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Nan Yu

**All in Transition – Human Resource  
Management and Labour Relations  
in the Chinese Industrial Sector**

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Wissenschaftszentrum Berlin für Sozialforschung gGmbH  
Reichpietschufer 50  
10785 Berlin  
Germany  
[www.wzb.eu](http://www.wzb.eu)

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Nan Yu

All in Transition – Human Resource Management and Labour Relations  
in the Chinese Industrial Sector

Discussion Paper SP III 2012–302

Affiliation of the author other than WZB:

**Nan Yu**

Associate professor at the Business School at Jilin University (China)

## **Abstract**

This discussion paper is a literature study reviewing the development of human resource management in China, with a particular focus (where possible) on the automobile industry. It presents the Chinese context for HRM discussing the normative debate about the adaptation of Western management methods and the heritage of Chinese philosophy and values, and it describes the economic, cultural, and transition-specific factors which influence HRM in China. In more detail, the paper deals with work organization analyzing to which extent companies transfer Western work organization systems to China and describing Chinese concepts of teamwork and leadership. As to personal development, it deals with Chinese approaches to recruitment and career systems also describing the debate about skill formation in the Chinese industry. Wage and incentive systems in China are analyzed, and the system of employee interest representation in China and the role of the All-China Federation of Trade Unions are presented.

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## **Preface**

The present paper was written in the context of a research project on Personnel and Production Systems in the BRIC countries. The BRIC countries – Brazil, Russia, India and China – stand for the great ‘emerging markets’ which are playing an increasing role as industrial centers of worldwide importance. Thus, the management concepts and practices pursued by companies in these countries can be expected to be of influence also for the traditional industrial countries in the future. In view of the particularities of the BRIC countries, the project is interested in the following questions: What are the critical differences of the human resources conditions in these countries? How do companies (multinationals and locals) with their personnel systems deal with these conditions? Do the multinational companies transfer their standards, or do they attempt to draw an advantage from the special conditions existing in these countries? Thus, are they banking rather on advantages such as the immense labor market, low labor costs, lack of regulation – or do they right from the start develop personnel and invest in their qualification? In this sense: Are they taking the “high road” or the “low road”, and what differences exist between companies in this regard?

The project has been carried out by the research unit “Knowledge, Production Systems and Work” by Ulrich Jürgens and Martin Krzywdzinski in cooperation with Florian Becker-Ritterspach at the University of Groningen between 2009 and 2011.

As part of the project, we asked our research partner in each of the BRIC countries for a review of the research literature of these countries dealing with country-specific approaches, traditional and newly emerging, regarding companies’ personnel systems and production organization. The present paper deals with the situation in China. The author, Nan Yu, is a professor at the Business School of the University of Jilin in Changchun/China.

Berlin, January 2012

Ulrich Jürgens

# 1. Introduction

At the end of the 1970s, just after Deng Xiaoping assumed the role of China's highest leader, he pointed out that the absence of management or poor management had become a bottleneck for the development of the country. With the advent of market liberalization, advanced management concepts and techniques have been introduced and applied in Chinese businesses and organizations<sup>1</sup>. Human resource management (HRM) in China has evolved in a similar direction. However, since HRM is thought to be sensitive to the social context, transplantation and adaptation of foreign management methods is regarded as complicated and difficult especially as China is experiencing radical and dynamic economic and social changes. As Warner (2009) remarks, the emergence of Chinese HRM is accompanied by many paradoxes, such as the clash of Western and Eastern culture and of the capitalist and socialist principles. Chinese companies are in the middle of this process and the characteristics of Chinese HRM are still in flux and in transition.

This discussion paper is a literature study reviewing the development of human resource management in China, with a particular focus (where possible) on the automobile industry. It is structured as follows. Chapter 2.2 presents the Chinese context for HRM discussing the normative debate about the adaptation of Western management methods and the heritage of Chinese philosophy and values. It describes the economic, cultural, and transition-specific factors which influence HRM in China. Chapter 2.3 deals with work organization analyzing to which extent companies transfer Western work organization systems to China and describing Chinese concepts of teamwork and leadership. Chapter 2.4 is dedicated to personal development and deals with Chinese approaches to recruitment and career systems also describing the debate about skill formation in the Chinese industry. Following this, chapter 2.5 analyzes wage and incentive systems in China. Finally, chapter 2.6 presents the system of employee interest representation in China and the role of the All-China Federation of Trade Unions. The discussion paper ends with a conclusion summarizing the main points.

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1 For example, TQM was introduced in China in 1977 and in 1979 the China Association for Quality was founded to promote TQM throughout the country. In 1980, the first class of the Sino-American Management Training Program started. More than 30 selected American management professors gave lectures to more than 150 trainees who came from large or medium state-owned companies or government institutions. Organizational Behavior was included in this program curriculum.

## 2. Chinese context for HRM

### 2.1 The normative views

The benefits of adopting Western advanced management methods are widely contested in China. Firstly, like the great debate over China's loss of independence over 100 years ago, the present debate<sup>2</sup> on how to deal with Western management fundamentally falls along two lines, between the 'overall westernization', and a specifically Chinese way of learning. The former view sees management as a modern occurrence and the body of Western knowledge for management as a systematic, scientific and universal one, contrary to the management knowledge derived from thousands of years of Chinese history, which is regarded as impractical, outdated, and even detrimental. Therefore, if we follow this view, Chinese companies should discard all traditions to absorb and copy Western management methods. The latter view, on the other hand, insists that Chinese philosophy and its reflections in management should persist in the management practices of Chinese companies, while Western management can be applied as a tool. This view emphasizes that a distinct Chinese management style based on Chinese philosophy is the key to a competitive advantage of Chinese companies.

There is also the third view which is not as radical as 'overall westernization' and promotes using Western methods as a foundation for a Chinese type of management. It argues that the nature of westernization is modernization, so that Western management systems should be transplanted into Chinese companies, together with their original management philosophy and principles, which should not and cannot be replaced by Chinese management philosophy. However, the positive aspects of the Chinese culture can be used to enrich and improve Western-style management.

There are differing views about which elements – from Western or Chinese traditions – should be applied in the management of Chinese companies. In addition, even if there are theoretical arguments for the benefits of certain elements, there is no guarantee they can function well when cultures overlap and conflict with each other.

Given their many supposed advantages, management styles have been introduced in China from Japan, North America, and Europe, with little regard to their origin.<sup>3</sup> Joint ventures have been a common form of knowledge transfers,

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2 For details, see Huang (2006), Long (2004), Deng and Li (2008), Wen and Guo (2007), Li and Liu (2006), Yin (2008), Feng (2004a, 2004b) etc.

3 This kind of "enthusiasm" has led to the belief that companies' successes have been caused by a certain management style, without disentangling which management conditions have caused which effect, and whether a certain style fits the needs of a certain company. For

so that, for example,<sup>4</sup> Shanghai-Volkswagen and Guangzhou-Honda share certain German and Japanese characteristics, respectively, while still retaining some Chinese characteristics. Differentiating between which aspects are transferred and which are retained, as well as their functionality in the local context, is an interesting research agenda.

Foreign and domestic management consulting firms are another main channel of learning for Chinese companies. For example, Huawei<sup>5</sup> has invited the Hay Group to assist in designing HRM system (Zhang, 2007). Most of the earliest consultants were from foreign consulting firms<sup>6</sup> that opened up businesses in China, receiving local training and immersing themselves in the characteristics of the consulting firms they worked for. Many of them continued to set up their own consulting firms or were recruited by the newly-founded domestic consulting firms. Some former high-level managers who had been working in foreign-owned companies began to enter consulting industry, contributing to the prevalence of modern management throughout China. Generally speaking, though American textbooks are a standard in Chinese business schools, one is still hard-pressed to conclude that American management style is becoming the role model, in particular because Chinese companies still prefer a foreign partner they can approach and learn from directly through cooperation.

Unfortunately, research on the scope and effectiveness of management methods applied in Chinese companies is still very limited, especially with regard to Chinese-speaking publications. Empirical studies in Chinese are limited to descriptive case studies with little theoretical reference or merely of journalistic character. This literature report reviews these studies and occasionally refers to English-speaking literature.

## **2.2 Economic factors**

The Chinese economy is characterized by rapid growth and transformation from a planned to a de-facto market economy with these forces exerting strong influence on the attitudes and behavior of both workers and companies.

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example, many companies tried to copy the policy of dismissing the worst-performing 20% of employees, as practiced by Welch at GE. In most circumstances, the results were a failure.

- 4 In an interview with the author, one HR manager said that they had learned about the “Toyota way” through literature long before the joint venture with Toyota, but only really understood it once the cooperation had begun.
- 5 Huawei was founded as a sale representative of a Hong Kong corporation producing PBX in Shenzhen in 1988. It has since become one of the leading providers of telecommunication solutions. It was ranked in the top ten globally influential corporations by Business Week in 2008.
- 6 American companies such as McKinsey, Bearingpoint etc., and European ones like Roland Berger.

