

**The Change of Factory Regime in China  
and its Impacts on Workers:**

**Case Studies from the White Goods Industry in Anhui Province**

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**This thesis is submitted in fulfilment of the requirement for  
the degree of Doctor of Philosophy**

**School of Social Sciences  
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## **ABSTRACT**

This thesis is a study of Chinese workers in the white goods industry, in particular workers in refrigerator factories in Anhui Province. It explores the change of factory regime and its impacts on workers during the development of the white goods industry and the process of marketization and privatisation.

There have been a certain number of academic research studies on factory regimes in European and North American settings, and in recent years, research into China's industrial relations has increased. In contrast, changes of factory regimes based on a particular industry have been largely ignored by foreign and Chinese scholars. This thesis aims to contribute to the understanding of the impact on the workers and the trade unions of the change in factory regimes in the process of China's transition towards a market economy.

This thesis utilises qualitative and quantitative research methods, but mainly uses qualitative methods. Case studies were conducted in two companies in China. Eighty-three semi-structured interviews with workers, managers, trade union officials and scholars were completed. Structured interviews were conducted with 50 workers, and 50 managers responded to a questionnaire survey. In addition, secondary data referring to the Chinese white goods industry, both in Chinese and English, were collected mainly from statistical information published by government agencies and business bodies.

It is argued that market relations rather than ownership transformation play a crucial role in the change of factory regime. It is not always true that the workers benefit from the good performance of the enterprises under the market economy with Chinese characteristics. In the context of the market economy, China's trade unions have retained their traditional concept. Their fundamental change is ultimately dependent on reform within the Party. Furthermore, the division of labour with Chinese characteristics makes for additional difficulty in the formation of China's working class.

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## Abbreviations

ACFTU	All China Federation of Trade Unions
CCP	Chinese Communist Party
CLIA	Chinese Light Industry Association
CRS	The Contract Responsibility System
COEs	Collective Owned Enterprises
EU	European Union
ICFTU	International Confederation of Free Trade Unions
FDI	Foreign Direct Investment
GCS	Group Company System
GDP	Gross Domestic Product
FIEs	Foreign Investment Enterprises
HRM	Human Resource Management
JIT	Just in Time
JVCs	Joint Venture Companies
MES	Modern Enterprises System
MOFCOM	Ministry of Commences of PRC
MOLSS	Ministry of Labour and Social Security
MNCs	Multinational Corporations
NBSC	National Bureau of Statistics of China
OEM	Original Equipment Manufacturer
POEs	Private Owned Enterprises
QC	Quality control
RMB	Ren Min Bi (the Unit of Chinese Currency)
SAIC	State Administration for Industry and Commence
SOEs	State Owned Enterprises
TPM	Total Production Maintenance
TNCs	Trans-national Companies
TQM	Total Quality Management
WTO	World Trade Organization
5 S	Sort, Set in order, Shine, Standardize and Sustain

# **Introduction**

## **Chapter One**

### **China's Economic Development and Transition**

The last two decades or so have witnessed the dramatic growth of the Chinese economy. Industry is the most important part of China's economy. China has had one of the world's highest sustained rates of industrial growth in the past twenty years. Such development at such a high speed comes from the continuously deepening reform of enterprise, marketization and privatisation.

Using Burawoy's notion of the factory regime, this thesis explores how the transition towards a market economy and the integration of China's economy into the global market system has impacted upon the workers in China's white goods industry. It provides a first hand investigation of how workers, managers and officials of trade unions evaluate the different work experiences that have resulted from changes to the patterns of the factory regime.

The main objective of this chapter is to provide a brief social and economic background for this research. It starts with an analysis of the reform of stateowned enterprises (SOEs), the entrance of foreign capital and the increase of private owned enterprises (POEs). The structure of the thesis is then outlined. References to various relevant literatures are made in different chapters rather than in one single literature review chapter.

## 1.1 China's Enterprise Reform

From the mid-1950s to the end of the late 1970s, there was a single-sector system of public-owned enterprises under the planned economy. In 1978, 77.6 per cent of these were SOEs and 22.4 per cent collective owned enterprises (COEs)\* (NBSC, 1979). During this planned economy period, the control of central government, the rigid economic system and unitary system of public ownership resulted in the low productivity of enterprises.

China's average annual Gross Domestic Product (GDP) increased by 9.6 per cent per year from 1979 to 2004 and the total value of the GDP reached 15,988 billion RMB Yuan (the exchange rate of RMB to the US dollars currently about is 8:1, about 14.5:1 for Pounds). The rapid growth of the economy narrowed the gap between China and developed countries in macro-economic terms. Currently, Chinese gross domestic production ranks the sixth largest in the world (Xinhua Net, 2006). The transformation in the rate of China's industrial growth is largely the results of the reform of SOEs since the 1980s and the policy to permit the development of private enterprises and the policy of attracting foreign capital.

In large part, the reform process reflects a policy of decentralization of control from central government to local levels, with a consequent transformation of ownership forms. It has also led to a greater role for market transactions (Meyer *et al.*, 2002;

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\* Collective owned enterprises (COEs) were an important form of ownership to be found in both rural and urban areas (concentrated on here). In principle, COEs rely on collective funds, are responsible for their own profits and losses, have democratic management and distribution according to work. The number and role of COEs has declined continuously since the mid-1980s.

Sutherland, 2003). The non state owned enterprises (non-SOEs) have played an increasing role in China's economy. From 2001 to 2005, the non state owned sector contributed three-quarters of China's GDP. In many local regions in China, tax revenue generated by the private sector accounts for over 80 per cent of local government revenue, and the private sector also provides eight out of ten new jobs in non-agricultural sectors (Zhao, 2006).

### **1.1.1 State-Owned Enterprise Reform**

The reform of SOEs has been a central issue of the economic system reform since 1978. Economic system reform has aimed at decentralizing economic decision making powers to the enterprise organizational level and replacing government direction with enterprise authority based on market adjustment (Warner and Zhu, 2000:27).

