within the party (Tausky, 1991; Goodall and Warner, 1997). Although the wage system was reformed in the mid-1990s to match up rewards with skills, training, effort and productivity, the principles of pay for performance are barely present, and “even in large organizations....the top management only receive 4-5 times as much as the typical production worker” (Holton, 1990). Furthermore, incentive bonuses and other payments are often made to the work group and not to individuals, thus people are still rewarded irrespective of their individual effort. Thus, while cash incentives are theoretically possible, in practice they are egalitarian-based, not equity-based.

Even among the most advanced hi-tech enterprises Warner (1999a) has argued that western-style HRM has not yet replaced existing personnel management due to organizational inertia and built-in cultural norms. Traditional Chinese management of teamwork, information sharing and harmonization of work are rooted in the collectivist approach, although they have been refined over the past two decades.

Human Resources in the Foreign Invested Enterprises (FIEs)

Outside the state sector, the most dramatic change since 1978 has been the opening up of the economy to foreign investment and encouragement of joint ventures. In the early 1980s, FIEs started to use short-term labour contracts, compared with Chinese state enterprises which began giving such fixed-term contracts in 1986 to new employees, normally of four years maximum duration. According to the Chinese labour law, all job agreements must be made in writing, not orally, as the latter is not legally binding. Employment contracts take different forms, mostly in standard form set by the labour agency (FESCO). Under article 20 of the Labour Law, a worker may be hired for a fixed-term, or on an open-ended agreement, or on a job-by-job basis. It is important, therefore for an employer to state clearly the nature and duration of the contract. Otherwise, it will be assumed by the worker that he or she is on an open-ended contract. There is a probationary period that allows an employer to decide whether the worker is suitable. In many regions of China, this period cannot exceed one month for a one-year employment contract.

Joint Ventures (JVs) have greater freedom in hiring workers, but there remains as input from the Chinese partners, because in China there is a strong precedent for guaranteeing workers certain protections and benefits, personnel matters in JVs were considered to be an arena requiring strong input from the Chinese side (Pearson, 1991). There was a concern that Chinese workers employed in JVs might be exploited by working directly for foreign managers or in a firm run in part according to the interests of foreign investors. More specifically, there was a concern that in an effort by the foreign side to keep production costs low, Chinese workers would be paid ‘unequally’ and hence ‘exploitatively,’ or would be fired or punished without due cause (Pearson, 1991). According to a recent survey, the

PRC labour authorities prefer for FIEs to recruit employees from its Chinese joint venture partner (if any), than from the locality, and only if the locality has insufficient qualified personnel, from outside the locality (Watson Wyatt Data Service, 1997). Labour bureau permission must be obtained to recruit openly in the locality, outside the locality and to recruit foreign workers for a project. The government mechanism for controlling labour movement migration to the cities is the residence permit, the so-called household registration system (*hukou*), and the restrictions on recruitment of labour apply to JVs and SOEs.

Zhu (2005) describes Privately Owned Enterprises (POEs) as having a short-term orientation, fostered by fears of policy changes, and centrality of kinship and nepotism in their labour relations. Management in POEs operated with 'patriarchal behaviour' making all the decisions without formal rules and regulations. POEs were 'profit-maximizing' and used a 'short-term' strategy which led them to neglect employee training and career development. Recruitment depended strongly on kinship and connections, which produced in non-standardized management practices (see also Smith and Pun, 2006). This form of ownership and paternalism included informal labour contracts (despite the law against this), arbitrary wages and inadequate labour protection. Family-style management practices led to informality in HR planning, with enterprises possessing unwritten regulations on labour discipline which were verbally transmitted to employees on their first day of work. Bonus levels were not fixed but decided solely by the owner.

'The HR practices offered at POEs are usually characterized by less extensive career development and promotion procedures, except for family members; less reliance on formal performance appraisal and feedback; a more authoritarian management style; lower levels of staff training; low levels of explicit job analysis; a strong emphasis on the management of extrinsic rewards; lower levels of welfare and fringe benefits; and lack of emphasis on formal industrial relations procedures.' (Zhu, 2005: 17)

The concept of earnings differentials has received increasing endorsement from the private sector. The most common practice in JVs is centered on the post-reform 'post plus skills' system, with age, position and skills determining between 50 per cent and 80 per cent of the total payment (Goodall and Warner, 1997). Material rewards have become more predominant. Bonuses existed in all JVs and were paid individually, collectively (based on both group and enterprise performance), monthly or annually, with no method being typical of a particular enterprise type or location. However, Ding et al (2000) note that there are relative degrees of local and imported HR practices in terms of unionisation, social security contributions and rewards in FIEs in China. Further differences may well be found in enterprises with predominantly Asian values (Chan, 1995). As Goodall and Warner (1997) point out, the old eight-grade wage system and job-type wage-system with minimal differentials between categories may still be found in foreign-invested JVs as well as SOE.

Migrant Labour – a special feature of Chinese HRM?

Both workers and employers seek to manage the labour power that is sold and hired and it is useful to think about labour power as possessing two components or indeterminacies: *mobility power* and *effort power* (Smith, 2006). The first indeterminacy emerges from the distinction between labour and labour *power* made by Marx, reflecting the decentralization of the authority over the disposal of labour power to the individual worker who has the burden and freedom (constraint and choice) as to *where* and to *which* employer the individual sells his or her labour services. This is called *mobility power*, which is indeterminate in the sense that the decision on which employer the worker parks his or her labour power is given to the individual and therefore remains an uncertainty for the employing firm in calculating whether or not workers will remain with them. It is also an uncertainty for the worker as to whether or not the employing firm will continue to require their labour services. Around the issue of *mobility power* both capital and labour strategize, plan and mobilize resources of a collective and individual kind as rational-strategic actors.

The second indeterminacy is around labour effort and the wage-work bargain in production. How much effort is required for a particular wage for supporting the basic level of reproduction of labour has been the primary subject of labour process theory that has focused on management strategies to control labour and realize the returns from labour once hired (see Thompson and Smith, 2001 for a review). Similarly, how labour develops formal and informal work rules to limit effort and contain managerial claims on their time and body have also been widely discussed (Edwards, 1990). We therefore have *mobility* and *effort power* as indeterminacies for capital and labour, and forming the basis for labour and management strategies, tactics and policies to direct the exchange process within the capitalist employment relationship.

Mobility power has a strongly political dimension – with employers seeking to limit the freedom of workers to move employment at will, through contracts that stipulate length of service, notice periods for mutual separation, and limitations on labour supply and mobility. Within the firm the uncertainties over mobility (will the employer dismiss? will the worker quit?) create what Mann (1973) calls a ‘mutual dependency’ obligation, in which workers reduce job searching for internal promotion opportunities, and employers give up seeking external labour, through focusing on the utilization of existing labour. In some economies, Japan and Korea for example, and in some companies a *paternalist* practice is widely espoused that reinforce mutual obligations beyond the naked cash nexus.

Thus within capitalism, the market, or competition between capitals and between workers, act to distribute labour to capital and capital to labour – workers to employers and employment to workers. In neo-classic economic theory, the market functions without the need for the political (state); in practice, both labour and capital appeal to the state to expand their ‘realm of freedom’ (controls

over the mobility power of labour, and controls over the mobility power of capital).

In post-socialist China we have the emergence of market forces, labour contracts, freedom of employment from a single employer and freedom from state allocation of labour (for the firm and the worker). However, we also have the *hukou* system of population control, housing tied to employment through the dormitory labour system, and circulation to labour through networks of family, kin and localized village relationships rather than rationalized and formalized markets. In this way, the question of *which* employer the worker selects is usually a *social or institutionalized* issue and not an individual question – the migrant worker follows others from his or her village to the factory they have selected (Lee, 1998; Pun, 1999). The *where* or location question, is also shaped through these networks, but generally labour flows to areas of known economic activity, such as the two industrialized areas studied here. Therefore, both indeterminacies are kept checked through collective and institutionalized social networks. As we will show, these controls on mobility greatly influence work-effort relations between capital and labour, and most important of all, the labour management regime embedded within China's legacy of socialist control over labour mobility as it is revealed in the emergence of *dormitory labour regime* in the period of globalization in China.

The use of migrant labour is characteristic of Special Economic Zones (SEZs), and makes Chinese HRM distinctive, as labour flows to employers, rather than the other way around, and workers are of a 'peasant-worker' type, without rights to remain in the SEZ, and constantly circulate between work and home (Lee, 2007). Initially local governments may have had a preference when allocating temporary residency for those migrants from within the local province, which was the case with the Shenzhen government, for example, based in the province of Guangdong. Ip's (1997) 7 case study of the labour market in Shenzhen electronics companies found 70 per cent of her sample of migrant workers were from within Guangdong province. But as labour reserves have been exhausted within the local province, migrants are recruited and come from other provinces. In our case study migrants from Guangdong, the local province represented only 10 per cent of the 1700 workforce.

If labour supplies are from common provinces, it is then possible for localized networks, in which workers have preferences and control, to constrain management's choices, and hence for workers' mobility power can be expanded. On this, much research suggests that recruitment is structured through localized, worker-influenced networks in China (Pun, 1997; Lee, 1998; Hare, 1999). Workers in these local hometown networks can create 'work norms' of co-operation to ensure friends, relative and fellow locals are selected as new workers as the firm expands. This creates strong bonds of solidarity, often based on place of origin, which are deeply embedded in Chinese culture and patterns of worker's organization (Pun, 1998; Smith and Pun, 2006).

Networked patterns of recruitment often mean firms are locked into using the set of contacts of existing employees to secure future supplies of labour. A survey of recruitment practices by Hare (1999) indicated that over 80 per cent of jobs are found through family, friends and village networks, with most workers knowing the factory they will be joining before they leave the village. Knight et al (1999:78) also found that the method of recruitment for 81.4 per cent of the Shenzhen population was through relatives or friends. Working with friends of the same kin-ethnic group had other benefits. Having relatives in the factory, and in supervisory positions, was the only possible way for workers to maintain job security (Pun, 1997). In times of sickness and absence, a woman's kin or local-ethnic co-workers on the line would cover for her and thus help her avoid disciplinary reprimands.