Chen (1995) finds that economic interests have come to dominate the traditional value of collectivism because of radical economic innovation which has exposed China to fierce international competition and decreased national economic protection. This inclination towards economic interests appears to increase acceptance for income differentiation, especially when it is regarded to fairly reflect individual contributions and when companies are able to offset the negative consequences of an excessive competition between employees on the willingness to cooperate. Acceptance of more individualism is more accentuated in coastal regions and less so in inland cities, due to a more rapid rate of development and the greater presence of Western firms in the coastal regions, facilitating a more rapid diffusion of practices and values (Zhang et al., 2006).

Due to rapid economic growth, companies are faced with a tight labor market, making it hard to compete for and keep human resources thus job-hopping has become a life style for many employees. According to the 'Investigation of talents retention in Chinese companies for 2006-07', a report presented by global HRM consulting firm DDI (Development Dimensions International)<sup>7</sup>, high-level managers are more inclined to job-hop than the rank and files employees. This report also shows that employees aged 25-30 stay at one job for 1-2 years on average. Among the 862 employee respondents, 73% have just resigned from a former employer, 24% have worked for more than 3 employers, and 22% are likely to leave their present employer in the next year.

The mobility rate is especially high among people working in the megacities of Beijing and Shanghai, due to the abundance of job opportunities. Newly recruited university graduates (those who have worked for less than two years for their first employer) are likely to resign because of special labor market conditions for university graduates (Liu, 2008). The labor market for them is relatively narrow compared to those with work experiences. The graduates are forced to enter into a company which does not correspond to their wishes and after they have accumulated some work experiences they will probably leave for the better workplace.

Highly qualified young people move to other workplaces due to a desire for rapid promotion and pay increases. Presently, a shortage in labor supply awards young employees with newly created jobs, forcing them to learn fast, so that in a short time they can improve their market value to a large extent. If promotions or pay increases do not correspond to market value, young people are likely to move on. This is also the reason why it is difficult for Japanese-owned companies, which follow a tradition of emphasizing seniority and gradual promotion, to attract the best young people (Yan and Lu, 2005).

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7 This investigation is a part of the global talents retention situation investigations conducted by DDI. The respondents included 215 HR managers and 862 employees. 81% of the respondent companies are transnational companies or large domestic companies like China Mobile and Kodak.

### 2.3 Cultural factors

Three aspects frame the relationship between Chinese culture and HRM. The first concerns the synergies of establishing HRM systems in the Chinese culture. The second aspect deals with avoiding the possible negative influences of cultural factors on the introduction of scientific and systematic management system. Although national cultural values are supposed to take effects in various ways within organizations, those effects can be counteracted at least to some extent by the construction of an organizational culture and institutions. A third aspect deals with the dynamics of culture itself. China is a context in transition. With significant social and economic reforms, cultural value change is occurring and is expected to develop even further.

Although egalitarianism of pay and lifetime employment<sup>8</sup> in state-owned firms of the centrally planned economy era is regarded to repress competition, there remain some noteworthy traditionally Chinese management methods. Among them are the harmonious relationship between workers and the firm and among workers themselves, and usage of immaterial incentives such as praise and the “title of honor” to role model workers. These should be viewed as positive remnants of the centrally planned economy era and in fact are still being used in advanced contemporary Chinese-owned companies.

Both collectivist and socialist values are still influencing HR and enterprise culture management in China. According to Cooke (2008), state-owned enterprises and Chinese-owned firms in the private sector have a much higher level of activities sponsored and organized by the firm, reflecting an ideology grounded in socialism and collectivism. These activities include theatrical performances to promote national spirit, educational courses aimed at improving employees’ ideological and ethical standards, and productivity and skills competitions (known as ‘socialist labor competitions’ during the Mao era). Xin et al. (2002) reported that state-owned enterprises still carried the socialist ideology of a selfless service to society in their organizational culture.

The role model of Chinese-owned enterprises such as Lenovo<sup>9</sup>, Huawei, and Haier<sup>10</sup> remain more or less grounded in these traditional and socialist values.

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8 The lifetime employment refers to the so-called Iron Rice Bowl, a national policy making it technically almost impossible for management to fire any employee from the enterprise. Therefore it is different from the job security concept included in HCWS (High Commitment Work System) which is a sign of an employer’s commitment to his employees.

9 Lenovo started in Beijing in 1984 when 11 scientists and engineers decided to transform their knowledge into products. Now it is one of the leading global PC producers globally since it purchased the PC business from IBM in 2005. In July 2008, Lenovo became the first private enterprise in China ranking in the Top 500 companies according to the evaluation of Fortune.

10 Haier originated from a collective enterprise producing refrigerators and started its development in 1984 when the present President of the Board Zhang Ruimin took charge of the factory. It is now the fourth global manufacturer of white household appliances. In

They appreciate employees' patriotic spirit as it is reflected in hard work, selfless devotion to the company, self-control in relation to others, and internalization of self-discipline and company rules. As famous Chinese management scholar Chen Chunhua concluded, traditional values such as the search for harmony, improving one's ethical standard continuously, self-discipline and self-sacrifice should be glorified in Chinese HRM (2008).

There is some overlapping between these values and the concepts of commitment, participation, teamwork and organizational culture, as well as possible efficiency synergies through appropriate HRM measures. For example, Huawei welcomes employees like Lei Feng who became a national role model in the 60s the last century for his selfless service to the people, but meanwhile introduced the policy of 'not letting Lei Feng suffer losses' which meant to reward such employees both spiritually and materially. It was said that in Huawei under every employee's work table there was a cushion on which employees could sleep during noon rest-time or overtime work at night, which was called Huawei's Cushion Culture. In return of such a hard work, Huawei provided the highest pay among the same industry counterparts.

It was pointed out that Chinese management philosophy has traditionally focused more on people than on organization, leading to an emphasis on interpersonal relations, loyalty, and motivation, neglecting instead organizational structure (coordination based on division of labor) and stable and reproducible organizational routines (Wen Kexin, 2008). This constitutes a two-edged sword. A focus on people may encourage initiatives and creativity of employees and the usage thereof by management, but the resulting uncertainty and unstableness may become a significant issue.

'Governed by Man', rather than 'Governed by Rule' has been a defining characteristic of Chinese businesses, emphasizing flexible execution of management regulations.<sup>11</sup> This characteristic, together with the collectivism of the Chinese culture, also embodies itself in leadership style and work behavior. Chinese managers often build close relationships with their subordinates, while employees maintain personal relationships with their colleagues. This characteristic is termed 'familization' or 'pan-familization' (Yang, 1992). Yet, all of the advanced Chinese companies such as Haier, Huawei and Yili<sup>12</sup> make great efforts to ensure strict adherence to regulations. At Huawei, employees violating

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Forbes top 600 most prestigious enterprises for the year of 2008, Haier ranked 13<sup>th</sup>, which is best among the selected Chinese enterprises.

11 Though the School of Legalism, which believes in governance by laws or regulations, also occupies a place in Chinese traditional culture and has been applied to the society actually throughout Chinese history, it has never been the ideal and dominating way of governing the Chinese society.

12 Yili became a shareholder company after a transition from state ownership in 1993. It is now the largest manufacturer of dairy products in China.

the regulations are reprimanded through pay decrease, demotion and even dismissal. At Yili, all employees attend military training to increase discipline. As a result, a policy of 'no tobacco, no alcohol and no leftovers from a meal' is enforced among more than 10,000 employees.

The so-called "Guanxi" within organizations can have positive or negative effects. If it is related to nepotism and favoritism, it will evoke the distrust of employees towards management and thus lead to unfairness and inefficiency. This is why most Chinese executives have disapproved of Guanxi practices as an inefficient, 'deviant' and 'crooked' way of business, and instead advocated open competition based on the emerging legal-rational framework (Guthrie, 1998). Chen et al. (2004) also reported a negative relationship between Guanxi practices in HRM and employees' trust in management. However, Guanxi can also have positive effects. The three important qualities that make Guanxi distinctive are intimacy, trustworthiness and reciprocal obligation (Yang, 1994). Employees' personal social networks help them achieve organizational performance goals (Raider and Burt, 1996). The family-like relationship between the superior and subordinate and among the colleagues may alleviate the tension of workplace and reduce transaction costs.

In a collectivist society like China, the borders between the public and the private are fuzzy. Criticism received in the work place is easily regarded as damage to one's dignity or the so-called "Face". Overcoming this culture is a central issue for management: For example, Haier attempted to establish a different organizational culture instead (Zhang, 2007). At Haier, a manager can be criticized in public (in internal newspaper or on bulletin boards) by name because of poor performance or violation of company regulations.

## **2.4 Transition process**

HRM is bound to change due to changes in the size of companies, in stages of development, and in globalization processes. Chinese companies are now experiencing these dynamics in several ways: When family-owned small companies grow, they begin to search for a more formal and objective system to HRM, rather than relying on authority and personal relations; when a domestic company expands its business to the rest of the world and becomes transnational, it has to transform its organizational culture into a more universal one; and when a company reflects on the weaknesses of Chinese management culture, it tries to establish a different culture within the organization against traditional values.