The reform process is normally divided into three stages. The first stage ran from 1979 to 1983 with the major goal of administrative decentralization and profit retention (*fang quan rang li*). Although some rules and regulations were published in this period, the achievements of the reform were not as good as expected due to the planned economic system still impacting on the SOEs. The second period was from 1984 to 1992. The important step was to further adjust the relations between the government and the enterprises and the granting of authority to the management. The key of SOE reform in this period was the implementation of the Contract Responsible System (CRS) (*cheng bao he tong zhi*) in 1984. This reform clarifies the relations between the state and enterprises. Under the Contract Responsible System, enterprises

would be responsible for their own profits and losses. The director's responsibilities were clarified in 1986 by the State Council. According to this rule, the director would enjoy full rights as the legal person representing the enterprise. This system also resulted in the fundamental change of the production goal of the SOEs –profit maximisation became the only target – rather than production with low productivity according to the plan.

The 14th Party Congress in October 1992 announced the target of constructing a socialist market economy and establishing a modern corporate system, which entered the third stage of the SOE reform. New policies have been carried out to deepen the SOE reform, one of which was to set up the Group Company System (GCS). This system has embraced certain aspects of 'Western' corporate government structure – such as boards and shareholders – consequent to making them more entrepreneurial. GCS was mainly implemented in large-scale SOEs. In 1995, the Modern Enterprise System (MES) was adopted on a wider scale. It was intended to systematically adopt modern management methods and Western corporate elements.

In order to stimulate the reform of SOEs and promote the market economy, a new reform strategy was carried out in 1992, namely 'Take a firm grip on the large, let go of the small' (*zhua da fang xiao*), which meant that the state would only retain a major presence in 'pillar' industries (for instance, the national defence industry) and 'basic industries' (for instance, the energy and transport industries), and that it would allow middle and small sized public ownership enterprises to change their ownership through mergers and bankruptcies. Meanwhile, the new policy also encouraged non-state-owned-enterprises to participate in the reform of SOEs through purchase or

merger. These policies changed the ownership structure and provided a significant space in which various types of ownership could develop. As a result of the reform and adjustments in the industrial structure, the proportion of state-owned enterprises and state-owned holding companies in the national economy decreased. Table 1.1 shows the reduction of public-ownership enterprises and the increase of non-state-owned enterprises in the 1990s.

**Table 1.1 The Changes to Enterprise Ownership Forms (from 1990 to 1999)**

Year	SOEs		COEs		FIEs		POEs	
	Number	Increase	Number	Increase	Number	Increase	Number	Increase
		(%)		(%)		(%)		(%)
1990	1,151,472	0.40	3,381,937	-11.69	25,389	59.49	98,141	8.35
1991	1,253,725	8.88	3,479,971	2.90	37,215	46.58	107,843	9.89
1992	1,547,190	23.41	4,159,417	19.52	84,371	126.71	139,633	29.48
1993	1,951,659	26.14	5,156,519	23.97	167,507	98.54	237,919	70.39
1994	2,166,331	11.00	5,456,818	5.82	206,096	23.04	432,240	81.68
1995	2,218,612	2.41	5,337,734	-2.18	233,564	13.33	654,531	51.43
1996	2,163,346	-2.49	5,013,416	-6.08	240,447	2.95	819,252	25.17
1997	2,078,348	-3.93	4,470,469	-10.83	235,681	-1.98	960,726	17.27
1998	1,836,289	-11.65	3,736,365	-16.42	227,807	-3.34	1,200,978	25.01
1999	1,649,870	-10.15	3,172,471	-15.09	212,436	-6.75	1,508,857	25.64

Source: Wang (2001: 6)

Therefore, the remaining SOEs had to face competition from the non SOEs. In order to survive in the fierce market, they had to do their best to improve their competitive capability, which directly resulted in the change of factory regime.

### **1.1.2 The Entrance of Foreign Capital**

Attracting foreign investment has been an important part of China's open door and economic reform policy since the early 1980s, increasing the amount of foreign capital invested in the last two decades. From the beginning of the new century, foreign direct investment (FDI) has become the most important type of foreign investment, and China has been the largest recipient of FDI in the world since 2002. By the end of December 2004, China had approved and set up 508,941 foreign invested enterprises, with 1,096,608 million US dollars contractual value and 562,101 million US dollars actual utilized foreign fund value. Approximately 70 per cent of foreign investment has been in manufacturing (MOFCOM, 2006). By the end of 2005, more than 480 out of the world's top 500 multinational companies (MNCs) have invested in China. Approximately 25 million employees work in FIEs, accounting for more than 10 per cent of urban labourers (Jiang, 2006).

**Table 1.2 Statistics of Utilization of Foreign Investment (from 2003 to 2005)**

Unit: US\$ 1 million

Period	Number of Newly Approved Foreign-Funded Enterprises	Commitment	Actually-Used Foreign Capital
Jan-Dec 2003	41,081	11,507	53,505
Jan-Dec 2004	43,664	153,479	60,630
Jan-Nov 2005	39,679	167,212	53,127

Source: MOFCOM (2006)

The routines of foreign capital entering China have changed in the past two decades. In the period of the 1980s and 1990s, foreign capital entered China mainly through joint ventures with SOEs and COEs. Apart from the investment strategies of foreign companies, from the Chinese side, joint venture companies (JVCs) were welcomed by China's government because they saw the chance to acquire modern management knowledge, create jobs and obtain access to foreign markets. In addition, JVCs were regarded as an effective method to save the SOEs which could not survive on their own (Gu, 1997; Yan and Warner, 2002; Cooke, 2006). Meanwhile, at the beginning of the 'open the door' policy, the Chinese government favoured JVCs in order to control the foreign investment. For instance, there were regulations to put pressure on JVCs not to lay-off their workers. However, following the deepening of the reform and the growing need to be a profitable enterprise, the level of control has gradually eased off. The Chinese government, in particular local governments adopted many preferential policies to attract foreign capitals. Since the end of 1990s, promoted by the Chinese government, mergers and acquisitions have become the main route of the entrance of foreign investment (Cooke, 2006). Moreover, the activities of the FDI

companies, especially the MNCs, have become more strategic. After the FDI companies merged with the SOEs, all the operation methods of the SOEs were replaced by the strategies of the FDI companies.

### **1.1.3 The Growth of Domestic Private Owned Enterprises (POEs)**

The private ownership of enterprises was forbidden in China in the planned economy period. Since the early 1980s, a 'self-employer' (that is private) economy has been encouraged by government as a policy to create jobs. In 1988, the State Council published 'Interim Regulations on Private Owned Enterprises' and began the work of the registration of such POEs. This was an important step in the legalization of the private enterprises. At the 15<sup>th</sup> plenary of the Chinese Communist Central Party Committee in 1997, renewed emphasis was placed on privatizing state assets by selling off thousands of SOEs (Yeh, 1998). In 2005, the State Council published 'Several Opinions on Encouraging and Supporting the Development of the Private Economy', which requested the governments at all level promote the development of POEs in different ways. Since the late 1990s, with the strong support of the government, the POEs have developed dramatically. The increase in the number of POEs can be seen in Table 1.3.