Research on network patterns of recruitment in the West indicates that it offers management five advantages. These are: (i) cheapness; (ii) reliable candidates able to learn tacit skills more quickly; (iii) greater management control, by devolving job obligations to the worker "recommendee" or "patron"; (iv) a positive effect of industrial relations; and (v) and the granting of recruitment as a perk or payment to loyal workers (Callaghan, 1997: 67-72). For workers, the advantages are that information routes provide better quality of job information than informal ones and workers may gain more control over recruitment, closing the jobs market around insiders, friends and relatives. Nevertheless, using localized networks for recruitment, promotion and work allocation on the shop floor, have contradictory benefits and liabilities for both workers and managers (Smith, 2003). Networks discriminate; and patronage can enmesh the worker in the fate of the firm, and limit his or her market opportunities. Moreover, control mechanisms and social safety nets are gradually being replaced with a higher degree of 'market' regulation.

Conclusion

In conclusion we can say that research opinion is divided about the extent to which Western HRM practices are penetrating Chinese workplace through JVs and FIEs. Cooke (2005: 191-92) in what Zhang et al (2006) call the 'positive' approach to Chinese HRM, concluded a summary of much case research by saying:

'There is a growing body of evidence which suggests that HRM in larger organisations in China is becoming more systematic and, to some extent, more strategic. These organisation are beginning to adopt Western practices of HRM, notably job analysis and description, recruitment and selection, training and development, and performance management and rewards...Evidence presented [here] indicates that HRM is beginning to take root in China, if HRM is to be broadly defined as 'a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic deployment of a highly committed and capable workforce using an array of cultural, structural and personnel techniques' (Storey, 1995: 5). There is a growing trend of convergence to

Western practices in many aspects, although a strong resemblance in substantive contents should not be expected'

Others, Frenkel (2001) for example, have argued that in the footwear factories supplying to big name MNCs in China pay is better and training more developed, when compared with old SOEs – Guthrie (2006) suggests that JVs are better at training than old SOEs, for example. Gamble (2003; 2006) suggests that for a British invested-retailer he studied in China, that there is evidence of training and skill enhancement. Others, (Klein, 2000; Chan, 2001) are more in the 'pessimistic' camp, claiming that wage rates in MNCs in China are at subsistence levels and factories generate skill-depleted work. We have a lot of sympathy with this latter approach, and see little in our current case study to support the optimistic view of China 'converging' with the West – a rather vague notion at best. The idea of 'hard' or 'soft' convergence (Warner, 1996; 2004) seems to miss the substantive, special features defining the employment relationship in China, where the state, and international capital, draw benefits from migrant workers and the 'dormitory labour regime'(Smith, 2003). Rather than looking for points of overlap, we need to see, using grounded empirical work, how these particular features of the Chinese context structure management choices, worker action and HRM practices. To this end the research presented here is developing a 'realist' approach to HRM in China, in that it does not deal with the language of 'catch-up' or 'convergence', which is premised on comparison between China and some form of 'standardised HRM', but rather sees fundamental differences between the conditions of labour as structured by the state and employers in China when compared to other countries, and argues there is a need to present an embedded, institutional perspective on HRM in MNCs in China. This approach locates practices within a Chinese political and institutional context, but also within the global political-economy, which suggest that the motivations between MNCs location decisions in China (overwhelmingly for cost down purposes) and the nature of the state apparatus in reforming employment and ownership relations within China to facilitate FDI, are important conditions for characterising the actual management of HRM and labour process in China. We hope to show the benefit of this approach through our case study which we will now detail.

Shenzhen – A Migrant City

On August 26, 2002, the people of Shenzhen celebrated the 20th anniversary of the Special Economic Zone (SEZ). Shenzhen, in southern China and across the border from Hong Kong, has been the focus and window city since 1980s when the People's Congress passed "Regulations for the Special Economy Zone of Guangdong Province" and officially designated Shenzhen a *Shenzhen Special Economy Zone* (SSEZ). The word "special" means special economic systems in which the central government provides SEZs special policies and flexible measures, allowing SEZs to utilize a special economic management system. The guideline and goal for the development of Shenzhen follows Deng Xiaoping's theory on building socialism society by Chinese characteristics by taking 'hold of the opportunity, deepening economic reform, open up further, promoting

development, and keeping stability of the society.’ SEZ was built on special legislation and there are a number of ways to turn it into a modern international city (Bell et al, 1993).

- Special tax incentives for foreign investments.
- Greater independence on international trade activities.
- Economic characteristics are represented as “4 primacies”:
 1. Constructions primarily rely on attracting and utilizing foreign capital;
 2. Primary economic forms are Sino-foreign joint ventures and partnerships as well as wholly foreign-owned enterprises;
 3. Products are primarily export-oriented;
 4. Economic activities are primarily driven by market.
- SEZs are listed separately in national planning (including financial planning) and have province-level authority on economic administration. SEZ’s have a local congress and government has legislation authority.

Shenzhen now ranks the top in export revenue producer in China; with 10,000 foreign companies, with investments from over 40 countries and regions (*Shenzhen Statistical Yearbook*, 2001). Shenzhen is only 30 kilometres from Hong Kong and it enjoys the geographical advantage of being the neighbour to Hong Kong. Their bilateral trading relationship is growing rapidly, with 14.2 per cent GDP growth in 2000 (*Shenzhen Statistical Yearbook*, 2001). Nevertheless, Shenzhen’s success is built largely on the sweat of migrant workers and their average pay is \$72 per month (*Knight Ridder*, July 27, 02). However, as we show in this case study, workers are earning a lot below this average. China has a minimum wage policy, taking into account living standards, which tends to vary from region to region. In Shanghai, the minimum pay for a worker was RMB 490 a month while in Shenzhen was RMB 574, but in nearby areas such as Baoan and Longgan, were RMB440 (Chan, 2002).

The Case Study Factory - JEWELLERY-CO

The factory, which was formerly in Germany with over 120 year’s history, was situated at Nan Ao, the industrial suburb of Longgang district in the Shenzhen SEZ. It produced mainly fashion and custom jewellery and some OEM products. It was acquired by a Hong Kong company in 1995 and the whole factory was transplanted from Germany to Nan Ao. The reasons for relocating the plant to China were because of cheaper labour and production costs. For the first quarter of 1996, a group of 20 German engineers were stationed at the factory to ensure the technical know-how was transferred through on-site training on the Chinese workforce. It was the first Asian factory to use the high standard German electroforming process, an advanced production technique for the manufacture a fine quality gold chains. At the beginning, JEWELLERY-CO had fewer than 100 workers and output was 450,000 pieces per annum. By 1999, the workforce had increased to 1,600 while the factory capacity augmented to 2.8 million with actual output in 1999 of 2.2 million pieces. The average age of the worker was under 22, with new starts recruited between the ages of 18-22. Productivity

growth was partially the result of the size of the labour force in China as compared with Germany, but more importantly to the lengthening of the working day and intensification of the labour process. The work process was broken down into highly standardised and quick-to-learn tasks organised into different production departments, and products moved between workshops where workers remained stationary as detailed operatives, who were replaced every two-three years as physical bodies, especially eyesight, became impaired with working in intensive, repetitive conditions. Moreover, craft trained goldsmiths and silversmiths who were required for so-called 'high end' production activities, were having their labour power systematically deskilled and replaced by internally trained, novice workers working for lower wages. In this sense the company, while claiming to be a training or learning organisation, transforming raw, young, migrant workers into 'jewellery workers' were in fact taking skills out of the population and creating an army of workers who's skills were so narrowly specialised as to have no transferable value. This was intentional to ensure that skilled labour could not put cost pressures on the company or exit with usable skills to rival firms.

The structure of JEWELLERY-CO is in the form of Sino-foreign contractual joint venture, which was an economic entity established jointly by foreign and Chinese partners in accordance with a contract signed by both parties. By virtue of the subcontracting arrangement, the PRC government kept close control in dealings involving gold and silver commodities (the latter was lifted in January 2000). The PRC representative in the factory acted as a watchdog and was responsible for ensuring compliance with Chinese regulations and customs clearing and licensing to import gold for production. Staff in the Hong Kong-based office were engaged in administration, procurement, sales and marketing, and factory supplies, whereas factory executives from Hong Kong were responsible for production as well as identifying and structuring labour pools and operational management for factory managers. There was no union in the company, which meant managerial prerogatives were largely uncontested. Over the years, the Hong Kong office had pursued strict management through direct and indirect production cost control. Factory executives were required to report on production and performance targets to the Hong Kong office weekly.

The Case Study

We gained access to the company using personal networks, and methods of data collection consisted of interviews, some observations of production and secondary analysis of data on labour turnover, recruitment processes, and demographic and locational information on the gender and place of origin of workers. We interviewed Hong Kong Managers in Hong Kong and at the factory in Nan Ao, and this included the Senior Personnel Managers, General Manager, Administrators and Production Managers. We interviewed one Chinese Personnel Officer and one Supervisor. In all we conducted 7 formal, taped interviews and several more informal discussions with managers and supervisors during the course of the fieldwork, during lunch and dinner times. We

interviewed all the main Hong Kong managers who were based in the Factory. We did not interview any production workers, which is obviously a limitation of the research, and makes it more about how managers see their relations with employees. The fieldwork was conducted in March and June 2002, and as well as the authors, Yvonne Tse acted as translator and appears in some of the text given below.

Results and discussion

Hong Kong Management control

The JEWELLERY-CO operated as a JV with Hong Kong management and imported technology. In general, personnel managers in JVs are reported as having a role ‘supportive’ of the business objectives of the organization, whereas in the SOEs there was far more emphasis on ‘bureaucracy’, ‘patriarchy’ and ‘social welfare’ (Westwood and Leung, 1996). In fact, JEWELLERY-CO’s organization structure was designed, to some degree, to control the Chinese partner and maintain Hong Kong management’s influence over the key decision making and to control the use and to avoid misuse of technology. Certain key elements of the business, such as positions of general manager, personnel manager, finance manager, and production/quality control manager, were reserved exclusively for the Hong Kong partner.

Within the factory the position “supervisor was the highest grade” for local Chinese recruits, all positions above were *reserved* for Hong Kong recruits and even in certain production environments where the demands were greater (such as Emering) “we usually recruit HK people to the supervisory roles” according to the production manager. As in most factories, promotion went to “people who have been with the company for a while.”