Huawei's case (Zhang, 2006, 2007) reflects a company's conversion to a more modern and humanized culture and system in the course of globalization. In its early period of development, Huawei achieved rapid development through an authoritative management style – a collectivist approach emphasizing strict discipline, high intensity of work and high pay in return. Until 2000, Huawei had been trying to establish a corporate culture based on a distinctive Chinese

national culture. Huawei's organizational culture has been highly praised as the role model of Chinese style management, however. But management and American employees in its wholly-owned subsidiary located in Dallas constituted a headache for Huawei, leading the company to recruit and manage human resources globally. Huawei had to commit itself to a more global system of management concepts and measures. In recent years, with the intention of introducing modern and sophisticated management styles, Huawei began to learn from IBM, even copying 'special terms' and management methods such as PBC (Personal Business Commitment, IBM's own way of 'Managed by Objective').

Wanke<sup>13</sup> is a case of a domestic company trying to overcome the downsides of Guanxi and collectivism and pay more respect to individuals and their development (Zhang, 2006). Although not providing the highest pay, it is the most attractive company among its competitors. It is said that at Wanke there is no prevalence of the organizational politics<sup>14</sup> troubling most of the Chinese companies. Human relations become simpler and more transparent, which lowers communication costs. Workflows are not disturbed by complicated human relations and collectivist dynamics. Wanke is the most popular employer for university graduates majoring in liberal arts.

Although it is still uncertain whether a distinct Chinese style HRM will develop, there are some observable trends and directions. First of all, standardization and institutionalization are the priorities for big companies. There has been a realization that in order to manage large organizations and organize modern production, control by procedures and systems is a necessity. Due to historical legacies, this process will require some time.

Secondly, increasing respect for individuals and their development seems to be a trend, too. Wanke's case is a typical one. The company once considered learning from Japanese companies by providing life-time employment soon found that rapid changes and turbulences impair such a policy experience. It then focused on raising employees' employability and aiding their career development. At Haier, an efficient work method or tool will be named after the worker who has invented it. Many companies are now giving huge sums of monetary reward to employees in cases of special performances.

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13 Wanke was founded in 1984 and now has become the largest residence developer corporation in China. Due to its good management and ethical performance, Wanke has been ranked among 'the most respected companies in China' for four consecutive years and has been honored as 'the best corporate citizen in China' for three consecutive years.

14 According to Mayes & Allen (1977), organizational politics is defined as the management of influence to obtain ends not sanctioned by the organization or to obtain sanctioned ends through non-sanctioned influence means. Although organizational politics take place in varying degrees in all the organizations, it could be argued that they are more common in Chinese companies where standards haven't been well established.

Thirdly, many Chinese employers value affection management. Chinese people are inclined not to divide work life from their personal life and the emotional connections with their peers and workplace are highly appreciated. Therefore, even at Haier, which tried to counteract this characteristic and make employees concentrate on work performance, the establishment of family-like bonds with the company is promoted. As one of the 'Best Employers for Year of 2006' selected by a CCTV<sup>15</sup>-sponsored activity, Motorola (China) has a reputation of the most "domestic-like" foreign-owned company, with an internal newspaper named 'Big Family Paper' (Editor Group, 2007).

Altogether, Chinese companies are trying to combine these factors in management. Sina's case<sup>16</sup> represented this inclination. Sina casts itself as a 'Big Family' and an important place for employees to be emotionally connected and to the company. Meanwhile, Sina also attempts to learn from Western companies to set up and execute procedures and regulations in an efficient manner.

These three points also manifest themselves in the HRM system regarded as ideal by Chinese companies. The 'ideal' HRM system includes three dimensions: Affection ("Gan-Qing"), career ("Shi-Ye"), and material rewards ("Dai-Yu"). Chinese companies strive to attract, motivate and retain people by genuine regards and family-like affection, promising career-long employment and reasonable pay.

### **3. Work organization**

#### **3.1 Production system and work organization**

Chinese manufacturing companies are still in a transition period toward modern management. Although most of the companies have introduced a great number of advanced production management concepts, methods and techniques such as TQM, 6Sigma, CAD, CAM, JIT and ERP, there are still some in which a more fundamental transformation has not yet taken place. The main problems lie in the lack of standardization, procedures and institutions, incomplete utilization of workers' creativities and initiatives, and inefficient organizational structure, all resulting in low production efficiency and inflexible responses to market change (Huang, 2003). The vice general manager of Dong Feng Passenger Car Company once said that the production of a car in China is twice as expensive

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15 CCTV is the abbreviation of Chinese Central Television, the biggest and state-run TV station in China.

16 Sina is one of the largest internet companies in China, which provides media and recreation services to internet users. It went public in NASDAQ in 2000. This case is from 'Chinese style management arouses arguments', Think Tank, Dec. 2004.

when compared to the international average, even though the labor cost is 80% cheaper than in advanced countries like Japan.<sup>17</sup>

Some advanced companies are, however, striving to catch up with their international counterparts. Since 1994, the Shanghai Automobile Industry Corporation Group has started to promote JIT and team organization<sup>18</sup>. Guangzhou Honda Automobile Corporation<sup>19</sup> has attempted to transplant Lean Production to China since 2000. At Honda, no quality control inspector is needed at the production line since every worker assumes the role of inspector of the last operation procedure. Workers' movements are carefully analyzed to prevent losses in time and energy. Moreover, workers have invented lots of ways to meet efficiency needs. As a result, Guangzhou Honda's flexible production line has reached a productivity level of 51 seconds on average, which is the highest in China and equal to that of the parent factory in Japan. However, there still remain issues concerning idle time and using workers' capabilities; to achieve this objective, Guangzhou Honda strives to modify its management system<sup>20</sup>.

Continuous improvement (*Kaizen*) is being pursued by automobile manufacturers. "NGH" (New Guangzhou Honda) is the name of such an activity at Guangzhou Honda, which is based on teamwork aimed at finding and solving production problems. By 2007, there were more than 970 of such NGH groups at Guangzhou Honda, with the worker participation rate reaching 93%. Through this activity, large-scale cost-cutting was made possible and some of the innovation results have even resulted in technology patents. But the more important fruit of this activity lies in the stimulation of workers' initiatives in self-improvement, creation of a platform for workers to learn continuously, and training for team leaders in team management.

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17 Dong Feng Passenger Car Company is a subsidiary company of Dong Feng Motor Company Limited, which is a joint venture between Dong Feng (its predecessor is The Second Auto Manufacture Factory) and Nissan. The relevant information comes from 'Chinese style management arouses arguments', Think Tank, Dec. 2004.

18 See Gong (1997). According to the report, during the introduction 104 kinds of textbooks related were edited, among which two books titled JIT Production's Concept and Methods and TEAM's Work Style in particular became popular among workers extensively and played a very positive role in the promotion of JIT. In one of its subsidiary manufacturing air conditioner compressor the restructuring of production organization improved the operation rate to a large extent. And in another subsidiary 16 JIT production teams were established and within them 22 difficult production problems were solved, by which 170,000 RMB have been saved yearly.

19 See Guan (2005), Su (2005), Chen (2005), Ning (2007), Hu and Lang (2007), Zhou (2005).

20 In fact, Guangzhou Automobile Manufacture Factory, the Chinese mother factory of Guangzhou Honda once learned TQC in the latter period of 70s in the last century, but failed as it regarded TQC only as a tool so that it didn't do anything about the improvement of workers' quality and modification of management system.

In China, grass root work organization has been regarded as important since the founding of the People's Republic. In the tradition of "Ban-Zu" (team), when a certain work organization is regarded as excellent, it will be named after the name of the team leader and promoted as a role model work organization throughout China<sup>21</sup>. Especially in recent years, as Chinese companies have increasingly realized the value of good management and knowledgeable workers and the concept of continuous improvement has been introduced in China and its automobile manufacturers in particular, concepts of a learning work organization and Ban-Zu construction (enhancing Ban-Zu's management) have become very popular.

For example, the First Auto Works Group (commonly known as FAW) has put great emphasis on Ban-Zu construction and training of Ban-Zu leaders (Zhou, 2007). It has established qualification goals for Ban-Zu and intends for all the Ban-Zus to reach the goals in three years. In order to accomplish this, role model Ban-Zus were selected and the internal TV station and newspaper ran 'Forum for Ban-Zu leaders' and edited 'Ban-Zu Handbook' monthly, which became the platform for the Ban-Zu leaders to learn from each other. Ban-Zu leaders are educated in various fields, such as in workshop management; they get lectures and visit international auto shows held in Beijing and Shanghai.

### **3.2 Teamwork**

The term "teamwork" is relatively new in Chinese culture. People were more familiar with such terms as "spirit of collectivism" or "sense of collectivism" until recently. By the author's understanding, both teamwork and spirit of collectivism represent an attitude or behavior of considering and attributing to collective interests or objectives and cooperating with others. However, the latter in many cases implies self-sacrifice and selfless devotion, whereas the former is based on respect for individual character and creativity.