**Table 1.3 The Increase in Private Owned Enterprise (from 1995 to 2004)**

year	The number of POEs (10 thousands)	Number of employers (10 thousands)	Number of employees (10 thousands)	Registered capital (100 million yuan)	Total industrial value (100 million yuan)
1995	65.5	134.0	822.0	2621.7	2295.2
1997	96.1	204.2	1145.1	5140.1	3922.5
1999	150.89	332.4	1699.2	10287.3	7686.0
2001	202.9	460.8	2253.0	18212.2	12558.3
2003	300.6	772.8	3315.8	35304.9	18964.5
2004	365.1	948.6	4068.6	47936.0	23050.0

Source: (SAIC: relevant years)

The dramatic growth of domestic POEs is partly a consequence of the new enterprises invested in by private owners, and partly a consequence of the policy of '*zhua da fang xiao*' noted above. Privatisation has therefore taken two forms. First, the SOE managers have taken over their own companies and transformed them into privately owned enterprises. The second is allowing SOEs to be taken over by private owners. The latter has become the major route to realizing privatisation in recent years. Originally, the policy published by central government only encouraged the transformation of small and medium SOEs to become private. During the process of carrying out this policy, it was further developed to 'SOEs should withdraw from all competitive industries'. In terms of the explanation of the relevant government agency, besides 15 pillar and basic industries, all other industries belong to 'competitive sectors', which means almost all industries are open to private ownership. Therefore,

increasing numbers of large-scale SOE enterprises have been transferred into private hands recently.

#### **1.1.4 Changes in the Employment System**

As a constituent part of the planned economy, the SOEs had a permanent employment system which was epitomized by the so-called ‘iron rice-bowl’ (*tie fan wan*). The government assigned almost everyone in urban areas a permanent job with certain welfare benefits. But people did not have the freedom to choose their work and the managers of SOEs could not recruit or dismiss workers as required. An indication of what this meant is, in 1979, total ‘quits and fires’ in SOEs amounted to only 0.03 per cent of the total workforce (Ding *et al.*, 2002:432).

The traditional employment system rested on two key elements. First, all enterprises under this system were operated by the government instead of the market. The central government drew up the economic plan and transmitted it to the local government, which in turn passed it to the enterprises. Different government levels had the right to determine the supply of raw materials, investment and human resources. Managers of SOEs had the role of implementing the government’s plan.

Second, there was a registration system (*hukou* system). This enforced the separation of urban and rural areas. The *hukou* system in China was developed in the 1950s, and it has been an important tool for government control. This system is called ‘an internal passport’ (Chan, 1994). Unlike population registration systems in many other

countries, in China, a person's *hukou* status determines his/her social status and opportunities, e.g. employment opportunities and welfare benefits (Huang, 2003: 104). A leading function of the *hukou* system remains the control of internal migration (Wang F, 2004:129). The personal *hukou* status of all Chinese nationals is classified into two types: urban and rural settlement. Changing *hukou* registration was far from a matter of personal choice (Chan *et al.*, 1999: 822). The state agencies were granted great powers in controlling peoples' mobility through a series of systems. Under the *hukou* system, people were categorized as urban and rural residents according to where they were born. It was almost impossible for people to change their place of residence from rural to urban because the government restricted people's movement in order to protect employment in the urban areas. It was also not easy for people to change their units, in particular between different areas, even if they had urban *hukou*.

In the mid-1980s, the state decided to introduce a labour contract system in the SOEs of some provinces. This meant that workers were employed on contracts of specified duration. According to the official statistics, the number of such contracted employees in public units had reached 9.9 million by the end of 1988, 7.2 per cent of the total number of workers and staff in the SOEs (Chen S, 2003:155). This initial implementation of the labour contract system was, in effect, only a first step to the universal abolition of the permanent employment system. Following publication of the Labour Law in 1994, both public sector companies and private enterprises started to use the contract system nationwide. In fact, this gives managements the unilateral right to dispense with workers' service at the end of the specified period, which is often of one year only. Workers have the right to request that they be granted an open-ended contract after ten years but managers, on their side, have every right to

refuse such requests. There has therefore been a very considerable overall gain in flexibility of employment to the clear advantage of employers.

Another important personnel reform was implemented with the SOEs reform in 1992. This was the so-called 'three systems reform', which involved the reform of employment, wage distribution and social insurances. This meant that the government would no longer be responsible for the employment norms in the enterprises and the managers of the enterprises gained the license to recruit and dismiss the workers. This reform of the employment system also resulted in the increase of labour mobility. New employees now entered enterprises through the labour market instead of being allocated to them by the government. In addition, managers of SOEs gained the right to determine wages and bonus payments and the existing enterprise welfare system was replaced by a social insurance system for old age, medical needs and housing.

In addition, the *hukou* system has become less important in China's society since the late 1990s. With the gradual flexibility of legal restrictions that went with the *hukou* system, a huge number of rural migrant workers came on to the labour market.

The reform of the employment system and the ending of legal restrictions that went with *hukou* system, the creation of the labour market and the reform of the SOEs led to a serious oversupply of labourers. In spite of the dramatic increase in national economic activity, the growth in the number of employees in urban areas was relatively limited, up from 98 million in 1978 to 112 million in 2001 (NBSC, 1979; MOLSS, 2001) and according to official data, despite the new flexibility of labour

facilitated by the contract system, the rate of registered unemployment in urban areas was 4.2 per cent in 2004 and 2005 (NBSC, 2006a). By the end of 2005, the registered unemployment in urban areas was 8.39 million (MOLSS, 2006). However, this number excludes the many laid off workers who are surviving at home with no pay. The large number of workers who are in fact out of work puts pressure on those actually at work and makes them fearful for their jobs. Generally speaking, the reform of employment, especially the implementation of the labour contract system has had a significant impact on employment relations.