Selection and Recruitment

The company had located the factory in a village in China, but with no intention of using local labour – which was in short supply, and would not be expected to be searching for work in the manufacturing sector, as this manager explains:

- CS:** *Is there a preference to recruit migrant workers?*
- R:** *No, that is not the problem; there are not many locals for us to employ. I reckon it’s less than 12 employable people living in this village of only just over 100.*
- CS:** *But you located here with the intention to recruit migrant workers?*
- R:** *Not necessarily, but the local people might have access to other forms of income and do not want to work in what they would consider as low wage work. They would get more from rental income from their lands.*

JEWELLERY-CO recruited plenty of unskilled and semi-skilled worker-peasant labour through state-owned agencies that were semi-government bodies. Interviews with the Assistant to Director revealed that their long-distance migration was meant to be temporary, and that the job in itself was seen as a valuable asset (apart from the income) because it would create market value for them. As we discuss below, the actual skills acquired in the factory were so narrowly defined as to have no occupational market value, but skills of 'general' factory labour. For recruitment of skilled workers, some managers said that they tended to advertise on the newspapers; while others stressed the role of occupational networks.

Each worker needed to provide a birth control certificate, temporary resident permit (costing 37 RMB) as well as an I/D card. Workers who are unwilling to spend money to obtain a temporary residence permit were considered illegals, and not taken on. New recruits had one hour oral orientation before the contract was signed. Hence, each worker had some limited opportunity to clarify and think through the terms of the conditions of work. Whether workers were retained depended on performance. The production manager said: "supervisors with the team leaders will make the decision to see if s/he is suitable after 2 weeks; but sometimes even after 3 months workers would choose to leave." If the terms were acceptable and the worker found to be suitable, they would be given a two-year contract. There was a 3-month probationary period that allowed an employer to decide whether the worker was suitable. Suitability, was according to the production manager, largely about "short-sightedness, health conditions and physical fitness" using tests that personnel designed. It was pointed out to us that if workers eyesight deteriorated and they needed glasses, they would be dismissed. It was noticeable that no young workers wore glasses in the factory. Eyesight and physical fitness were essential attributes for production jobs in the factory, and according to the same production manager, an ideal worker should be "hard working, cheap, devoted, intelligent and smart".

Management targeted recruitment towards young, single migrant workers, as this production manager explains:

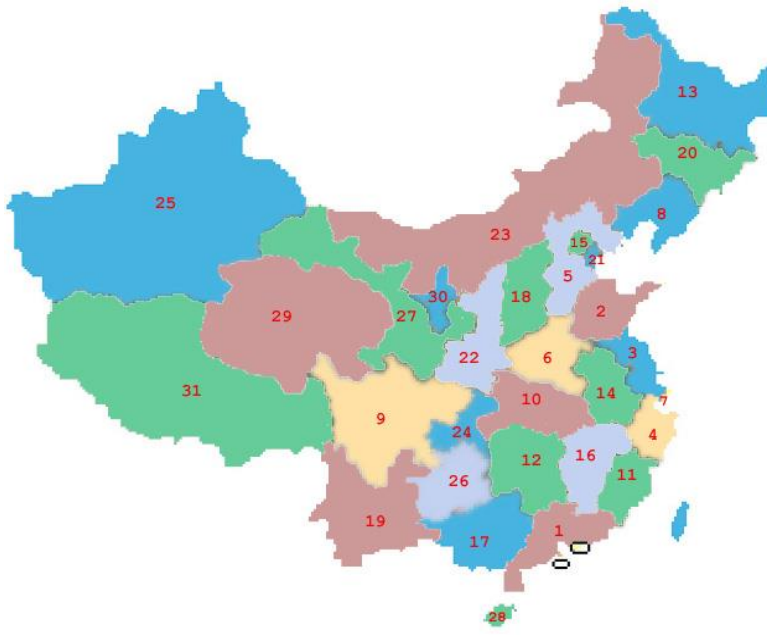
CS: *The company has a policy of recruiting people aged 18-22. Why do you think that is?*

R: *I think XX [Managing Director] thinks that this is a good age group for apprenticeships. For older group, say 30-35, [they] would usually have family commitments and it would be difficult for them to accept a low starting wage [RMB300 a month].*

AL: *Is this age range considered as the general practice in this area?*

R: *Sometimes some company would take on 16 and 17 [year olds] as well.*

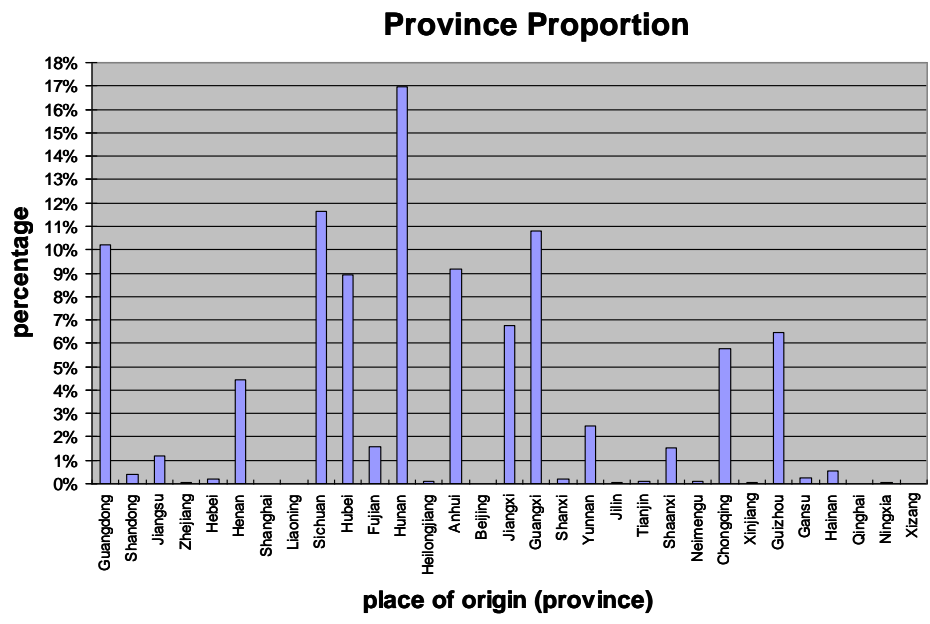
The workforce consisted of rural migrants from various provinces in the rural areas, such as Hunan (17 per cent), Sichuan (12 per cent), Guangxi (11 per cent), Guangdong (10 per cent), Anhui (9 per cent), Hubei (9 per cent) and Jianxi (7 per cent). No particular region dominated. See the map below:



Position	Province	2004 GDP (Billion RMB)	Population (Million)	Number of Employees
1	Guangdong	1,604.00	86.42	173
2	Shandong	1,549.07	90.79	7
3	Jiangsu	1,500.00	74.38	20
4	Zhejiang	1,124.00	46.77	1
5	Hebei	883.69	67.44	3
6	Henan	881.51	92.56	75
7	Shanghai	745.03	16.74	0
8	Liaoning	687.26	42.38	0
9	Sichuan	655.60	83.29	197
10	Hubei	632.00	60.28	151
11	Fujian	605.30	34.71	27
12	Hunan	561.27	64.40	287
13	Heilongjiang	530.30	36.89	2
14	Anhui	481.30	59.86	155
15	Beijing	428.30	13.82	0
16	Jiangxi	350.00	41.40	114
17	Guangxi	332.01	44.89	183
18	Shanxi	304.24	32.97	3
19	Yunnan	295.95	42.88	42
20	Jilin	295.82	27.28	1
21	Tianjin	293.19	10.01	2
22	Shaanxi	288.35	36.05	26
23	Neimenggu	270.00	23.76	2
24	Chongqing	265.00	30.90	98
25	Xinjiang	220.30	19.25	1
26	Guizhou	159.19	35.25	109
27	Gansu	154.00	25.62	4
28	Hainan	79.01	7.87	9
29	Qinghai	46.57	5.18	0
30	Ningxia	46.03	5.62	1
31	Xizang	20.00	2.62	0

Source: National Bureau of Statistics of China, 2004

Within the factory the distribution of migrants looked like this:



Contrary to literature review, the use of *guanxi* (personal relations) to tap into pre-existing networks of personal loyalties or referral was not strongly in evidence and was discouraged as managers at JEWELLERY-CO had negative experience of referral recruitment. There are a number of reasons why connection based recruitment was discouraged. One was to avoid disruption and instability caused by the pre-existing ties of *guanxi*. As the production manager said:

When employees are recruited through the existing workforce, it can easily create worker solidarity and cooperation in terms of information sharing on wages and working conditions. Favouritism to certain provinces is discouraged.... We don't recruit many local people because they have local mentality - less responsible, less hard working.

Another reason was to avoid collective cheating or theft. It was also the case that related migrants were difficult to manage. In reality, there was a considerable overcrowding in the urban 'unofficial' labour market, especially after the Chinese New Year holidays, big cities were invaded by millions of job seekers (Christiansen, 1993). During our fieldwork migrant workers were always a presence outside the factory gates – the labour market literally breathing down the backs of the workers inside. It is not a problem to recruit new and unskilled migrant workers. In fact, foreign firms establishing plants in China are often advised *against* using worker networks or *guanxi* for recruitment. This is thought to create 'personnel nightmares' with 'pressure to hire undeserving candidates, conflict among those recommending new employees for the same post, low productivity among workers who feel secure in their positions and problems of getting rid of poor workers later' (Sensenbrenner and Sensenbrenner, 1994). The personnel manager continued:

*'The recruitment through *guanxi* relationship becomes weak to prevent collective bargaining and the development of social safety nets. We also worry that the performance of those who have recommended workers will be adversely affected if their referrals are later dismissed'*

The worker recruited through a social tie is more likely to owe allegiance to his or her job 'patron' rather than the manager or the company. Opposition to such practices from management commentators indicates the potency such practices have for workers, although this again is of a particular type.

However, while in principle against connection-based recruitment, the company had to accept 'political *guanxi*', workers recommended to the company by various government agencies, as the personnel officer explained:

"[With] recommendations by government officials, we would have to accept the person. [For example the] Labour Department, District Government, Business Tax Section, Custom & Excise; those [are the ones] that give us headaches. These types of recommendations are quite common in here. Workers who come into the factory through these routes are the ones who would normally violate

the company rules because they think they have “supports”. They are quite difficult to manage.”