Ban-Zus have created various methods to improve efficiency continuously by teamwork and group learning. The key role here is the team leader, called Ban-Zhang or Zu-Zhang in Chinese. Traditional Chinese workers are unaccustomed to holding authority, expecting it to come from their direct supervisors. Rather than acting autonomously and making independent decisions, most Chinese workers prefer not to 'stand out' from their group. Chen, Tsui, and Farh (2002) note that both in-role and extra-role performance were more strongly

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21 For example, Ma Heng Chang Xiao Zu is such a work organization. According to Zhao (2008), it was named after the first leader of Ma Heng Chang and has kept achieving outstanding achievements for more than 60 years since its foundation at the Qiqihaer Second Machine Tool Plant on April 28, 1949. It is famous for introducing democratic management in work organization, initiating nation-wide socialist labor competition, advocating technological innovations by organizing a Worker Technology Research Association, and establishing and improving a management system in work organization. It is honored as 'the cradle for Chinese Ban-Zu construction' and the 'flag of the Chinese working class'.

associated with loyalty to supervisors than with organizational commitment in China. An effective team leader can build cohesion within the team and motivate team members to practice team work.

In continuous improvement efforts, Ban-Zu has become a focal point. QC circles are usually organized within the unit of Ban-Zu. The leader of Ban-Zu organizes the team members to apply for the establishment of a QC circle and submit the research theme and action plan accordingly. Teamwork is displayed not only in the form of QC activities, but in other kinds of collective learning and innovation. The famous Yuan Zheng Hai Ban-Zu (named after its leader's name Yuan Zheng Hai) at Jiangling Motors Corporation is a typical example (Wang and Zhao, 2007a, 2007b). Yuan Zheng Hai established a corner in the workshops where team members can communicate with and learn from each other. When a member faces production problems or accepts an innovational task, team members will gather here and discuss a solution. These measures motivate team members to learn diligently, search for innovations, and provide learning opportunities by knowledge and skill sharing. As a result, several improvements in production processes and workers' performances were accomplished. All the members became multi-skilled workers.

In a work organization of FAW's Jiefang Corporation, the team leader sets up a Learning Corner on a visual board on which members can post questions and work experiences concerning quality improvement and work procedures to further communication among workers (Guan et al., 2006).

The participation of each member appears to be a characteristic of teamwork in China. In the left-front door Ban of the Bora welding workshop at the FAW-Volkswagen First Passenger Car Factory, a periodical Improvement Forum was established (Guan et al., 2006). This forum is designed as follows: Every team member serves in turns as host of the forum. He will be in charge of presenting the theme and organizing the discussion. Even the dispatched workers within the team are encouraged by the team leader to host the forum and to contribute to the improvement activities with their ideas.

In China, teamwork can be developed through family-like affectionate relationships – workers like to be treated as a 'member of the family'. They seek harmonious relationship with peers and direct supervisor. Yuan Zheng Hai Ban-Zu promotes such a kind of 'Family Culture' within the team (Haunui, 2007). In the corner of Yuan Zheng Hai Ban-Zu, all the members' pictures (personal and collective) and their contributions to the team and the company are posted on the wall. When a team member faces personal or work problems, he receives help from the other members. Traditionally, Chinese employees are more inclined to focus efforts on developing competencies over the long term and maintaining good interpersonal relationship with their colleagues (Zhang and Guo, 2003). This may lead to workers possibly sharing their knowledge and skills without reservation when a family culture emphasizing affection and contribution can be established within the team.

However, this does not mean that Chinese people, who value relationships and harmony as collectivists, reject competition in team. Leung (1997; Leung et al., 2002) has recently proposed that harmony has two distinct motives in Chinese society. One motive is disintegration avoidance, which uses harmony as a means to other ends. The other is harmony enhancement, representing a genuine concern for harmony as a value in and of itself and involving feelings of closeness and trust, along with compatible and mutually beneficial behavior. In fact, there is a tradition of so-called 'Competition, Learning, Catching up, Helping, Exceeding' (Bi, Xue, Gan, Bang, Chao in Chinese) in Chinese work organization. This stands for a competence competition in which team members continuously advance by learning from role models, studying hard, and helping by other members. Yuan Zheng Hai Ban-Zu is an example of every member progressing within a similar atmosphere of team culture.

How do people in a team deal with the contradiction between the individual differences in competence and performance and the egalitarianism and 'the middle way', especially with a strong focus on individual competence and performance in present-day China? If a competent performer does not want to be alienated from the other members, he will share his rewards and offer to help others both at work and in private. At a QC circle at a Sino-Japanese joint venture, the members were awarded a cash prize because of their innovation output. Though everyone knew that one or two workers played the key role to produce the result, the prize was donated to the circle's collective fund. However, those competent workers who made the greatest contributions to the team performance received respect and recognition by the team members.

### **3.3 Hierarchy and leadership**

A typical hierarchy structure for a large manufacturer includes the general manager (Zong Jing Li), the department director (Bu Zhang, e.g. the director of the production department, human resource department etc.), the division director (Ke Zhang, e.g. the director of the production division or maintenance division in the production department), the section chief or foreman (Gong Zhang, the first line supervisor), and the team leader (Ban-Zu Zhang, belonging to the workers' class).

The team leader is the key person in charge of work organization, although he is not counted as a supervisor. He plays the most important role in aiding the team to function well. In most circumstances, the team leader is involved in production work like the other team members, while also being responsible for organizing the team. He is given great autonomy in arranging the team's production tasks and in deciding personnel management issues such as members' performance appraisal and skill training.

Yuan Zhenghai of Yuan Zheng Hai Ban-Zu constructed in his team a strict performance appraisal system when he became team leader in 1996. He set up a performance account for every member of his team, including records on

production quantity, quality, discipline and cost savings on which every member's bonuses and training opportunities are based.

Kuang Kai Xun Ban of Dongfeng-Nissan Vehicle Corporation is another case of a team leader's outstanding leadership in work organization.<sup>22</sup> In order to promote *Kaizen*, work standardization and continuous skill development among workers, the team leader of Kuang Kai Xun educated the members that a worker's job is composed of both a routine, which should be standardized, as well as *Kaizen*. Performance and skill formation management were implemented accordingly.

As for the performance management, he ordered members to record for each other the numbers of defects during work time and to examine obedience of operational standards during off-time. Every member is evaluated and graded by his performance regarding quality, quantity, discipline, etc. for every workday. Each member's grades are publicized in the team meeting at the end of every month. These results become a very important reference in workers' performance appraisals.

As for the skill formation management, Kuang Kai Xun created a very systematic training system. He implemented a survey for members' learning expectations and set up a long-term training plan. The training methods were varied and flexible. For example, he developed the so-called "Four Ones" activities, which include "One Q&A Daily" (a "worker administrator"<sup>23</sup> is arranged by the team leader to be 'team leader on duty', in charge of the routine management of the team and the publication of a Q&A on operation techniques once a day), "One Teacher Weekly" (one member gives a talk on his own work experiences once a week), "One Job Exchange Monthly" (job rotation is done once a month for one member), and "One Exhibit Quarterly" (the outputs of QC activities are exhibited once a quarter).

Therefore, team leaders at manufacturers have become the main force of management. To lead and manage a team effectively, team leaders have to acquire respect from the members by excelling in skill and virtue. For instance, team leaders need to be the most skilled employees within a team.<sup>24</sup>

However, it is unique that Chinese leaders have to be a role model of virtue for the team members (Ling, Chen and Wang, 1987; Ling, Chia and Fang, 2000; Li and Shi, 2005). Confucianism believes self-discipline and self-improvement of virtue

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22 See Sun (2005, Sun, Lan and Liu, 2006). Kuang Kai Xun Ban is a famous role model learning organization named after the team leader of Kuang Kai Xun.

23 The position of "Worker Administrator" was first set up in the Qinghua Tool Factory in the 1950s. Under the direction of the Ban-Zu leader, various worker administrators were put in charge of specific team issues, such as production security, quality, machine maintenance etc.

24 See 'Reports from the most basic level work organization: whether Ban Zhang should become the most skilled worker', Worker's Daily, October 13, 2007.

are the foundation of a society's existence. The most effective way of governing the society is for the leader to become the role model of the people and influence the people in an unobtrusive and imperceptible way by means of his virtues. In Chinese organizations, employees greatly appreciate a leader's virtues of uprightness, honesty, selflessness, fairness and appointing people based on their merits (Li and Shi, 2005).

Paternalistic leadership is common in Chinese enterprises, including overseas Chinese family businesses (Westwood, 1997; Cheng, Chou and Farh, 2000). Aycan (2006) summarizes the paternalistic leadership in a workplace as one in which superiors attempt to create a family atmosphere in the workplace, establish close and individual relationship with subordinates, get involved in the private life of the subordinates, expect loyalty and maintain authority and status. Unlike their Western counterparts, Chinese leaders display personal care of their subordinates not only at work and in career development matters, but also in private issues (Li and Shi, 2005). The subordinates also share their personal happiness and sadness with a superior they trust and respect. This kind of relationship is regarded to be beneficial to individual and organizational performance.

### **3.4 Personal development**

As some authors argue, China is a country where the average skill level remains relatively low and highly-educated employees are lacking. Liu, Jiang, Xu and Sun (2005) argue that the skill level of workers in China is far below the standards in industrialized countries; according to the Chinese vocational certification system<sup>25</sup> only 4% of workers are classified as highly skilled, 36% as middle skilled and 60% as reaching only the junior level. The lack of high-skilled employees has become a bottleneck of many companies.