Along with the increase of the non-state-owned enterprises, huge numbers of workers have been employed in POEs and FIEs. Since the mid-1990s, 70 per cent of new job opportunities have been provided by non-SOEs. More than 70 per cent of migrant workers are employed in non-SOEs. In 2004, the number of employees in POEs reached 40.69 million, 2.63 million of whom had been laid off from public owned enterprises (Zhang, 2005).

In this circumstance, a number of questions arise about Chinese workers and further, the trade unions. Although existing studies provide some basic information from various fields, there has been little effort to systematically document the views of workers in a particular industry. This thesis is set in the context of China's economic reforms, in particular the transition of marketization and privatisation of the state-owned enterprises in the white goods industry. It draws upon labour process debates by discussing the impact of the transfer to the market system on the workers and trade unions.

## **1.2 Structure of the Thesis**

Central to this thesis reports is the research conducted in case studies carried out in two white goods manufacturers in Anhui Province. The aim of this research is to contribute to the understanding of the impact on the workers and the trade unions of the changing of factory regimes in the process of China's transition towards a market economy. In particular, it examines the implementation of modern management methods, the reform of the contract system and material support in the Chinese white goods industry.

This thesis is divided into four parts. The first part provides a preface to the original empirical research. First, Chapter 2 gives a brief review of Burawoy's (1985) notion of a factory regime and explores the use of this approach as the starting point of this research. This viewpoint has been only used to a limited degree in research into China's industrial relations in recent years (Lee, 1999; Chan & Zhu, 2003a). This thesis will focus on the three issues of factory regimes: labour control, material support and contract. This chapter also outlines some basic information about Anhui Province, where the case studies undertaken for this thesis are situated.

Chapter 3 then devotes more space to the history of the Chinese white goods industry, its emergence and development in the context of globalisation: 1) as background, a brief history of the global white goods industry is outlined; 2) the development of the refrigerator sector in the context of Chinese economic reform and globalisation is highlighted and the various stages in emergence of this industry - going ahead, concentration, the entrance of foreign capital, and the move to exports are described;

3) other factors that impact on the Chinese white goods industry, such as the domestic market and the role of government, are detailed. This section provides the background for this thesis.

Part two concentrates on the first case study of a famous refrigerator manufacturer located in Anhui Province which is in the process of ownership transformation (hereinafter referred to as ChinaCo1); in particular, the changes in the labour process and in workers' status in shop floor production as a result of the new factory regime are revealed. Chapter 4 starts with a broad introduction to Chuzhou, the location of ChinaCo1. It explores how ChinaCo1 developed from a small-scale SOE to a well-known wholly owned FIE by describing the history of ChinaCo1 in terms of its different ownership periods. These descriptions provide a preliminary picture of the change of factory regime.

Chapter 5 looks at the application of foreign management methods in the production process. It analyses the problems of the traditional management methods in the SOE period and describes how foreign managers have implemented their own management control systems. This chapter also demonstrates in detail how these methods, mainly introduced by the parent company, have tightened the control over shop floor production workers, and how the new management technologies have increased both the intensity of the work and work-related stress. It examines the reasons that the workers have no alternative but to accept these management techniques.

Chapter 6 addresses the changes that have taken place with respect to two other important factory regime issues in ChinaCo1. This chapter focuses attention on the

application of a labour contract system and the reform of the welfare and payment system. It investigates how various systems for assessing workers performances have been reconstructed. In addition, it documents how these changes to the labour contract system have resulted in the division of workers.

With a comparative research objective, Part three of the thesis concentrates on a second case study of another well-known white goods player in Anhui (hereinafter referred to as ChinaCo2). This case study provides insight into the factory regime of ChinaCo2 in the context of marketization. It seeks to examine not only ownership transformation, but also other reasons that would result in the factory regime changing. Chapter 7 is an introduction to ChinaCo2 in general. It reviews the process of the company's development from a small, near bankrupt factory to a large-scale SOE with good profits, shifting to a POE and then going back to a SOE. In particular, it explores the role of managers during the development process. In addition, a picture of ChinaCo2's location, Hefei, is given, in order to understand that some external factors, for instance, the role of local government might also contribute to the changes of factory regime.

In Chapters 8 and 9, parallel with Chapters 5 and 6, at the centre of the discussion are the changes in management control over the workers in the production process. They start by considering the shift in enterprise power toward managers as a consequence of the SOE reform. It is seen how managers have built up their control system and where their ideas have come from. The initial attempt of the management was to promote productivity through increasing output and decreasing defective products. Both chapters provide detailed information of how management has constructed or re-

constructed various methods for linking workers' individual performance with their income and job security, how it has re-built the labour force structure and divided the workers into different categories. This analysis focuses on the SOE period in the context of fierce competition in the Chinese white goods industry, rather than focusing on the period of privatisation.

Part Four sheds light on the trade unions in the changing world of the Chinese political economy. Chapter 10 generally explores the organizational structure, the role and functions of the Chinese trade unions at different levels. Facing the big challenges of China's economy reform, the All-China Federation of Trade Unions (ACFTU) has tried to act as the representative of workers' interests. However, it is still defined as a 'transmission belt' by the Party and by the ACFTU itself, and it has to play an 'ambiguous' role. The detailed examination in this chapter derives from interviews with several trade union officials. It is seen that because of the close relations with the Party/state and the hierarchical structure within the official unions, the trade unions at the enterprise level face difficulties in making changes. They have generally failed to have any impact on management decision-making with respect to the workers' interests, and they lack the power to represent the workers interests, in particular the workers' collective interests.

The conclusion reviews the main findings of this research and attempts to draw together the threads of all the previous chapters.

## **Part One**

### **Research in the Chinese White Goods Industry**

## **Introduction**

In recent years, an increasing number of researchers have focused much attention on China's economic system reform, in particular the SOE reforms. In addition, there has been a certain amount of academic research on the workers in a given industry, for instance, the automobile, textile and steel industries. Compared with these industries, the white goods industry has been largely ignored by social scientists. In China, no research concerning the workers of the white goods sector has yet been undertaken.

In order to understand the workers in this industry, Part One thus has two objectives: firstly, to introduce Burawoy's notion of the factory regime as a tool to undertake further study; and secondly, to review the development of the Chinese white goods industry.

## **Chapter Two**

### **Preface Research in the Chinese White Goods Sector**

Along with the dramatic growth of the Chinese white goods sector, especially after it was opened to the world market and joined global competition, not only have foreign advanced technologies been introduced into China, but ‘Western scientific management methods’ have also been widely used in enterprises. By the early 1990s, the principles for maximizing profits at the workplace had become generalized practice in the major white goods enterprises in China, including enterprises with different types of ownership. This focus on profits also resulted in radical changes in factory regimes.