Such workers were ‘difficult to manage’ because they had access to authority external to the management hierarchy, but also because they could use this *borrowed* authority within the workplace, for such things as choosing their area of work and moving between jobs – something that workers recruited directly by management could not do. In fact our evidence suggests that movement between departments was low in general to reinforce specialisation of work along narrow Taylorist lines: “Most of them [those recruited through political guanxi] would be working in the factory, *although they would request to be allocated to better jobs*”. Moreover, management placed fewer demands on this group, due to having more restricted direct authority over them:

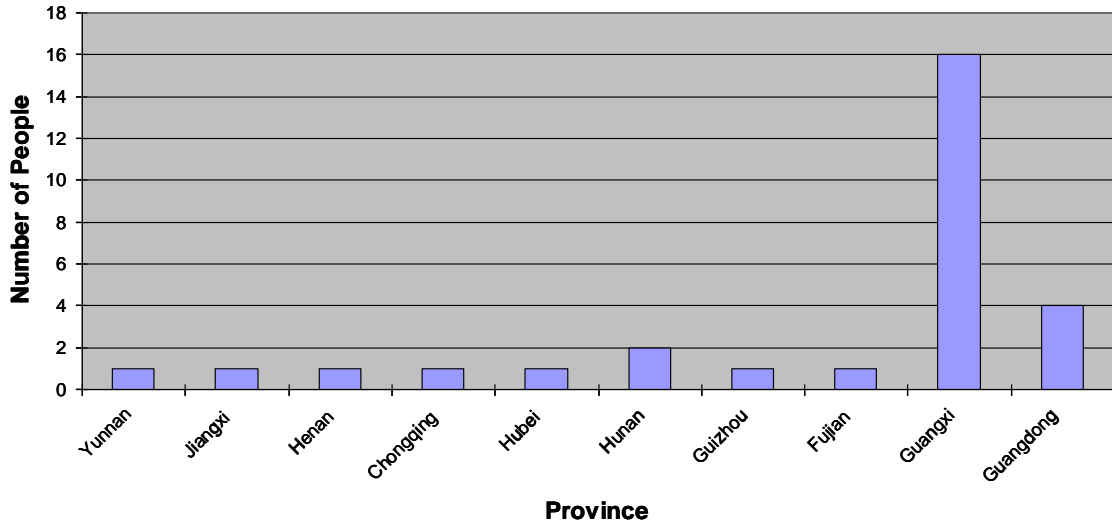
“Also they, management staff, would not make too many demands on them, too. In our views, these people should work harder to thank the person who got them the jobs, but the realities are usually quite different.”

According to the Personnel Officer only 2 per cent of workers were recruited through ‘political guanxi’, but it was difficult to determine the numbers within the factory who heard about their job through recommendations from insiders, but as noted earlier empirical evidence suggests this was likely to be high.

Skilled labour and Network Recruitment

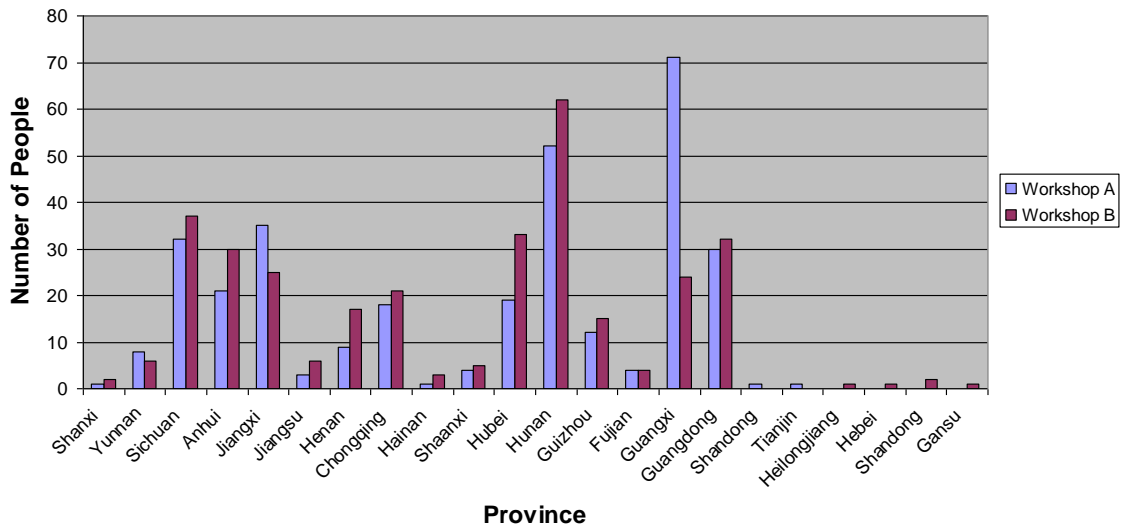
Worker-based recommendations were discouraged in order for management to maintain authority over the entry of labour into the factory. Only in hard-to-recruit, specialist areas was it seen as useful, “if the factory is in need of a skilled person and a right match is recommended then that is good” noted the personnel officer. The Production Manager concurred when asked “how do you fill shortage in skilled areas?” he immediately said: “mostly by referrals.” Further the High End [most skilled production area] Supervisor when asked how people get to hear about jobs in skilled areas and elsewhere, said: “mainly through friends as jobs in this sector are seldom advertised in the paper.” The Table below indicates that in the more skilled area of stone setting, there was indeed a concentration of workers from a particular region, Guangxi:

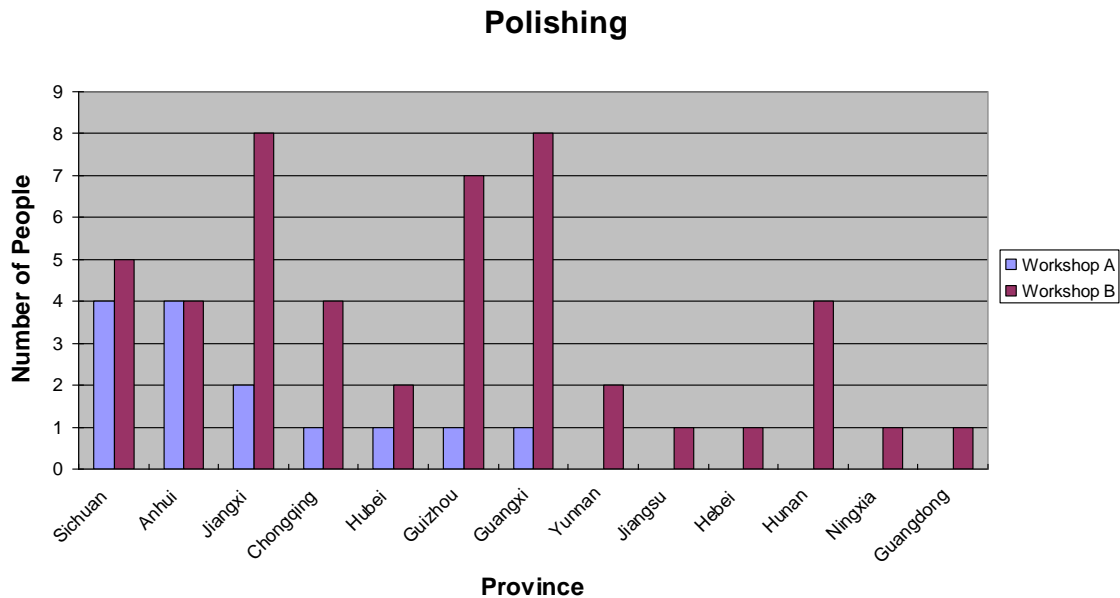
Stone Setting



If we compare this with more general department, such as Emering or Polishing, one can see less concentration of labour from a particular province. However, contrary to what management said, there is some concentration:

Emering





Widespread as the connection-based recruitment method was in Chinese factories dependent on migrant workers, according to the Personnel Officer, “the negatives are more than the positives”, and only “if the potential worker actually had an agreement with the person who is recommending that he/she will work hard and delivers it” would it be useful, but his experience was more that *connection* gave power to the worker to *reduce* not increase effort.

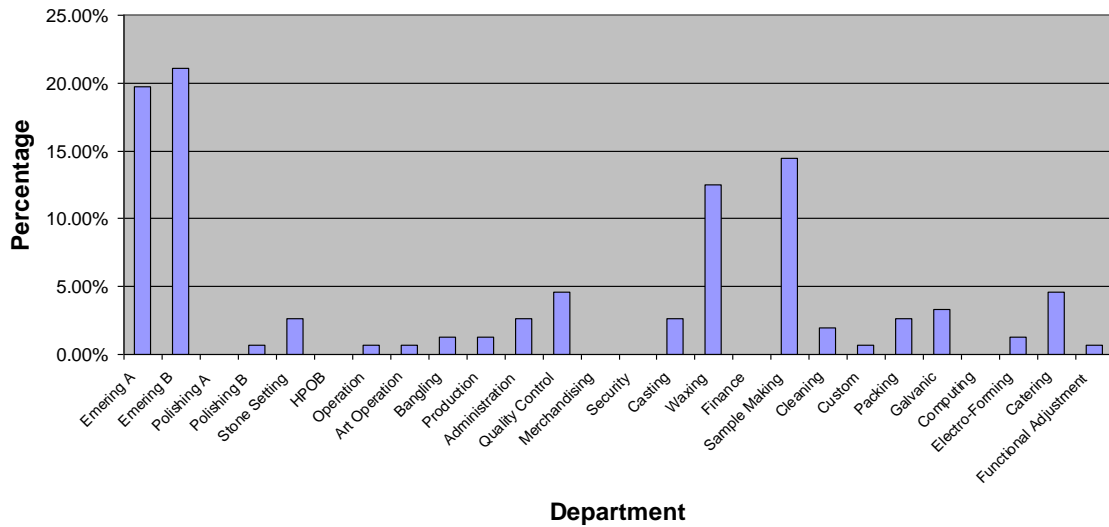
Asked about the distribution of workers by place or origin, the Production Manager said:

- R:** *We have 12 departments [and] no allocation is made by place of origin. I only inform Personnel how many workers are needed in each department. People might get grouped together by chance.*
- CS:** *Is there a policy on that?*
- R:** *I think Personnel had had bad experiences with people from Hunan by referral from the Government’s Custom Department. I guess this was part of the governmental liaison tasks.*
- YT:** *Would the company allocate people together due to common dialects or districts?*
- R:** *I think Personnel want to keep them separated.*
- CS:** *How many people would you think have joined the company based on personal relationship?*
- R:** *A few, not many. We will treat them the same as others and don’t get any special treatments.*