Although job-hopping and the search for human resources have become a common phenomenon in China, companies do not rely on 'buying'. Their human resource policy will vary according to the different stages of development. In the early stages of development, companies have to look for talented people with rich work experiences in other companies to fuel rapid growth. As corporate development continues, companies start to increase the ratio of new university graduates among the newly recruited and train them. And finally, employees acquired by campus recruitment form the majority of the workforce. Recruitment for top and key posts in management and R&D is done globally,

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25 The Ministry of Human Resources and Social Security of the People's Republic of China has set up the national vocational certification system, which certifies the vocational skill level. In some cases the certificate is a prerequisite to work in a certain profession. Five skill levels are established: junior level, middle level, high level, technician and senior technician.

where possible. The Chinese automobile manufacturer Foton is an example of experiencing such a process since its foundation in 1996 (Liu, 2008).

### 3.5 Recruitment

According to Huo, Huang and Napier (2002), the key elements regarding personnel selection criteria that Chinese HR managers value presently are the professional skill a job demands and work experience. However, the key elements that Chinese HR managers think should be valued in the future also contain the development for potential. Learning capability and aspiration of workers have come to be regarded as increasingly important. The Shanghai Auto Industry Group, for example, is treasuring personnel's learning capability, adaptation ability and aspiration for development rather than their work experiences in the relevant professional field.<sup>26</sup> Similarly, the Chinese automobile manufacturer BYD<sup>27</sup> pays more attention to learning capabilities and basic character traits than to professional knowledge taught at school when recruiting new university graduates (Ou and Wang, 2008). Through internal education and training, BYD is advancing recruited graduates into core employees who master key technology and show commitment to BYD.

For production workers, learning capability is becoming significant, too. Many of them need to acquire new skills in computers and foreign languages. However, the education level of the production workers appears to be at a mismatch with the requirements. According to the Report on Shanghai Population Development 2005, workers holding a university diploma<sup>28</sup> constitute 1.45% of the skilled workers in all of the state-owned enterprises (including the ones in public service industries) in Shanghai, college diploma holders<sup>29</sup> constitute 9.77%, secondary technical school diploma holders<sup>30</sup> constitute 20.67%, and those holding high school diplomas and below constitute 68.11% (Lu, 2006).

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26 See 'Interview with Chen Shoulong the HRM manager of Shanghai Auto Industry Group: human resource is of the first importance', Chinese University Graduates Employment, 2001(5).

27 BYD, the largest after-charging battery provider in the world, was founded in 1995 in Shenzhen. It began its manufacture of passenger cars in 2003. By 2008, its main model F3 had reached more than 200,000 sales. President Wang Chuanfu said, "what I have depended are only people—the large labor force and clever engineers". In 2008's 'China HR Sixth Chinese University Students Best Employer Survey', BYD was ranked 30<sup>th</sup> in the field of domestic and foreign famous companies.

28 Basically, this means finishing a four-year general education after graduating from high school, but it also includes correspondence education, television education etc.

29 Basically, this means finishing a three-year general education after graduating from high school, but it also includes correspondence education, television education etc.

30 Basically, this means finishing a two-year vocational education after graduating from middle school.

Companies are demanding higher education levels for their skilled workers. For skilled trades, they usually recruit workers with at least a secondary technical school diploma and transfer those workers not reaching this level out of their present work posts. For example, at Volkswagen (Shanghai) production workers are young on average and their education level tends to be higher (Editor Group, 2007). In a labor market where the employment rate for new university graduates is about 60%, the ratio for new secondary technical school graduates is 98% (Li, 2009). Employees graduating from the high-quality technical schools are especially popular. They have a chance to enter into a company after graduation and finish another two year's of college vocational education with the financial aid of the company before they finally assume a post within the company.

### **3.6 Career paths**

The more educated the more people demand of their career development. Many surveys show that the provision of learning and development opportunities is ranked as the most important factor in employee retention.<sup>31</sup> Yet many Chinese companies lack efficient career development management, offering only a single management career path and no clear promotion criteria..

Some large companies have attempted to introduce multi-ladder career paths management, providing for both white and blue collar workers two types of career development paths: a management career path and an expert career path. Volkswagen (Shanghai) prepares an expert career path for the engineers and a skill ranking career path for the production and maintenance workers, as well as a traditional management career path (Editor Group, 2007). At FAW, a professional career ladder was established for those employees in management work who require additional human resource management training.<sup>32</sup> At FAW-Volkswagen, a production worker has a choice between the "technician" path and the supervisor career path. Usually, a transfer between the management career path and the expert career path is permitted under certain conditions.

Job rotation is also implemented to some extent in Chinese companies. In companies which are experiencing rapid growth and value employees' personal choice for development, employees have the opportunity to try different jobs in different product and functional divisions.

Performance together with competence, virtue, and work attitude are becoming the most decisive factors for a promotion along the career path. Attributes such

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31 See 'DDI published report on Chinese companies' human resources retention situation', Human Resources, October, 2007.

32 This kind of ladder is supposed to function as an incentive for those employees unable to enter into the management career path.

as seniority, place of birth and social status,<sup>33</sup> and *Guanxi* with the superiors are becoming less important. At Hisense, an employee's promotion is based mainly on merit, rather than seniority or education level. An employee who only holds an elementary technical school diploma was promoted to high-class engineer because of his outstanding performance in product design (Editor Group, 2007).

Performance is usually the most significant factor for promotion. When an employee is evaluated to be unqualified for his present position on the career path because of his performance, he will be reassigned. Appointment limited to a certain period is also applied in some Chinese companies. At the Shanxi Branch of the Aluminum Corporation of China, an employee who creates an economic benefit of more than 100,000 RMB (but less than 500,000 RMB) with his innovation is appointed an "assistant expert" for one year. An employee creating more than 500,000 RMB (but less than 1,000,000) of economic benefits receives such an appointment for two years. Finally, an employee responsible for more than 1,000,000RMB becomes "chief expert" with a term of three years<sup>34</sup>.

Employees welcome the clear criteria for promotion. The more ambiguous the specifications are, the more uneasy they will feel about possible unfairness and their future. BYD's HRM is characterized as clear and transparent, which is very different from traditional Chinese companies. Career paths and specific standards for promotion are defined concisely and open to everyone. In addition, the superior is obliged to communicate with his subordinates about their career plans and provide directions for their development. As a result, every employee can form clear expectations for their development path at BYD (Ou and Wang, 2008).

A unique career development path, the *Shikaku* system (the competence ranking ladder), comes from Japan and is increasingly transplanted into Chinese subsidiaries. In Guangzhou-Honda, besides *Shikaku* there are also the other two career development paths, a management career path and a job ranking path.<sup>35</sup> The competence ranking is the foundation of the other two ladders, so that employees who have not reached a certain competence level cannot be promoted to certain levels along the other two ladders. The promotion decision along this competence ranking ladder itself is based on the employee's performance

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33 In Chinese state-owned companies and public service institutions, the difference of social status between 'worker' and 'cadre' has existed for decades of years. This difference is based mainly on the education level. For example, if an employee graduates from an elementary technical school and works as a production worker, he belongs to the class of 'workers' and changing the status to supervisor or manager positions will be very difficult. This has become a large impediment for production workers' development. It is expected that this outdated system be repealed in the near future.

34 See 'All-employee participated technology innovation management in a aluminum smelting corporation', in The fifteenth National Enterprise Management Innovation Achievements, Enterprise Management Publisher (2009).

35 See Zhang (2008).

appraisal and the employee's job execution capability, for which Guangzhou-Honda has its own definitions.

In the *Shikaku* system, there is no limit for the promotion alongside the competence ranking ladder as long as an employee reaches the required competencies (and maybe certifications). This point is very important since it is necessary for all the workers to develop their competence continuously. Some workers will feel discouraged if there is any budgetary limit for the number of promotions. In Chinese state-owned companies, there has traditionally been a career ladder for the production workers to climb along as they accumulate their skills. But because there are very rigid limits for the number of promotions and very rigid seniority requirements for promotion, in many cases younger workers give up on this endeavor.<sup>36</sup>

The characteristics of career management are in China similar to those in Japan. But remarkably different from the typical Japanese style, at Guangzhou-Honda there is a possibility for employees to be demoted along the competence ranking ladder. If an employee fails to continuously develop himself and remains on the same level for more than two years, he has to submit to the competence ranking examination committee an application for keeping his position. If this examination is failed, a demotion is likely. This pattern exerts high pressure on employees to progress continuously.