This chapter first briefly introduces Burawoy’s notion of factory regimes preparatory to an examination of the arguments among scholars concerning the characterization of Chinese factory regimes. It then explores the limitations of the existing studies. Finally, it provides basic information concerning Anhui Province, in which the case studies that figure in this thesis are situated.

## 2.1 Understanding Factory Regimes

The issue of 'how economic restructuring affected China's workers' has attracted the attention of many researchers since the Chinese economic system reform. There are several approaches in this field.

One approach takes off from Walder's concept of neo-traditionalism. Based on reports from the 1970s, Walder (1986) argued that the Chinese work unit system could be characterized as Communist Neo-Traditionalism, which draws on the 'iron rice bowl' perspective of stable wages, employment and welfare provision (Taylor *et al*, 2003). Two institutional features can be seen in state-owned enterprises. First was organized dependence. The workplace managers rewarded workers with job opportunities, special distributions, and other benefits. In return, the managers expected the workers to support them. Wages and conditions of employment were decided by government agencies. Under this system, workers were highly dependent economically and socially on the enterprises, politically dependent on the Party and management, and personally dependent on supervisors. The second feature was the so-called 'institutional culture' of the factory, which refers to the patterns of various relations in the workplace: the patterns of association between superior and subordinate, the patterns of association among workers, and the strategies employed by workers, given the opportunities provided by the setting, to advance their interests (Walder, 1986, 13). Walder's notion was widely accepted amongst U.S. and European social scientists, as defining labour relations during the Maoist era.

However, market reform has drastically eroded this work unit system. Under the new system, 'scientific management' was imported to enterprises with all types of ownership (Zhao and Nichols, 1998). Walder's comments less suggest as a definition of the new labour relations in the post-Maoist era.

From the viewpoint of human resources and labour relations, employment and payment system reform are also important topics. With the closure and bankruptcy of SOEs, downsizing, job displacement and the rise of temporary labour are becoming popular. Many workers have seen their living standards decline, and some face unemployment and problems of making ends meet (Mok *et al.*, 2002: 399). Gallagher (2004:11) indicated that the increase in managerial autonomy and labour flexibility are the two characteristics of the process of dynamic liberalization. In addition, the state administered rewards system has been wholly replaced by a market-oriented rewards system. This system is accompanied by a strict performance-appraisal system, including a qualification test, a skill-level test, and a job performance review (Ding *et al.*, 2001: 324). In general, under market competition, the economic efficiency of SOEs has been decreasing and the 'honourable' status of state workers has been undermined (Mok *et al.*, 2002: 405). Blecher (2002: 283) concluded 'the structural reforms begun in 1978 have slowly but inexorably terminated those prerogatives... China's workers have lost their world'.

Burawoy's theory of the 'factory regime' provides a useful tool for the current exploration. In his book, 'The Politics of Production: Factory Regimes under Capitalism and Socialism' (1985), he has provided many social scientists with the broad parameters of their understanding of what happened to factory labour following

the increased dominance of capital over the last quarter of a century (Nichols *et al.*, 2004: 664). We will briefly outline Burawoy's theory of the 'factory regime' before attempting to use it to analyse current factory regimes in China in the context of economic reform.

### **2.1.1 Burawoy's Notion of the 'Factory Regime'**

Burawoy (1983: 587) defined factory regimes as political apparatuses which reproduce the relations of the labour process through the regulation of struggles. In his book, The Politics of Production (1985: 87), Burawoy pointed out that the 'factory regime refers to the overall political form of production, including both the political effects of the labour process and the political apparatuses of production'. He further distinguished three factory regimes and stated the historical development of various factory regimes. The first of these is market despotism. This concept is derived from Marx's traditional theory. As well as anarchy in the market leading to despotism in the factory, there are four further specific conditions: the real subordination of the worker to capital, the separation of conception from delineation, and the worker's dependence on the employer through the sale of labour power for a wage. The fourth condition of market despotism - that the state would preserve only external conditions of production; and in particular, that it would not directly regulate either relations among capitalists or the process of production and its apparatuses (ibid: 89-90).

The second type of factory regime is the hegemonic regime. In the face of a strengthening of labour, it is based on state interventions in the form of social insurance legislation and compulsory trade union recognition, grievance machinery

and collective bargaining. Under hegemonic regimes, the workers must be persuaded to cooperate with management. Their interests must be coordinated with those of capitalism. Burawoy indicated that hegemonic regimes also differ from country to country according to the extent of state-provided social insurance schemes and the character of the state regulation of factory regimes. Moreover, he summarized the views of Braverman (1974), Friedman (1977) and some other authors and concluded that the form of hegemonic regime also varies with the sector of economy under advanced capitalism. There is more emphasis on consent than coercion in the monopoly than in the more competitive sector (Burawoy, 1985:126-7).

The third type of factory regime is hegemonic despotism. Under hegemonic despotism, labour is vulnerable to an increased national and international mobility of capital. It is this that leads to a new despotism, built on the foundations of the hegemonic regime. Workers face the loss of their jobs, not as individuals but as a result of threats to the viability of the firm. For the workers, 'the fear of being fired is replaced by the fear of capital flight, plant closure, transfer of operations, and plant disinvestment' (ibid: 150-1). In addition, modern management techniques, such as quality of work life and quality circles, are widely used under hegemonic despotism.

Apart from the analysis of the above three types of factory regimes, Burawoy mentioned that the form and timing of capitalist development frames the nature of state interventions and the shape the factory regime.

Beyond doubt, among the labour process theories, the most prominent contribution came from Burawoy. However, his research was mainly based on the analysis of the

labour process in Western Europe and North America. In China, the history of industrialization is different from that of the Western countries: especially in the last two decades, its development has taken the form of so-called 'market socialism' with Chinese characteristics. It is unworkable to simply borrow theories based on Western countries to explore the factory regimes in China's enterprises, either under the planned economy period or under the market system. However, Burawoy's theory does provide a penetrating tool for the analysis of enterprises in the process of transition towards a market economy.

### **2.1.2 Research in Factory Regimes in China**

To date, few scholars have analysed the labour process in Chinese enterprises using Burawoy's formulations. Scholars agree that factory regimes in contemporary China have been largely reshaped, but they come up with different characterizations of the current factory regimes (Zhang, 2006). The limited literature is presented below.