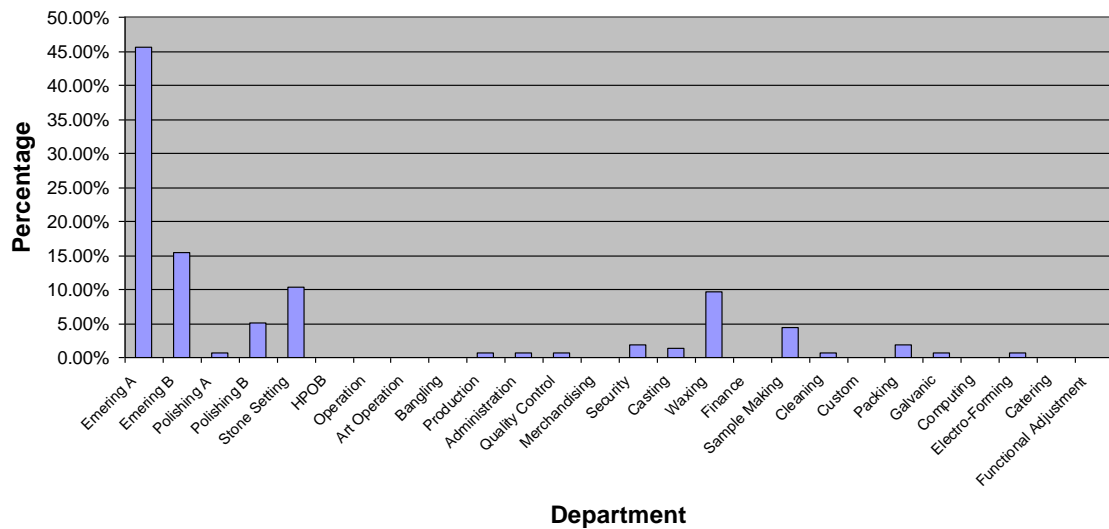
Another way of checking to see if the distribution of migrants is random or by chance, rather than through provincial grouping, is to examine the dispersal of provincial migrants across the departments. When this is done, most are evenly distributed; however, migrants from Guangdong, Guangxi, Hunan and Sichuan

show some departmental clustering. This reflects both skill specialisation, with some migrants over-represented in high-end areas, and possibly kin-ethnic networking, as same-province migrants seek each other out. Without more data, such as sub-provincial origins of workers, or interviews with workers to see if they have family and friends in the factory, these conclusions are somewhat speculative. However, they do call into question repeated claim by management informants that migrants were deliberately randomly dispersed.

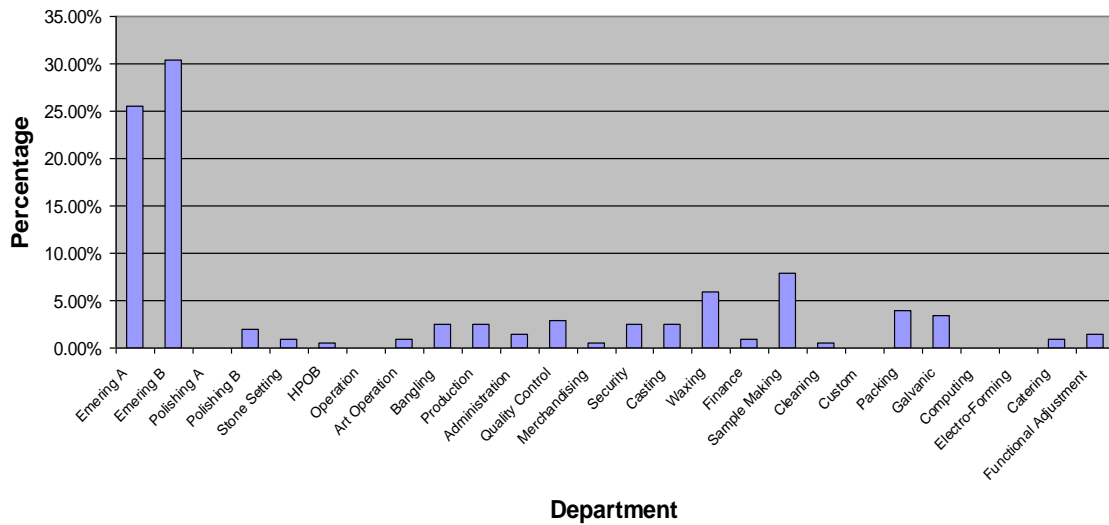
Distribution of Guangdong Migrants by Department



Distribution of Guangxi Migrants by Department



Distribution of Hunan Migrants by Department



The hands-on approach of Hong Kong management meant that the company was not dominated by connection based recruitment as was the previous, Japanese firm that he had worked for: “the problems were more serious at the Japanese company because apart from important posts, the Japanese management were not involved with the recruitment process”. More widely, he noted: “in China this situation [connection-based recruitment] is quite serious, I think it’s about 20 to 30 per cent [of the total recruitment], more so in family run business and processing plants.” But asked about the future, he noted: “through talking to friends in the personnel field the majority of the people think that in China now more and more people are more aware of the negative effects of the connection-based recruitment method, therefore I think the situation will get better.”

Compensation

As discussed above, in state enterprises before their reform an egalitarian wage-payment system with a flat reward structure existed. Since the reforms of the mid-1980s, a change occurred with material rewards becoming more predominant. Both JVs and SOEs had moved to a performance based reward system. Workers’ high efficiency was due to the contracted responsibility system, under which they were paid according to their performance, and to a ‘fair’ system of rewards and penalties (Warner, 1999a).

New entrants received 300 Yuan per month (= US\$ **43.74**) for 180 hours basic work.; Overtime (4 hours per day plus 1 or 2 days week end work is paid at 1,5 day rate; and double time Sunday and Statutory Holidays)
 After: 3 months later 350 per month Yuan
 6 months later 400 per month Yuan

9 months later 450 per month Yuan (US\$ **65.61**);

At JEWELLERY-CO, the package of benefits was kept to the minimum but workers had been protected with regard to their medical insurance. The company contributed 6.6 RMB medical insurance for each employee, which covered sickness, on-the-job injuries, accidents and deaths. In case of injury or death the company paid 100 per cent of the costs incurred. In addition, JEWELLERY-CO adopted a wage increment system and employees were divided into 10 ranks, broken down into 5 grades. Grades were: apprentice, junior, lower middle, upper middle to senior. Rank 1 and 2 were departmental managers whereas 3 and 4 were senior staff, who were experienced and had a degree, such as supervisor, engineer, and craftsmanship. They also needed to be skilful in their specific area. Rank 5, 6 and 7 composed of middle management, such as merchandisers and line leaders as well as skilled workers, such as sample makers. Line leaders were promoted from below. Rank 8 and 9 are clerical workers, inspectors, and less skilled workers. Unskilled workers or apprentices fall under Rank 10.

For new employees at the entry level, that is, under the 'apprentice' category, a total monthly real wage was RMB 300, for 180 basic hours. This equated to US\$**43.74** per month or \$0.24c per hour. However new workers only actually received RMB 240 (80 per cent) as 60 RMB (20 per cent) was retained to cover the costs of meals - breakfast, lunch and dinner. But the basic wage did not include the overtime pay and pay on statutory holidays. The Production Manager, when asked if higher wages would make his job easier said: "in order to maintain high motivation a better wage or benefit system would be helpful but we need to strike a balance." Entry wage rates fell below the statutory minimum and were extremely exploitative. A senior manager explained how they paid RMB300 and 'got round' paying RMB440 which was the minimum wage:

"We are in communication with the Labour Bureau and they are aware of the figures. We can apply this practice because we have no complaints from the workers. Secondly we ensure that the total pay shown on the pay slip meets the minimum wage by showing the subsidised items on it. For example, meals, accommodation subsidies and Attendance Allowance...At present in order to show a worker is on at least 440 RMB a month we show Attendance Allowance 30 RMB, meals subsidy 80 RMB and Accommodation 30 RMB to make up the total."

Lee (2007) has researched the growing legal consciousness amongst migrant workers, and the isolation of this factory might explain why managers were able to get away with abusing workers' rights. Obviously the costs of these actual firm-dependent "subsidies" were non-transparent, which is a major problem with having so-called welfare benefits mediated through the company and not the state or market (Smith, 2003).

Wages were adjusted every three-months, provided entry workers passed the probation period. For convenience sake, some supervisors offered a rise of 50

RMB every 3-month but the management discouraged the practice of 'automatic' wage rises. The company's wage incentive programme provided some variations for individuals, and for good performers the increments could go up to 360/370 RMB, but less for poor performers, such as 330/340 RMB per month. Within a year, wages could be reaching 500 RMB; for impressive workers up to 520 or 540 RMB with a performance-based bonus. After that, the wage was reviewed annually and increment would not be more than 10 per cent except for outstanding workers. Within the apprentice grade, the reward reflects no wage differentials, remnants of 'iron rice bowl' pay categories, as almost all workers receive the same amount of wages in a year. Year-end bonus amounted to almost 80 per cent of the worker's salary, and acted as an incentive to remain with the company. In interviews, the production manager admitted that the targets were set high and hard to attain:

R: *For Emerging the average target is 25 pieces. This target is quite difficult for them to do ...The target figure is left to the judgment of the supervisors. If a worker is outstanding in meeting the targets then there is a case for wage readjustment. The supervisors know what can be expected from their teams. Targets are set on a departmental basis and it takes into account of the complexity of the pieces.*

CS: *Do you think the reward package is a fair one for the workers?*

R: *I cannot say it's 100 per cent fair but it is set by management.... in Hong Kong workers have to work hard for their pay.*

For experienced workers, the starting wage was dependent on their past experience. By custom and practice, it was either a 10 per cent wage increase or a rank higher than the previous job. There was no ceiling for skilled workers who could earn three times the wage of junior workers and they enjoyed better collective welfare facilities, and in this case the dormitory. The company had no performance appraisal in the reward system. In March 2000, JEWELLERY-CO started a new wage grading system for senior and experienced workers. Supervisors needed to submit justification reports for any recommendations. The personnel manager would review the recommendation first and then seek final approval from the top management. There are two types of promotion within this ranking system: one is called "single route" and the other "double route." Single route means promotion within the same grade. For instance, if work performance is outstanding, in the annual performance review, employees would be recommended to move to another rank. Double route means moving from one grade to another, for example, from junior staff to middle management.