### **3.7 Issues for production workers' skill formation**

Peng (2005) argues that the "Government Official Dominance" system (opposite to expert-guiding system) and "Rule-by-Man" (opposed to Rule-by-Law) exert a negative influence on Chinese companies. The former represents a traditional way of thinking about social hierarchy in which workers who are engaged in physical work are disdained and officials who are engaged in intellectual work and hold positions of authority are regarded as "noble". This manner of thinking, however, has serious drawbacks, for example, white collar employees are respected as talented and are granted a high status and rewards much more than production workers. Production workers maintain both a low social status and pay, not equivalent to their contributions. Besides, when people disdain manual work and neglect technical training, the educational quality of many vocational schools is relatively low, sending graduates to the labor market with very limited practical skills. Therefore, the dominant view in society dictates dim perspectives with a degree from a vocational school student and a future as production worker.

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36 To overcome this drawback, a measure which state-owned company Meishan Vehicle employed was to grant the title of 'quasi technician' to those workers qualified to hold the title of 'technician' but were unable to be promoted due to the seat limit. (See Zheng, Yang and Qiao, 'Teams in state-owned companies: strives and accomplishments', in *Worker's Daily*, August 5, 2006.)

Many companies hold the view that high-level managerial and technical staff is much more valuable to companies than production workers, who are considered replaceable. This kind of view leads to inappropriate management and a neglect of training for production workers within companies (Liu and Cai, 2004). Compared to white collar employees, blue collar employees face disadvantages concerning work environment, work intensity, pay, and development opportunities. For example, the production workers identify the diploma restraint as one of the largest factor leading to unfairness (Luo and Wei, 2009). In Chinese companies, especially the state-owned ones, a production worker without a university diploma has very limited chance to break away from the status of 'worker' and cannot receive wages beyond those corresponding to his status, no matter how talented and capable he is. Comparatively, it is very common for a newly-employed university graduate to be paid more than an experienced production worker.

To attract people with a potential to learn and develop into a skilled production worker, both social and economic status have to be improved. At the company Qing Dao Harbor, the slogan of 'Workers are great, Labor is honorable' was raised to show respect for workers (Zhao, 2004). Workers have an opportunity to take a qualification test every year. If a worker passes, he can receive a promotion along the ladder of skill grades and a corresponding increase in salary. A skilled worker of high-middle level then earns more than a junior level manager. Since 2000, FAW has developed an expert career development path for skilled workers (Huang, Guan and Zhang, 2006). When people enter into this career ladder, they are entitled to the same material treatment as their counterparts in the managerial career path.

At Jiangling Motors Corporation Limited, highly-skilled workers are as urgently needed as new product development and the manufacture localization of parts (instead of imports). Jiangling realized that workers could only be motivated to develop their competence and skills through respect of status and value. Consequently, from 1997 on Jiangling introduced a new career development channel for production workers. Any ordinary worker, based on an evaluation as "highly-skilled" regardless of age, seniority and education level, can be promoted as Chief Technician and enjoy the material treatment given to engineers generally (Wang and Zhao, 2007).

The training methods for developing multi-skilled workers are diverse. During the promotion of JIT at Shanghai Auto Industry Group, so-called '1×3' training was carried out, through which a worker was trained to be capable of operating three different machines or three different operation procedures. Additionally, one machine should have at least three workers able to operate it. The specific training methods included collective lectures, designating the skilled workers as tutors, and workers learning from each other. As a result, more than 50% of the workers reached this standard (Gong, 1997). Job rotation aiming at multi-skilling is being practiced in many companies, for example at Meishan Vehicle (Zheng, Yang and Qiao, 2006).

Multi-skilling is also encouraged at Guangzhou-Honda (Zheng, 2008). Guangzhou-Honda's educational and training opportunities for production workers are abundant and systematic, consisting of OJT (on-the-job training), off-JT, permission for workers' attendances of external education, sending workers abroad to receive training, and training through participation opportunities (e.g. workers are trained by participating in the establishment and improvement of job descriptions, in the alternations of production processes, in machine maintenance, or in quality and cost management). In recent years, half of the nearly 1000 employees who had been sent abroad for learning were production workers. Newly recruited production workers have to master the skills for two or three workplaces in two years through periodical and systematic job rotation.

During the process of workers' skill formation, skill transfer to the next generation within the organization is very important. There is an old saying in Chinese society that if the apprentice masters the skills of the master, the master will lose his means of living. Skilled workers tend to keep their skills to themselves. Apprenticeship practiced in traditional state-owned firms depended more on personal relationship between the master and the apprentice. Different from this tradition, new models of apprenticeship are being applied to the skill transfer in the manufacturing industry.

The new models emphasize workers' choices, more control by the management system, and continuous skill development. Both the master and the apprentice have more freedom to choose each other. Their master-apprentice relationship usually has a fixed term and training objectives and obligations are fixed in a contract, similar to the idea of MBO (managed by objectives). The apprentice is not necessarily a newly recruited employee, but anyone (in many cases, he is already a veteran in a field) in need to learn a new skill from a master.<sup>37</sup>

The case of Benshan Iron Corporation provides some details of this process (Na, 2006). To overcome the masters' negative attitudes towards skill transfer, this company takes measures to reward the masters in both materialistic (such as special allowances and salary increases) and other ways. The best pairs of master and apprentice are selected and awarded. Based on the choices of master and apprentice, a contract is signed, which stipulates the learning objectives and the tasks to be fulfilled in a certain time. In order to pass on key skills from highly-skilled workers to those workers with high potentials, the practice of 'Famous Master, Talented Apprentice' has been introduced.<sup>38</sup>

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37 In the latter case, the problem-solving project is regarded as a training opportunity as well as of practical meaning of creating economic benefits for the company. This arrangement is like a post-doctor system.

38 In this activity, firstly the candidates of both the masters and apprentices are produced through the self-recommendation and recommendation by the superiors. Then the two-way choices are made. According to the results of the matches the management decides the establishment of the final couples.

## **4. Wage and incentive systems**

### **4.1 Performance management**

According to a survey investigation report released by a professional HRM service website company in 2005 (CHRD), 72.1 % of all companies implement performance appraisal. Among them, 76.5 % attach the highest importance to employees' performance (work results), 13% to work attitude, 9% to skill and 1.5% to discipline and obedience (Bao and Zhang, 2006).

For production workers, performance appraisal is universally applied. Though the importance of the various evaluation factors differs between different companies, they generally include work result, work attitude, and skill, especially among the automobile manufacturers. The following is the case of Guangzhou-Honda, which basically follows the Japanese style (Zhang, 2008).

In this company, production workers are regarded as the core human resources who must master the required skills. The workers' performance appraisals is based on three factors: 55% of the appraisal are criteria related to work results (including product quantity, product quality, cost efficiency, performance in suggestion, and QC activities), 30% to work attitude (including responsibility, forwardness, cooperation, and discipline etc.), and work 15% to capability (including knowledge and skill, learning aspiration and learning capability). The performance appraisal for production workers at Guangzhou-Honda is a comprehensive one, giving considerations to both short-term work results and long-term development, as well as to individual performance and teamwork. The comprehensive result is reflected in the position on the competence ranking ladder, which in turn determines salary.

The utilization of this evaluation method is combined with MBO under which the workers and their superiors jointly set up work objectives, improvement activities, and skill development through communication. The evaluation results are also utilized to help workers improve themselves in both performance and skills. This is a very good and advanced practice, and while many Chinese companies take the performance appraisal only as a tool for determining pay, they fall short of effective mutual communication between superiors and the subordinates about the latter's career development.

MBO in China usually loses its function of motivating employees, instead being used only as an agreement about employees' responsibilities, since work objectives are usually dictated to the workers and are not the result of mutual communication. For example, TCL Corporation breaks the company objectives down into each worker's tasks and objectives, which are refined to every day's work. Performance appraisal is mainly based on the result of fulfilling those tasks, which is publicized and taken as the basis for deciding each worker's performance-based pay (Ouyang, 2004). This is perhaps related to the

authoritarian nature of Chinese society. People seldom challenge their superiors and are usually deferential to the superior's decision. They are inclined not to express their views before they know the thoughts of the superior and before the superior expresses his views.

Performance appraisal by KPI (Key Performance Indicator) is also employed in Chinese companies. This method has the advantage of guaranteeing objectivity of performance appraisal and connecting closely the objectives of the organization with those of the employees. On the one hand, employees welcome the evaluation by quantitative indexes which lead to objectivity and transparency, because they are afraid of the negative effect of *Guanxi*: the ambiguous evaluation criteria are supposed to leave room for manipulation by management and cause the quality of the relationship with the superior to be more central to the evaluation than individual performance. On the other hand, KPI may strain relationships between employees, since it does not cover the behavioral aspects of the performance. In fact, Chinese employees make hardly any distinction between 'job duties' and 'organizational behaviors' (Zhang, Song, Hackett and Bycio, 2006). One company's case reveals the negative effect of KPI evaluation (Liao, Cai and Zhao, 2004). Before the introduction of KPI evaluation, employees behaved very cooperatively, with a loose division of labor and a harmonious organizational atmosphere. In turn, the KPIs led the employee to pay attention only to the very limited evaluation indexes, limiting activity to the scope of evaluation. As a result, the organizational performance worsened.