Lee (1999) distinguished two types of labour regimes in Chinese factories in different periods. In terms of her exploration, using Walder's notion of 'neo-traditionalism' in the Maoist era, a type of industrial authority founded on an all-encompassing dependency of labour on the state enterprises, she summarized such 'organized dependence', including economic, political and personal aspects, as being rooted in the state monopoly of livelihood resources and the extension of its political control within the factory. After the economic reform, the removal of the foundations of welfare paternalism and the implication of unfettered managerial domination resulted in 'organized dependence' being replaced by 'disorganized despotism'. 'Disorganized

despotism' is seen to be a new type of factory regime in SOEs under the market reform in the early 1990s. An overtly coercive mode of labour control, the infliction of economic penalties, the proliferation of shop-floor conflicts and the demise of patron-clientelism are characteristics of the new type of factory regime.

The latest study came from Zhang's (2006) research on the Chinese automobile industry. He suggested that the widely adopted practice of labour force dualism in the Chinese automobile industry has led to a "hybrid" factory regime that combines "hegemonic" and "despotic" elements. "Hegemonic" relations have been established between management and formal workers, while "despotic" labour control characterizes the conditions of work for temporary workers. This in turn directly relates to the labour force dualism that has now taken hold in major Chinese automobile enterprises.

Existing studies of the transition of factory regime in China's enterprises provide an outline to understand labour control. For instance, after a survey in fifty-five footwear factories in five provinces in 1996, Chan and Zhu (2003a) presented management practices in different types of ownership through five indicators of disciplinary labour regimes, namely corporal punishment, compulsory overtime, discipline vis-à-vis bodily functions, imposition of monetary penalties and bonding of labour through mandatory deposits. They indicated different types of production processes would result in different types of labour-management interactions. Comparatively, at the factory level, state and collective-ownership large-sized enterprises continued to have more relaxed labour regimes. Chan and Zhu concluded that the difference between factory regimes in Western countries and China is that Chinese managers and owners

sometimes employ an obfuscating rhetorical patina of Confucian values to overlay their rigid control over workers.

Zhao and Nichols (1998) highlighted the work systems of three SOE textile factories in the early 1990s. Their case studies showed the way in which a managerial stratum was emerging with greater powers to determine production. At the level of labour processes, forms of labour control most usually identified as 'capitalist', and often introduced in the guise of 'scientific management', were being actively adopted by management who were increasingly preoccupied with the market, productivity and profits as enterprise goals.

However, there are some questions that should be discussed further. Much importance has been attached to the reduced intervention of the state (Lee, 1999; Chan, 2000a). But, the interventions of local government have been largely ignored. Subsequent to local government gaining increased authorities, a flourishing local economy became its prime target. Compared with the coastal and developed cities and provinces, the officials of the inland developing provincial and city governments paid more attention to the promotion of local economy. 'State intervention' has taken on a local form.

As noted by Chan and Zhu (2003a), at the factory level, a factory's ownership/management type, size, and the level of exports are associated with the imposition of labour discipline. Besides these factors, the nature of industry is also crucial. It is important to recognize, therefore, that Lee and Chan's studies have mainly involved field research in small and medium-scale firms in the south-eastern part of China in

labour intensive sectors and that Zhang's research focuses on the car industry, which was defined as a 'pillar industry' in both the planned and market economy period.

In addition, geographical factors should not be ignored. Lee and Chan's main findings were from Guangdong province, which is regarded as the first and one of the most substantially reformed areas in China. Zhao and Nichols' case studies were of textile factories in Henan province, an inland province with a mid-level economy.

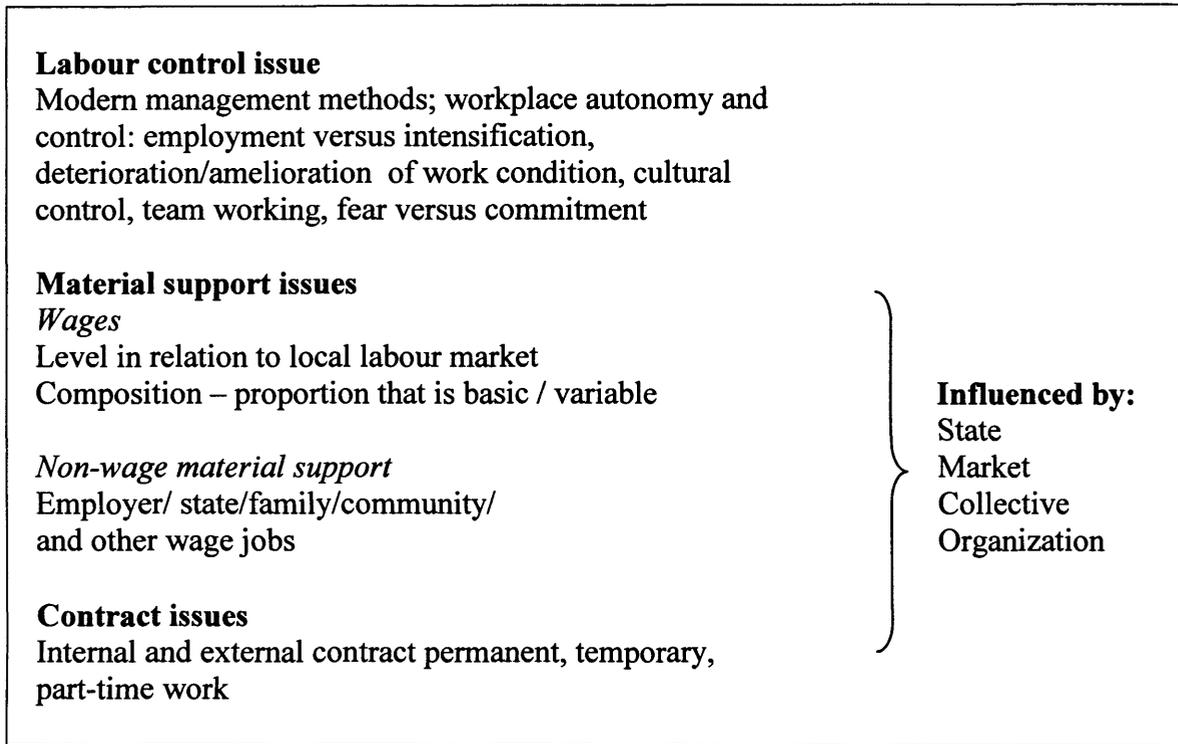
### **2.1.3 Three Issues in the Analysis of Factory Regimes**

As has been seen above, some studies use Burawoy's notion to analyse factory regime development in China, my view is that there is little to gain in the Chinese context from questions such as 'is this a case of market despotism?' and similar questions in the Chinese context, which is historically specific. However, this analysis of the case studies will make use of three important issues originating from Burawoy's understanding of factory regime – labour control, material support and contract.