Workers worked 8 hours a day and 6 days a week, from 8 to 12 p.m., then a 2-hour break for lunch. Normally, workers would have a quick lunch and go back to the dormitory for a nap. The canteen was cleared after just 30 minutes. Work resumed from 2 to 6 p.m. The night shift started at 9:30 p.m. till 6:30 p.m. with shift rotation every 2 months. Overtime work was from 7 to 9 p.m. Overpay depends on the national standard which is not less than 1.5 times the regular rate. On rest days (Sundays) or statutory holidays, overtime was double the normal rate. China observes ten paid statutory holidays. Pay for Sunday work is 1.5 per

cent of the normal rate. Very often workers at JEWELLERY-CO worked seven days a week and the average amount of overtime is 70 hours per month, nearly double the 36 hours permitted under Chinese labour law.

In terms of bonus, there were two types, one is called hardship bonus, depending on the nature of the work, and the other is called position bonus. Position bonus was restricted to Rank 4 to 7. Supervisors, assistant supervisors, and line leaders at rank 4, 5 and 6 respectively could receive an additional of 300 RMB a month, whereas assistant line leaders at rank 7 received 150 RMB. Hardship bonus was for those who worked for waxing and casting, polishing and laser operating. They would earn 5 RMB extra a day. Bonus could be taken away if they could not perform to expectation. The monthly bonus, according to the personnel manager, “can be regarded as an incentive since it is decided by position and work nature”.

Furthermore, wages varied for different production lines and were highly flexible for skilled workers. Production comprised of *pre-production* and *post-production*. Pre-production included three steps: Bangling and Stamping, Waxing and Casting which cover a number of processes: - wax mould making - wax tree making - investment mixing (a difficult process, using employees with more tenure to reduce the risk of stealing gold) - Casting (all males) - spruce cutting (even distribution by sex), and electro-forming. Post-production includes: Emering – smoothing rough objects - (even distribution of sex), Stone Setting (30 per cent were females), Polishing (physically demanding and an all male environment), Plating or Galvanic (Laser), Stone Gluing, Colouring, Final QC and Packing. Female-dominated areas were stone gluing, colouring and packing, and some of these areas required ‘delicate’ skills. The factory employed more women to men because they were more subordinate and easier to manage. A mainland Chinese personnel officer noted:

“Of course, women workers are easier to manage. They listen to you more. If there are specific tasks which require men to do then we will have to employ men. If all things are equal I think women are better. At present the ratio is 1:1.”

In sample making or master molding which was concerned with product development, the most important department, men dominated (with only 20 per cent of workers female). Pay was used as a retention device in these areas, as the Personnel Officer indicated: “because it [sampling] is a skilful department, the workers there command the highest wages in the company, and higher wage workers tend to be quite stable.” The company had a strategy to substitute skilled labour with general labour through a systemic process of job fragmentation.² However this strategy was not always possible, as this senior Hong Kong personnel manager explains: “sampling and stone setting required more skills and it is difficult to get skilled workers. Moreover there is a *market price* for these

² The situation had changed on my last fieldwork trip to the factory, and under pressure from a major client, a dedicated training suite had been established; workers for this client received more off-the-job training and jobs were getting bigger. This trend highlights to the problem with skill formation under the current dormitory migrant labour system, which has a in-built tendency to minimise not up-skill workers.

skills, whereas skills in other areas are not difficult to learn.” Theoretically and practically, skilled labour had market, hence mobility power, and could exit to command wages or use the threat of exit to push for higher wages (Smith, 2006). Such bargaining or mobility power depended upon the philosophy of management, and the same manager noted: “if the supervisors recommend a rise [for these skilled groups] we would consider it *but they don't get preferential treatments*. Other companies will tend to reward these 2 groups of workers more.” So the general management philosophy was to pursue deskilling to reduce costs and labour market pressures from the very few groups of workers whose labour power commanded occupational wages.

The entry wage was low, but management justified this partly on the ground that they were taking in unskilled labour and putting in training which then had a market value: “this company is acting as a large training centre for the unskilled labour. *Although the pay is not that good here* but we are willing to take them on and once they are skilled they can work elsewhere to get a better wage.” Yet the same manager admitted, without contradiction, that training was narrowly specialised and workers had “little” opportunity to transfer between departments to acquire additional skills and therefore increase their market value. This he attributed to the instrumentality of migrant workers (not the way management organised the labour process) whose principle motivation was money not training or skill acquisition:

CS: *Once a worker is allocated to a department is there any opportunities for a transfer?*

R: *Little. You've got to understand that most of workers are unskilled young people from the North. The primary aim for most of them is to earn as much as possible in the 2 or 3 years they are here. Only a few want to be trained up in any particular skill [and] would ask to be transferred which [would] usually involve a drop in salary.*

As noted above, most migrant workers where from adjacent provinces and not the North.

Moreover there was no wage difference between departments, with the exception of the three skilled areas, and the main wage differentiation was between dirty, hard work, such as polishing, and lighter, cleaner areas. Requests for transfer were therefore not motivated by wages but material conditions in the different departments, as this Senior Personnel Manager explained:

“There is not much difference in wage level between skilled workers regardless of the departments they are in. For physically demanding jobs workers get an extra 5 Yuan daily allowance. But we get very few requests to move into that type of work. In fact we have more requests for existing workers to be transferred to less demanding job units.”

Workers in sample making and stone-setting, because of the unique handicraft required, were more autonomous in terms of remuneration and employment. The craft nature of these “high end” jobs, meant according to the High End Supervisor, that management had both to pay for craftsmanship, but also seek to *deskill* the production process to reduce the costs involved with recruiting these workers:

“...because it [high end work] is craft based work, a company is prepared to pay for good workmanship. Most companies don’t want turnover but their needs to be a way of dealing with high wage labour. Letting high wage labour go, training and promoting from lower pay staff is one way of controlling costs. This is a fact of life; every company faces the same problem.”

Connection-based recruitment may have also declined as a result of this deskilling process of replacing skilled craftsmen with those recruited and trained from within the factory, as the High End Supervisor noted:

- R:** *None of my family is in the trade so [there was] no help from that side. The relocation of the jewellery trade into China [from Hong Kong] started less than 20 years ago. Most of the news comes from friends working in the trade within different firms.*
- CS:** *So in your department is your source of workers also from recommendations?*
- R:** *Yes, especially if we are looking for experienced and skilled workers.*
- YT:** *Does this mean most of the workers in your section are either friends or family?*
- R:** *This is less so now as more people are trained up from below within the firm, it was more of the case in the past.*

Retention

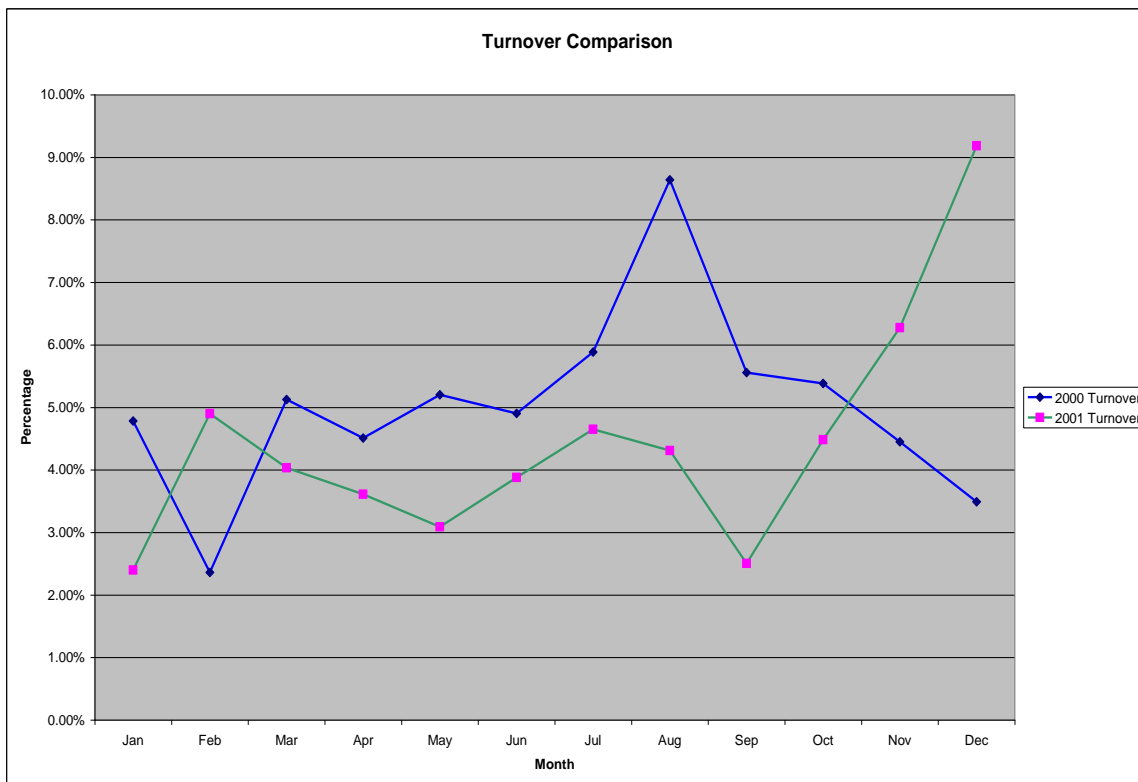
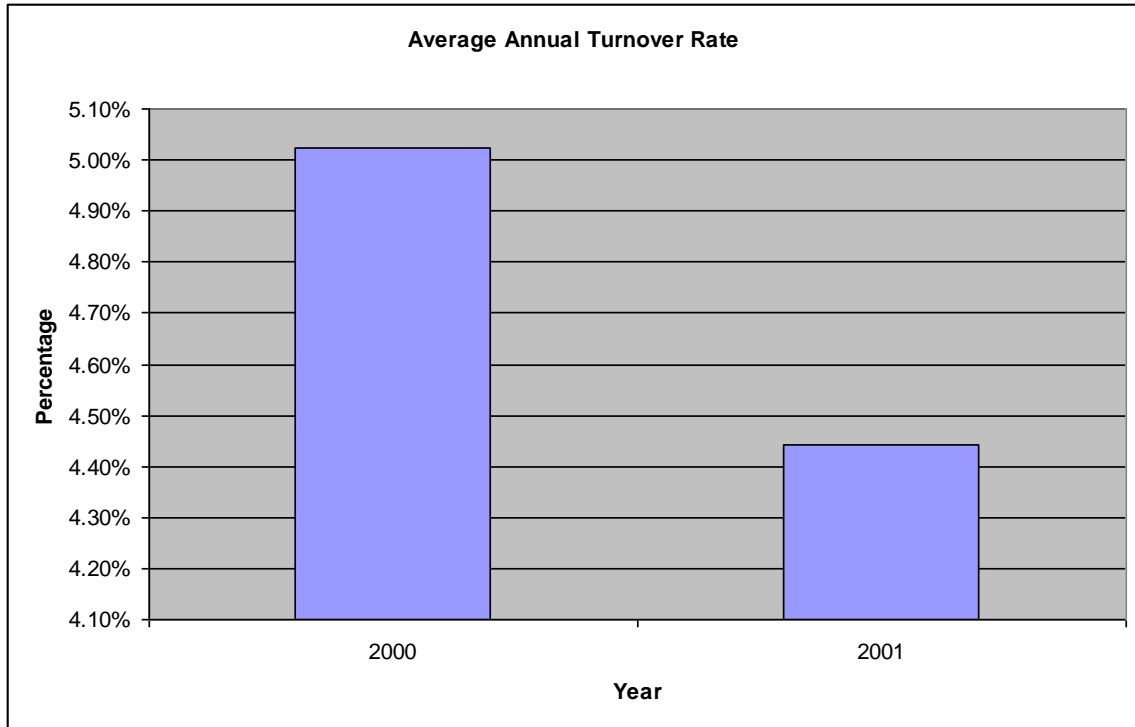
Staff retention in all FIEs is a critical issue (Goodall and Warner, 19998) and each company tries to defend its human assets against competitors. With the implementation of the new social protection system, it is more likely that employees will select their jobs based on their skills rather than the ownership type of an enterprise.³ The factory faced the situation where workers might leave