Performance appraisal is applied not only to long-term contracted workers, but also to agency workers in some companies. In China, the utilization of agency workers is very common and the numbers keep increasing. In particular automobile manufacturers are employing a large number of agency workers. Confronted with a high turnover among the agency workers, an automobile manufacture company had tentatively introduced measures such as improving recruitment and training for agency workers, organizing the agency workers' union, and promoting a corporate culture of communication and equality between agency and long-term contracted workers. However, they finally realized that the agency workers intended to become a long-term contracted worker, enjoying job stability and the corresponding status and material treatment. Therefore, the company introduced a policy offering an opportunity to agency workers who had been repeatedly ranked high in the performance appraisals to become regular workers (Gu and Chen, 2007).

## **4.2 Pay management**

Generally speaking, there is a big difference between the pay system of state-owned companies and that of foreign-owned companies. According to a recent investigation report released by Mercer Consulting (Wang, 2006), state-owned

companies are inclined to allocate pay on the basis of egalitarianism<sup>39</sup> and seniority, not taking into account labor market conditions. Foreign-owned companies, by contrast, pay wages above the average labor market price level<sup>40</sup> and take into account the individual's capabilities and performance. In the transformation towards a market economy, the Chinese Communist Party encourages state-owned companies to introduce more differentiation and orientation toward market value into their pay systems. Since state-owned enterprises are still lagging behind in pay system reformation compared to foreign-owned and private companies, talented people prefer not to work in these enterprises except when they constitute monopolies providing high pay.

Tenneco (China) is a good case of adapting pay policy<sup>41</sup> to Chinese circumstances. The company created a more flexible pay system compared to that of its headquarters in North America and Europe. Due to the lack of experienced and talented employees and a high mobility rate of those people, the key task for HR managers in China has been to retain them within the company. Pay therefore becomes a key factor which cannot be neglected. Tenneco evaluates regularly the market value of its employees. In 2009, the wages of core employees doubled. In communicating with the core employees regarding their expectations for pay increases, this was listed as one of the superiors' important job responsibilities. With the marketization reforms in fields such as housing, medical care, and pension, these have become the biggest considerations of Chinese employees. Housing prices are very high, especially in big cities and medical insurance provided by the government is insufficient. Tenneco introduced various welfare policies such as housing allowances and additional medical insurance to meet the needs of its employees. The company has also invested in the education and medical care of their employees' children. In a society where the resources and quality of social services are still very limited, people appreciate the provision of services and assistance from employers. BYD's welfare system embodies the 'Culture of Family', intending to provide to employees a 'happy and relaxed life' (Ou and Wang, 2008). BYD offers assistance in employing spouses of new recruits wherever possible. Also, the company offers educational services for the children of its employees, ranging from kindergarten to high school.

As for the general principles of the pay systems in Chinese companies, it is common to grade workers mainly according to the characteristics of the particular job. In state-owned companies, the "on-job pay" is accompanied by

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39 For example, Mercer Consulting found that the pay difference between the highest level and the lowest level in state-owned companies was a factor of 4 to 5.

40 According to a survey conducted among companies located in Beijing, in foreign-owned companies the monthly salary for rank and file, supervisor and manager is 2000-5000 RMB, 3500-7000 RMB and 7000-20000 RMB, respectively, all much higher than the average 3000 RMB for the managers in state-owned companies. See Liu and Cai (2004).

41 See 'Not mean to people: story of Tenneco China', in *New Frontier*, 2009(7).

the strong importance of seniority, in the way that promotion is usually connected to seniority. The criteria for pay differences according to job evaluation vary among the companies. At Hisense with a lot of R&D activity, engineers and technical experts earn three times more than employees in other divisions on average (incentive bonuses including) (Editor Group, 2007). This is a very radical policy considering that Hisense is a state-owned company. However, the concept of job is not always very clear in Chinese companies. It is sometimes mixed with competence-related titles as, for instance, “chief engineer” or “advanced technician”. In this way, some job-based pay in name can be a skill-based pay in reality, especially where expert career paths have been introduced.

In many companies, job-based pay is combined with skill-based pay elements, as jobs alone cannot measure a worker’s contribution and to the company. This mostly takes the shape of systems with pay bands for different job types. The pay band allows one to differentiate between skills and competencies of workers of the same job type. It allows one to differentiate pay increases within the same job depending on the performance appraisal. This combination of job-based and skill-based pay is supposed to exert more motivation for production workers to develop their skills than a promotion alongside the competence ranking path based on a holistic performance appraisal practiced in Japanese-owned companies. Morita (2001), reports that workers in a Japanese-owned company seemed ignorant about the relationship between the competence ranking and skill development.<sup>42</sup>

Besides basic pay, performance-based pay (usually in the forms of monthly, quarterly or yearly bonuses) constitutes an important part of workers’ income in Chinese companies. This part of the remuneration is usually influenced by the organizational performance, team performance and individual performance. The ratio of the basic pay and performance-based pay varies according to the job characteristics. For production workers, the variable part typically occupies most often up to 50% of the total pay. For sales employees or R&D personnel, the direct return for their own performance (in the form of commissions or bonuses for project success etc.) can even exceed their basic pay.

Usually, the individual performance-based is distributed by the division or department manager. This is linked to the fact that the individual’s performance-based pay is related closely to the result of his performance appraisal, i.e. how he has fulfilled his job responsibilities during a certain period. Haier’s pay policy can be presented as an extreme case of individual performance-based pay. The case of Haier demonstrates the applicability of such a radical policy in a social environment in which people are used to radical changes and show little inclination towards resistance.

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42 An interview, done by the author shows a similar result. One production worker from a Japanese-owned company where the competence ranking was practiced said that he did not know what the monetary return would be for his acquisition of additional skills.

The pay policy at Haier is called 'market chain'. Every employee is paid according to his performance in the external or internal market without any fixed pay (Su, 2001). This policy is completely market-oriented, intended to make every employee responsible for his 'market' within or outside the organization. The president of the board of directors, Zhang Ruimin, envisioned every employee as a profit center and practices this thinking at Haier (Zhang, 2009). Indeed, individualism is prevalent in the pay policy of Chinese companies.

In the atmosphere of economic and social reforms encouraging competition and individual accomplishment, companies put an emphasis on incentive pay and individual recognition. Zhang and Li (2005) report a case of a Sino-Japanese joint venture, which transformed its traditional Japanese style pay system into a more locally adapted one. In addition to the Japanese style of competence-based pay (the result depends on yearly evaluations of the comprehensive performance concerning work attitude, skill development etc.), a performance-related pay was added, based on the monthly work performance appraisal on quantity, materials consumption and defect rate. It is reported that the product quality has been improved to a large extent since the introduction of performance-related pay.

This does not necessarily mean that companies and managers do not care about equalitarian principles. Weichai Power Corporation<sup>43</sup> declared the principles for its pay policy as 'being competitive in the external labor market, motivating in the internal labor market but also looking after the balance between the rule of equity and rule of equality'.<sup>44</sup> Managers are cautious not to differentiate performance-related pays of their subordinates too far (cf. Giecobbe-Miller, Miller and Zhang, 1997; Giecobbe-Miller, Miller, Zhang and Victorov, 2003). Chinese workers still remain receptive to team-based pay. When work relations are very interdependent, Chinese workers prefer equality and team-based pay. After a Chinese company introduced a performance management system which demanded the ranking of employees by their performance appraisals in every division, it appeared that in several divisions employees took turns in being on top of the rankings (Liao, Cai and Zhao, 2004). Excellent employees were afraid to be ranked highest all the time and believed that the tiny difference of bonuses brought by the ranking was not enough to cover the potential trouble of always topping the rankings.

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43 Weichai Power Corporation was founded in 2002 by Weifang Diesel Engine Factory, together with the other domestic and foreign investors. It has ever achieved the honors of 'The most influential enterprise in China', 'The role model enterprise for technology innovation' and "National quality award' etc.

44 See 'The construction and implementation of a performance management system aiming at motivating the employees' potentials', in The fifteenth National Enterprise Management Innovation Achievements, Enterprise Management Publisher, 2009.

### 4.3 Non-pay incentives

Mercer Consulting reported that for Chinese employees, promotion and an attractive design of career paths were of most important incentives – more important than competitive pay and welfare and much more than the relationship with the superior (Wang, 2006). Many companies respond to this demand. BYD advocates rapid promotion for talented people. Many university graduates have become department managers or even heads of business units before reaching the age of 30 years. One of the university graduates BYD recruited in 1999 has now been appointed as Vice President of BYD (Ou and Wang, 2008). At the Shanghai Auto Industry Group, many department managers and factory directors are less than 30 years old.<sup>45</sup> Haier's promotion system is a combination of both conventional and unconventional elements. A conventional promotion implies a steady promotion according to performance and seniority (a proxy for experience). Unconventional promotions are employed in cases of outstanding behavior and great results, with a chance of surpassing the usual levels along the ladder (Sun, 2003). For top-class managers, special job titles suggesting high status are used (Liu, 2008). Titles suggesting a manager's status are prevalent for non-manager employees, too.

For both white and blue collar workers, recognition through honors for extraordinary achievements is usual. Tenneco China established all kinds of honor awards such as Role Model Award and Best Employee Award. Double Star, a shoe maker in Qingdao, periodically provides special awards for its role model workers in order to promote competition. Every month, every quarter and every year, workers are selected to become the "Star of Post", Technical Innovator, and "Star of Sales" and are rewarded accordingly (Long, 2004).