In terms of Nichols *et al.*, (2004:667-668), labour control issues embrace modern management methods, workplace autonomy and issues related to fear versus commitment. Material support is composed of wages. Although wages may constitute all the means of material support, they should, however, be regarded initially as only one such means. Contract issues include internal and external contracts, permanent, temporary and part-time work. Although Burawoy did not pay much attention to contract issues, they have become more important as forms of labour force differentiation in both developed and developing countries since the time he wrote.

Following Nichols *et al.*, (2004), the above three sets of issues - labour control, material support and contract – are presented more fully in Figure 2.1.

**Figure 2.1 Labour Control, Material Support and Contract**



Concerning the research into the white goods industry in East Asia, Nichols *et al.* (2004) argued that to understand what is happening in labour in the East Asian plants, it is necessary not only to pay attention to control issues but also to those relating to material support and contract.

With respect to the Chinese white goods industry, radical changes in the above aspects of labour regime have taken place along with marketization and privatisation. To anticipate: the following three aspects of change have seriously impacted on workers: the traditional control behaviour in the planned economy period has been replaced by modern management methods; dependence on the work-unit material

support system, the so-called ‘iron rice bowl’, has given way to dependence on wages; and ‘life-long’ jobs have been changed to flexible labour contracts. The following two case studies are organized around these three issues.

The unique development path of the Chinese white goods industry has resulted in various characteristics of the factory regimes therein. Before we get there, however, the following section will present basic information concerning China’s centre of the white goods industry – Anhui province.

## **2.2 Anhui Province**

### **2.2.1 Basic Information of Anhui**

The last two decades have witnessed dramatic economic development in China in which there are significant differences between different areas. Historically, the eastern part of China has been more advanced than the west. The north-eastern part of China was an important heavy industrial base with many large-scale SOEs in the planned period. But under the market economic system, many SOEs in Heilongjiang, Liaoning and Jilin Province faced losses (see figure 2.1).

In the provinces in the southern China, especially the Pearl River Delta, industry had weakly developed 30 years ago. However, provinces, like Guangdong enjoyed good locations when China opened its door and huge foreign investment boosted the local economy. Before the mid 1990s, the investment mainly came from nearby Hong

Kong and Taiwan. The main industries are garments, electronics and textiles. By the end of the 1990s, as one of the main strategies of leading brands to reduce cost and increase profitability, many MNCs had contracted out operations to firms in the Pearl Delta area. This area is the world's fastest-growing production centre for customer goods such as toys, shoes and wearing apparel (Yu, 2005).

At present, the most important and advanced industrial area is the Yangzi River Delta, including Shanghai, Jiangsu and Zhejiang. Not only the many domestic industries, but also foreign investment enterprises are gathered there. Anhui province is the 'periphery' of the Yangzi River Delta. Its economic and industrial standards are relatively undeveloped compared with Shanghai, Jiangsu and Zhejiang.

Figure 2.2 Map of China



Anhui province is located in the south-eastern part of China. It is one of the most populous provinces and a major agricultural area. 70 per cent of the population of this province live in rural areas. Historically, industry was undeveloped and there were only 22, 000 industrial workers in 1949. From the 1950s to the 1980s, the speed of

industrialization was slow and the level of industrialization remained lower than China's average.

Industry has grown rapidly since the 1990s. This development has resulted in the growth of Anhui's overall economy. In 2004, its GDP was 475.9 billion yuan, ranked fourteenth out of thirty-one provinces (not including Hong Kong, Taiwan and Macao) (Liu, 2006). In order to match the advanced provinces, local government officials tried to draw up strategies to promote the local economy. Their consistent strategy was to promote the development of manufacturing industry. At present, manufacturing industry has become a pillar industry of the province. For instance, in 2001, the export volume of manufacturing accounted for more than 80 per cent of total export volume and the number of employees in manufacturing industry accounted for more than 70 per cent of employees in all industrial enterprises (Lin, 2003).

### **2.2.2 The Home Appliances Industry in Anhui**

Within manufacturing industry, the sectors that the government selected to prioritise varied across different periods. In the 1990s, cars, home appliances and machinery were the three selected sectors that were successively provided with aid by the provincial government.

In the second half of the 1980s, the home appliances industry was one of the highest profit sectors in China. The brands produced in local factories, Meiling, Yangzi and Rongshida, were very popular among customers and these companies became leading players in China's white goods industry. Based on their good performances and good future forecasts, the government made major efforts to develop the local home appliances industry. The government consistently gave priority to these factories with regards to importing foreign production lines, infrastructure supply and the examination and approval of proposals. With strong government support, Anhui was regarded as the 'big home appliances province'. But after the mid 1990s, Anhui's advantages and its leading status in the home appliances sector declined to a certain extent. Several 'star' companies were in difficulties. In order to retain its status as the 'big home appliances province', the government helped the local factories to look for opportunities to merge with or be taken over by large foreign or domestic companies. In 1997, two local factories with heavy debts were merged with Haier and Konka, China's top two TV set manufacturers. 'We are not concerned about the ownership of the companies. Our concern is for the companies to remain in Anhui' (*bu qiu suo you, dan qiu suo zai*), an official explained and he seemed this to be the guiding principle in the reform of SOEs (Anhui Information Centre, 2003). During the process of attracting domestic and foreign investment, the provincial and some municipal governments provided 'inconvertible' priority policies in the form of tax benefits, credit and land sold at low prices (Pang, 2005).