³ The social protection system implemented since 2000 is financed by tripartite co-ordination of individuals, enterprises and government with the aim of alleviating the responsibility of publicly owned enterprises for employees’ welfare and forcing individuals and enterprises in the non-public sector to make their due contributions. The new system attempted to establish a link between the individual’s contribution and his/her social security benefit to provide an incentive to work and save. Li (2000), the president of Chinese Academy of Social Science, said that the goal in the social protection reform was to establish a nation-wide social society system that “fits the socialist market economic system, has many channels for fund raising, has multi-levels of security, connects contributions to benefits and is run by the government instead of individual enterprises.” Research showed that JVs did not object to provision of welfare functions that the state enterprise itself traditionally provided and to fulfil these functions, even though they increased costs. However, the new pension system was not universally implemented and applicable to all the workers. For instance, the government, which was in charge of the labour relations, specified a quota of 15 per cent for JEWELLERY-CO. It proved to be quite a problem for the firm to select 255 staff out of 1,700. As a consequence, JEWELLERY-CO chose those by seniority. Selected staff contributed 3 to 4 per

after staying two to three years. Due to the possibility of high job turnover, there were a number of tactics management used to retain competent workers. JEWELLERY-CO had maintained traditionally individualized tasks and responsibilities. Basically, there was no job rotation. Workers had to stay in the same department for the same job. They were restricted to specific skills and the skills were not transferable to other departments. Hence, internal transfer was rare - an average of 5 production workers were moved between departments per month in 2000-01. As the Personnel Officer explained: “in my view, most business seems to favour single skill development for the majority of their workforce [and] in fact, it appears that they *do not* encourage multi skills development.” This was because: “for most businesses, production comes first. If they allow multi skills development the workers may not be able to focus on their jobs and may lead to a reduction in their productivity.” In other words a classical Taylorist perspective of task specialisation prevailed – by sticking to one task the worker increased individual dexterity and hence productivity. Moreover, task specialisation meant workers could be trained cheaply and quickly. Another manager commented: “I don’t think the training cost is high; if we compare the volume of orders, the training costs are insignificant”. Building a specialised labour force with a ‘build in’ turnover after 2-3 years was only possible because of the continuous supply of labour in China, as the same manager noted: “after Chinese New Year I had to replace 80 workers, in one day I got the 80 I wanted and within 2 days I got 200 workers.”

According to the data provided, the labour turnover rate for the factory in 2000 and 2001 was 5 per cent and 4.4 per cent respectively, see tables below.

cent of the average monthly salary, depending on seniority, while the company’s contribution to the pension was 6 per cent of the payroll. This further segmented the workforce. The new pension system advocated that a worker’s contribution should be linked to his/her ultimate pension benefits while the government portion of the pension should be enough to keep retirees from poverty (Stevenson-Yang and Shi, 1998). The pooling fund was administered by the Ministry of Labour and Social Security, which charged a 2 per cent management fee, would transfer the accumulative fund to an employee’s respective province and municipalities once he/she left the firm. This actively facilitated the labour mobility between different types of enterprises, as redundant employees or employees who were dissatisfied with their current jobs became more willing to look for jobs elsewhere rather than sticking to the SOE merely for its social protection coverage. While the traditional social protection system contributed to “an extreme lack of labour mobility” in China (Howard, 1991), the benefits of it was to encourage workers to move across enterprises, industries or sectors and they become far less dependent on the labour market for survival. In such circumstances the power of the market over workers is reduced. To deter high labour turnover, particularly the skilled ones, companies like JEWELLERY-CO had to develop strategies to retain them, which will be discussed in the next session.



There was a relationship between below legal wages and turnover according to the production manager: “most voluntary [turnover] exits [are] because of [the] low wage. The [statutory] regulation here specifies 400 RMB per month but we

only provide 300 RMB. But after a year's service most workers would get 500 RMB."

Within the average, there were some higher turnover rates, with 18 per cent in 2001 attributed to the Emerging and Polishing workers, accounting for 36 per cent and 13 per cent of total workers respectively. This departmental 'blip' was addressed through a big *internal transfer*. As noted earlier, internal transfers were generally extremely low due to the policy of task specialisation. According to the head of the High End Workshop, most difficulty was in the recruitment and retention of highly qualified technical staff. To retain skilled workers, they employed a consultant firm to provide them workshop training. Most of the training was on the job. But it seems this was not an effective strategy to retain skilled labour.

The deposit system

Adopting a deposit system was another way to retain workers. Deposit money was a deduction from the workers' monthly wages, ranging from 50 to 100 RMB for unskilled workers. For those wages reaching RMB 1,000 and above, the deduction was 10 per cent of the salary. Nevertheless, the deduction for the deposit had a maximum limit. For senior workers the deposit was 1,200 RMB and for more experienced and technical staff the deposit could be 2,000 RMB. Once the new workers had been with the factory for a year, they would recoup 100 RMB from their deposit. The partial return of the deposit at the first year was a promise and they would get the rest of their deposit money at the end of their 2-year contract. The deposit money had accumulated to 1 million RMB for the entire workforce. As the Personnel Officer indicated, the deposit system was used for purposes of labour retention, with workers who quit before the end of their contract losing their own accumulated wages held by the management as a deposit. This is a form organised theft, but is a widespread practice within an employment system based on migrant labour: "workers who want to leave early without acceptable reasons have to suffer economic penalties."

The deposit serves other purposes for the company. First, management stressed the issue of security. As the nature of business at JEWELLERY-CO involves metal "gold" handling, stealing was a constant possibility. The deposit could be used as a form of financial guarantee against theft. The factory had an incident when a worker took 40 rings and ran away during one lunch time.

Second, it is a labour retention device for workers to stay long enough to pay back the company's investment, such as uniform, lodging and training. There was considerable confusion over the actual length and costs of training, with some managers saying training was 2 weeks or 1 month or as high as US\$100 per annum, which translated into just over 3 months work. We can safely assume that during the first 3 months workers *were* productive for the company, as training was on-the-job; hence we should be sceptical at the \$100 training claim per worker. In another interview, a senior Hong Kong manager said that the *first*

month was the period of training and preparation of workers, hence this would only cost the company US\$37, not US\$100: “Under our system, the first month is really an investment for the workers, we provide uniform, clothes and teach them skills it is only later on that they will be able to contribute back to the to the company.” Nevertheless there was a training element to the job as the company was targeting unskilled labour in order to keep labour costs low. Therefore by putting economic penalties in the way of premature exiting may be seen as a rational way of ensuring that the firm receives a payback for this initial investment. However, training was brief (although this was changing), because the labour process was deliberately deskilled with fragmented specialised tasks, no multi-skilling or tasking, hence one can assume that taking a deposit to recoup training costs was *not* the primary motivation for the practice.

Third, the system offers an excellent short-term solution to staffing problem by deterring job change. The personnel manager said: “If we don’t have this deposit system then the worker may leave after 4 to 5 months.”

Fourth, it works against workers not returning work after a long break, such as the Lunar New Year holiday. Wage payment falls on 15th of every month when workers receive the previous month’s wages. In other words, there is a half month unpaid wages for the workers which is a common practice in the industry. Workers normally would not receive any pay before the holiday. If they breached the contract or were not returning after the holiday, they would forfeit one and a half month’s salary *plus* the deposit deducted for each month. It was used as a means to retain the labour by acting as an economic coercion or tax:

Interestingly, the deposit money runs in parallel with the deposit at the National Union. In case JEWELLERY-CO suffered losses or bankruptcy, there should be protection of employee rights and interests, and hence each JV is required to contribute a pool of money to support the National Union. The amount is based on calculations against sudden closure of the business. According to the personnel manager of JEWELLERY-CO:

Although the government discourages the deposit system, we talked with the local Labour Department in Longgang District to make a point that we are a ‘special case’ and they’ve agreed. While we deduct money from the workers’ wages, the government is requesting a deposit for the National Union against bankruptcy. Only the National Union and an appointee from our company, head of our Chinese partner, are allowed to access to this separate joint account. If the business is closed down the Union can access the deposit to compensate workers.