Negative incentives are sometimes used in Chinese companies, too. Competitions for jobs and demotions are practices which are meant to change the traditional Iron Bowl and Iron Seat<sup>46</sup> orientation of Chinese employees. Those workers evaluated as incompetent for their present jobs will be sent to other workplace where work conditions are not as good, or will even be dismissed. Promotions and demotions become a flexible tool, positions are no longer stable. At TCL King Brand Color TV Corporation, the production workers can be promoted along the ladder of Key Man, Ban-Zu Leader, Line Leader and even workshop head. But they will also lose their positions if they are ranked last in three successive appraisals (Ouyang, 2004). At Double Star, the management cadres, called

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45 See 'Interview with Chen Shoulong the HRM manager of Shanghai Auto Industry Group: human resource is of the first importance', Chinese University Graduates Employment, 2001(5).

46 These represent the characteristics of the traditional state-owned enterprises, referring to the lifetime employment and lifetime management cadres and suggesting that no worker will be dismissed and no cadre will be demoted unless they make big mistakes, even if they are not qualified.

'Dynamic Cadre', keep their positions if performing well and are demoted if performing badly (Long, 2004). At Haier, unqualified managers will be demoted, usually around 30 each month.

#### **4.4 Interest representation of employees**

ACFTU (All China Federation of Trade Unions) is the only eligible trade union in China. It is led, directed, and supported by the Chinese Communist Party. Under the umbrella of ATFTU, there are many levels of local unions, industrial unions and enterprise unions. In the state-owned enterprises and public service institutions such as government institutions or public universities, divisions of ACFTU are set up. All employees become union members automatically when they enter into those institutions.

In name, the ACFTU represents the workers' interests. In a planned economy, however, since workers were the 'owners' of the state-owned enterprises, there was officially no conflict of interest between management and workers. Therefore, the ACFTU and its leaders were not independent of the management of those enterprises. This pattern has not changed much, even during the transformation towards a market economy. In state-owned companies, union leaders are ranked as members of top management and are paid by the company (according to the Union Law, the status and pay for a division union president is equivalent to the vice director of that division). The election of the union leaders by the workers is only a formality. The appointments are actually decided jointly by the management of the company and the upper state administration.

In the marketized state-owned enterprises, the role of the ACFTU becomes, however, very ambiguous. The union cooperates with the management and functions as an intermediary between the workers and the management. But it is also engaged in securing benefits for workers within a scope that management accepts.

The typical practices of the ACFTU in the state-owned companies include organizing workers' skill contests and training programs, involving themselves in the development of work organization (including the education of Ban-Zu leaders), and providing financial aid to workers in financial difficulty due to accidents or illness. For example, the union at the FAW has assisted the company in creating "learning" work organization and "knowledge workers". It helped in the training of team leaders, popularized learning in teams, organized workers' skill contests, and honored the model teams, the team leaders and highly-skilled workers (Huang, Guan and Zhang, 2006a, 2006b).

The above practices are considered beneficial by the ACFTU for both the company and the workers' development. No great difference in behavior appears to exist between the union and the HR managers in the state-owned enterprises. The ACFTU regards it as its core task to guide the workers to adapt to the market competition. It seems to hold the view that real worker protection lies in

workers' skill development and the long-term development of the companies. Therefore, it seems to support competition among workers and incentive pay systems. From this point of view, it does not appear strange that a union would help management to persuade the workers into accepting pay reform, even when this reform was once strongly objected by the workers.

With the rapid development of the market economy and the non-public enterprises in China, The ACFTU is also taking efforts to develop its organizations in private and foreign-owned enterprises. This objective is matching with that of the Party, which would like to have a stronger voice and power in those companies. Therefore, it is not rare that the divisions of both the Party and the ACFTU are established at the same time in the non-public enterprises. They basically serve the same functions in the companies, in many cases the Party Division Secretary and the union president are the same person.

Organizational development in these enterprises forms a great challenge for the ACFTU. There are plenty of experiments and innovations in these enterprises, such as redefining the union's position and functions in the Sino-Foreign joint ventures, establishing independent and professionalized union presidents in non-public small private enterprises, organizing real elections of union presidents, and directing the union divisions' pay negotiations in the foreign-owned enterprises. But fundamentally, the ACFTU insists on the principles of aligning their activities with the long-term development of the companies and of accepting the leadership of the Party.

Economic growth and development has been the primary objective of the Party. In recent years, due to a widening income gap and the risk of social instability, the Party has started to pay more attention to the balance between the efficiency and equity and presented the slogan of a 'harmonious society'. Also in this regard, the Labor Contract Law aimed at protecting workers was put in effect in 2008. Maintaining both efficiency and equity seems to have become the central task of the Party and the ACFTU.

In the Guangzhou Economics and Technology Development Zone, Party branches (or united branches) are being established in 107 out of 142 foreign-owned companies.<sup>47</sup> These branches play a role in helping to construct organizational culture and motivate employees. They believe that they are in a very good position to serve as a communication channel between employees and management, and only when their work contributes to the companies' economic benefits are they able to exert their influence on the workers' interests and the company's long-term development. They do not regard the interests of the workers and the company to be in conflict in the long run. In some foreign-owned companies where the Party branches are organized, Party members

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47 See 'Party Branch's work does not contradict with modern enterprise system', in Think Tank, Oct. 2005.

behave as role models for other workers and are seen as the most competent and reliable workers to be trusted with the key and significant jobs.

Dongfeng-Nissan is the first Sino-Foreign joint venture in the automobile industry which has clarified the position of the Party in the Dongfeng-Nissan Charter (Hu, 2009). It is ascertained in the Company Charter that the Party division should be established within the company and is allowed to organize its activities openly with the financial support of the company. The Party gained its influence in this joint venture through its efforts to serve both the company and the workers. Most of the senior managers or core employees are Party leaders or members; the ACFTU division is led by the Party division. These conditions make it convenient for the Party to act as the communication channel between management and workers. For example, the Party, together with the union, once succeeded in persuading the workers to accept a temporary layoff with wage cuts. When production resumed, almost all production workers were able to return to work. Many significant changes, such as operational outsourcing and job sharing in down periods, won the workers' acceptance and support through the union's efforts to take care of the interests of both the company and the workers. The company appreciates the existence of the Party and the union and in turn displays a cooperative attitude. For example, the management accepted the demands of the Party and the union to improve the physical environment in the workshops.

In the traditional state-owned enterprises, the so-called Workers' Congresses (meetings of employee representatives) are an institutional channel for workers to express their voice, although they rather resemble a ritual more than a functioning system. During the reform of the state-owned enterprises and the transformation towards the market economy, the Workers Congress basically lost their position in the state-owned enterprises even if they still exist on paper. Nevertheless, in some state-owned enterprises the workers were able to use the Workers' Congress to protect their economic interests when facing significant challenges, such as the sale of the company (Feng, 2005). A private company used the institution to promote communication between management and workers in order to establish more trust-based labor relations. At Hisense, when a collective labor contract is drafted by the HR management, it has to be submitted to and checked by the Workers' Congress organized by the Union (Editor Group, 2007). As a pay differentiation is developing in Chinese companies, workers are greatly interested in the factors influencing remuneration. It is in their interest to participate in the decision processes regarding pay system establishment and implementation. In a chemical company (Li and Li, 2009), the worker's representatives participate in the rating for every job together with the workshop head. The rating result is then used as the basis for allocating job-based pay to every worker.

In China, the articulation of grievance is sensitive due to the so-called high "power distance" between superiors and subordinates and the weakness of unions. Some companies look for way to establish easily accessible channels for

interest articulation of employees. At Motorola China, employees are given the opportunity to present complaints to all levels of superiors, even the CEO. They can also present their suggestions or complaints through the General Manager Forum, the in-house newspaper (called 'Big Family Paper'), and the in-house website. Hisense has set up a Chairman of the Board Hotline, President Open Day and a Suggestion Mailbox for employees to articulate their issues.

## **5. Conclusions**

This literature review attempted to identify the main influences on the human resource management systems in China since the opening of domestic markets to international competition. At the core, three rivaling hypothesis emerge in the debate. Is Chinese HRM heading towards a convergence in the direction of Western management methods, are we seeing a divergence in that the bulk of Chinese companies retain idiosyncratic management methods, or are we witnessing the emergence of a third type that retains characteristics of Confucian management culture while incorporating some aspects of Western methods?

In all, it is still difficult to determine a clear picture of Chinese HRM due to its transitional and diversified characteristics. However, the current development reveals that especially the big Chinese companies, no matter if foreign-owned, state-owned or private ones, are striving to build up formal, standardized and systematic HRM systems. The research literature shows a move of Chinese firms towards individualized, incentive-based human resource management oriented on Western role models. At the same time, management is still appealing to affection and informal human relations which are rooted in Chinese culture. Chinese HRM should be a kind of hybrid involving the various aspects: western and eastern, traditional and modern, etc. But what it will be like needs to be seen in the future with HRM's further development.

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