While management at JEWELLERY-CO sought to put a rational and unique gloss on their reasoning for using the deposit system, the fact was that it is not a company or industry-wide practice, but typical of the actions of employers in the SSEZ (Chan, 2001; Eng, 1997; Lee, 1998; Pun, 2005; Smith, 2003). Therefore one should judge the practice as an adaptation to migrant labour, within a context where workers have limited or no collective representation and employers possess significant coercive powers to restrain the autonomy of waged labour to exercise ‘mobility power’ (Smith, 2006) which is characteristic of capitalist

practice, especially in more liberal economies. Hence deposits detain labour for the benefit of the employer not the worker, and JEWELLERY-CO is representative of this employer prerogative.

Termination

Except for experienced and skilled workers, ironically, JEWELLERY-CO did not want to retain their young workforce. They used non-renewal of contracts to get rid of them when their eyesight deteriorated.

- *“...we are not going to dismiss people just because they’re older. Having said that, many do leave after the 2 year contractual period. I prefer people to leave while they haven’t collected much dust in their lungs. I’d rather not have people making claims (against the company) later on.”*
 - Senior Hong Kong Manager

Young workers also wanted to return to their home village after saving money. For any early termination, there is no exit interview and one month’s notice was required. For female workers, many return home at 23, the appropriate age for a young woman to marry in much of rural China. According to the Personnel Officer, “They will either help the family in the rural area to build a house, to pay back the family loan or to get married. Often their (female workers) families will have found eligible bachelors during their absence.” For the skilled ones, the perceived impossibility of being promoted beyond a certain level and competitive market wages also have a negative impact on staff turnover rates. This would almost certainly result in the younger and more highly trained employees being lost to the enterprise.

In 1993 the SSEZ completed an All Employees Contract System (AECS), which covered staff and workers in all enterprises. New employees have been contracted for only a short period between one and five years (Zhu and Campbell, 1996). The Chinese dimension of inheriting staff is that the JV may be faced with involuntary retention of staff. Under the 1994 Labour Law, employees with more than ten years’ service are entitled to non-fixed term contracts – in effect, life time employment (Josephs, 1995; Zhu, 1995; Ng and Warner, 1998). Companies entering into a JV agreement who are not careful to mark the start of a new employment contract may find they have to involuntarily retained a certain number of unwanted employees.

Conflict

There had been some wildcat strikes in the factory, which are very common across the region (Leung, 1998; Smith and Pun, 2006; Lee, 2007). Often these were about unpaid wages, working conditions, redundancies and many other traditional industrial relations grievances. In the case below, the spontaneous action of workers did force management to increase its pay offer, and therefore could be seen as successful, and part of the pattern of short-strikes typical of the

southern 'sunbelt' regions of China (Lee, 2007). However, it is typical of these spontaneous strikes that they have not produced more formalised bargaining, but rather intensified management communication and control.

R: *In the past there has been 2 to 3 strikes. Once it involved the young workforce expected advance payment before they went home for Chinese New Year and another time was about dissatisfaction with the rate increment... Personnel might have needed to handle the bad news in a more diplomatic way. The advance payment before New Year might be due to how the date fell within that particular month. Workers might have heard that other companies were paying in advance even New Year date was at the beginning of the month.*

CS: *How long did the strike last?*

R: *Just a few hours, the workers just stopped working.*

CS: *How did they communicate the news with each other?*

R: *We asked the supervisors to tell the workers even if they go on strike we still won't be able to help them. It is illegal to be on strike in China.*

AL: *Did the workers accept the 5 per cent offer?*

R: *We tried to explain to them it was an average increase for everyone. But eventually some department had a better rate at 6 per cent or 7 per cent.*

AL: *Did that create any negative impacts or distrust of the management, as they didn't keep to their promise?*

R: *It was not so much about not keeping to the promise. It was more to do with the timing of the news and how it was communicated to them.*

YT: *When did it take place?*

R: *It happened April 01 last year and then around Chinese New Year 02.*

AL: *Did anyone get punished and did they have to work overtime on that day?*

R: *No one was punished and we stuck to our schedule on the day.*

The way to avoid strikes was 'better communication' and for supervisors to be 'closer' to workers and anticipate problems better. There was no sense that strike action would lead to formal arrangements for workers and managers to discuss collective issues. It was very much about management control and personalised relationship management:

R: *Last year we had a regrettable incident. The original holiday was planned for 2nd to 25th February then changed to 6th to 20th and changed again to 11th to 16th. We had to ask people to work more overtime. I think part of the problem was caused by the supervisor's attitude when asking people to do overtime. I suspect they were not very diplomatic and might have even threaten to issue an AWOL [Absence Without Leave, punishable by dismissal] notice for workers did not agree to do overtime.*

YT: *Since this instance, would you consider changing your grievance system?*

R: *After this incident we talked to workers directly and asked supervisors to be more diplomatic when making requests. We expect supervisors and line-leaders to be more observant of what is going on on the ground.*

Management Control and Dormitories

As noted above, all employees were migrants. In keeping with the widespread practice in the area, they were overwhelmingly accommodated in industrial dormitories rented by the factory from the local Nan Ao local authority. As has been suggested elsewhere, (Smith, 2003; Smith and Pun, 2006) having workers 'on tap' in Chinese factories gives management a *control dividend*, which is not available in other production regimes in other parts of the world, making Chinese workers not simply cheaper than others, but also, capable of having their labour power managed and accessed more readily. The production manager voices this control premium, as well as a paternalistic concern with young workers ("boys and girls") interacting together outside the workplace, and out of view of management:

CS: *Do you think there are any benefits having workers living in the dormitories?*

R: *I prefer workers to live in dormitories because if they live outside it is more difficult to control them. They could group together and steal things or do other things. Also girls and boys meeting outside are not so good.*

CS: *What are the advantages for you as the Production Manager, from the point of view of production, of living in the dormitory?*

R: *Closer to work, when we need someone it is easier to find him/her. It's more effective to exercise control. It would be harder to control if people were living outside. It's also better for the Personnel Department to control them and easier for organizing activities for them.*

Several respondents mentioned the quasi-paternal role managers had when they were supervising young migrants working away from their families. Some managers spoke about the problems migrants had in returning home, with incidences of robbery not uncommon. Hence, feelings of concern and paternalism are partly a product of older managers supervising a very young workforce. However, as this production manager explains, there was also a concern to get to know workers and reduce the distance between labour and management, because of the fear of workers grouping together, away from the control and isolation of the family unit, making them potentially more resistant to management and more strike-prone:

CS: *Would you say this [having a dormitory] is like a family as workers are eating, working and living together?*

R: *It could be summarized as that.*

AL: *Who plays the father and mother roles?*

R: *The factory manager.*

CS: *Are there any disadvantages?*

R: *The negative is that if the workers had their family here they would stay longer. By living together they might group together and disobey management. But you have to tackle these when they come.*

Conclusion

HRM with "Chinese characteristics" (Warner, 2002; 2004) is the most appropriate term to describe the situation at JEWELLERY-CO. These

characteristics were that labour was recruited from other provinces and not the local labour market where the factory was situated. Building a workforce on migrants had an 'in-built' level of turnover. Recruitment was not only controlled by the employer, as different levels of the state and worker-controlled networks continued to supply labour to the firm which had implication for management control and authority, as we have seen. The housing of workers in industrial dormitories meant labour supply for production was easier than in conventional settings where the division between work and leisure is not mediated by the employer (Smith, 2003; Smith and Pun, 2006). Workers were on short-term contracts, and the contract fragmentation for the purposes of increasing managerial control remains a major feature of the Chinese workplace (Nichols et al 2004). Against some of the optimistic views of others who have suggested skill enhancement within FIEs or subcontractor to MNCs in China (Frenkel, 2001) our research demonstrates the opposite. Systematic task decomposition, limited on-the-job training in specialist skills, and no multi-skilling or regular transfer of workers between different production departments. A narrow range of Taylorised skills was accompanied by a graded wage system, where retention (within a 1 year period) was accompanied by modest three-monthly wage rises. Against Frenkel's (2001) findings that wages were higher in FIEs, wage rates in our case company were very low, below national legal guidelines and the provincial average, suggesting that bargaining power and employer preference, rather than ownership is a better determinant of wage levels in the SSEZ. At the enterprise level, the company operated impersonal performance-reward relationships, intended to stimulate performance and productivity by doing away with non-contingent rewards. This runs counter to the Western concept of performance-reward relationship which has a motivational element aimed at enhancing performance. Given the weak dependency of managers on workers and workers on the company, there was a reliance on material incentives and coercive controls to restrict elements of labour turnover deemed disruptive to production. Workers knew they would be replaced as their eyesight deteriorated or their lungs filled with dust, hence commitment to the firm was structurally absent, and economic coercion was used to keep people at work. Management control was also exercised through fines and the holding back of workers' wages in the form of a 'deposit', variously justified on the grounds of accommodating to the inherent instability of migrant workers, but nevertheless indicative of economic coercion that would be unacceptable in other employment systems, but remains widespread in the Chinese system of HRM. Finally, the lack of an organised voice for workers, the illegality of strikes, the reluctance of management to embrace collective agreements or relations with workers, is again typical of an employment system dependent on migrant workers. Management was autocratic and directive, allowing little discretion and involvement from subordinates, and a paternalistic management style was reinforced by the older nature of Hong Kong managers and the youthful nature of the migrant workforce.

Warner (1999: 31) suggests that 'we are witnessing the emergence of a more complex, hybrid management model as marketization advances and as enterprise autonomy increases'. Zhu (2005) concludes that the shift from traditional

personnel and labour administration to HRM as defined in the West is only partial and in its early stages as China is still undergoing transition towards a more market-driven economy. Gamble (2003) has suggested aspects of convergence, albeit within specific sectors. But Chan (2001), Lee (1998), Smith (2003), Pun (2005), Smith and Pun (2006) and Smith and Leung (2005) drawing on case studies of assembly factories are more pessimistic about any shift of China towards 'Western' HR model (a problematic construct given the diversity in HR practices discussed in our limited country cases). This is due to the weakness of labour as an institutional force; the paternalism and coercion of employers; the use of short-term labour contracts that inhibit internalisation of human resources within the firm; the extensive use of industrial dormitories that facilitate labour turnover and low wages; and the pressures on price operating on firms in competitive global product markets.

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