In order to meet the general target of realizing 'a well-off society' (*xiao kang she hui*) in China by 2020, Anhui's provincial government drew up 'The strategic objective,

steps and key duties for realizing a well-off society in Anhui province' (known as the '861' proposal for short). The three numbers each have special meanings. The number 'eight' refers to the building up of eight key industries bases. The number 'six' refers to the promotion of six infrastructural facilities. The number one means that GDP will reach 562 billion yuan in 2007, which is equal to \$1,000 per capita on average. Among the eight key industrial bases, the home appliances industry is one of the most important ones to which the government offers support. The targets for the home appliances industry of Anhui province in the 861 Proposal are explained as follows:

The targets include: attracting foreign and domestic large scale home appliances manufacturers to invest and set up factories in Anhui; helping the factories with investment from companies outside Anhui, such as Haier, Medea, Konka, Hitch and Siemens, to expand their production; enhancing Meiling and Rongshida to adjust structure and cooperate with foreign or domestic private companies so as to speed up the upgrading and updating of their products. The account of home appliances product is expected to reach 20 million units in 2007 (among them, refrigerators: 5.5 million, washing machines: 4 million, air-conditioners: 5 million, colour TV sets: 4.5 million and PCs: 1 million). The output will increase by 100 per cent of that in 2002 (Anhui Information Centre: 2003).

Large investments from abroad and from other provinces changed the structure of Anhui's home appliances industry. The companies might be catalogued into three types: the first are local companies, such as Meiling and Rongshida. The second type are famous domestic companies, such as Haier, Kelon and Medea, which invested through merging local factories or setting up new branches in Anhui. The third are foreign investment companies such as Siemens, Hitachi and Sanyo. Compared with

the latter two types of companies, the local companies have lost their central status and no longer play key roles in Anhui's home appliances industry.

### **2.2.3 The SOEs' Reform and Ownership Transformation**

In the last two decades, SOE reform and the attraction of foreign investment have been at the top of the Anhui Provincial government's agenda. With regard to the SOEs reform, as an inland and mid-level economic standard province, Anhui province basically followed the State's reform strategies and steps. By the end of 2004, all of the large-scale SOEs had transformed into corporations. The majority of the medium and small-scale SOEs shifted to non-state ownership. During this process, the number of SOEs decreased significantly. In contrast, private owned enterprises grew rapidly.

**Table 2.1 Different Types of Enterprises and Their Employees among the Industrial Units in Anhui in 2003**

	Enterprises	%	Employees (10 thousand)	%
SOEs	1148	2.9	51.7	21.9
COEs	5680	14.3	22.7	9.6
POEs	27100	68.3	85.8	36.3
Hong Kong, Macro and Taiwan investment enterprises	301	0.8	5.4	2.3
Foreign investment enterprises	441	1.1	8.6	3.6
Other types enterprises*	5000	12.6	62.4	26.3
Total	39670	100	236.6	100

Source: Anhui Statistics Bureau (2006)

\*Other types of enterprises include stock cooperation companies, stock companies, state owned joint management enterprises, collective owned joint management enterprises, state and collective joint management enterprises and other domestic investment enterprises.

Compared with the survey in 2001, by the end of 2003, the number of SOEs had decreased by 41.7 per cent and COEs had decreased 44.7 per cent, whilst the POEs had increased by 36.5 per cent (Anhui Statistics Bureau, 2006). In spite of this major reduction of the SOEs, the provincial government stressed that it was necessary to

speed up the process of the SOE reform and privatisation. During interviews with government officials, trade union officials and company managers, the interviewees consistently expressed the same feelings: Anhui is not a developed province. They say that they should learn from the experiences of Zhejiang and Guangdong and speed up the reform. Hence, further reform and privatisation are on the agenda.

In the context of the opening-up policy and globalisation, attracting foreign investment has been an important policy in the promotion of the local economy since the 1980s. From 2000 to 2005, the total volume of real foreign investment was \$5.37 billion. Twenty-eight of the world's top 500 companies have invested in Anhui province (Chen G, 2006). 80 per cent of foreign capital is invested in the manufacturing and real property sectors.

Comparatively, Anhui was not particularly attractive to foreign investors until the beginning of the 21<sup>st</sup> century. According to a survey by the Anhui Statistics Bureau (2005), a small scale limited number of investors and a low utilization rate of real foreign capital were the province's main characteristics in attraction of foreign capital. In 2003, only four foreign investment companies' had registered capital of more than \$100 million. Companies with registered capital of less than \$0.1 million accounted for 76.3 per cent of foreign investment companies. The officials of the provincial government were not satisfied with the quality and quantity of the foreign investment. In the annual government work reports for the past three years, inviting outside investment and attracting foreign capital have been stressed as important economic tasks. Also, in the reports, all officials at various levels have been asked to pay more

attention to attracting foreign capital, expanding scale, increasing quality and encouraging foreign capital to participate in the reform of SOEs. Moreover, it has been emphasized that promoting the work of attracting foreign investment required more institutionalisation and specialization.

In the second half of the 1990s, it also began to attract domestic investors from other provinces to invest in Anhui. Alongside these policies, several other factors contributed to the increase of investment. In the home appliances companies, the local companies promoted a complete local industrial chain, and some cities, such as Hefei, Wuhui and Chuzhou, are characterized by high-level current production capacity as well as relatively convenient transport systems.

The main advantage of Anhui remains cheap labour. This comparative advantage is significant now that labour costs have risen in coastal provinces. In 2004, the average wage of each in-service employee in Anhui was 12,928 yuan per year, which was lower than the national urban average level of 16,024 yuan in China as a whole. Furthermore, when compared with more prosperous cities such as Shanghai, where the average wage of each employee was 30,085 yuan in urban areas, the level in Anhui was significantly lower. In 2004, the wages in Anhui ranked 23rd among China's 31 provinces (Anhui Statistic Bureau, 2005).

#### **2.2.4 The Abundant Labour Supply**

Anhui is one of the most populous provinces in China with a population of nearly 65 million (NBSC, 2006 b). It has abundant labour resources. Industry is concentrated in several big cities, such as Hefei, Wuhu and Maanshan. For a long period, the key industries in Anhui have been manufacturing and mining. But labour was abundant in both urban and rural areas. Moreover, the market-oriented reform has led to the seeking of increasing efficiency. The downsizing of SOEs and the transformation has produced a huge number of laid off workers. Although many workers have been re-employed, they have to work in medium and small-scale private factories. Furthermore, the provincial government does not pay sufficient attention to the over-supply of labourers. Their priority is to set up high-profile industrial zones and promote enterprises to raise their competitive ability.

According to the annual provincial government work report, the registered unemployment rate was 4.2 percent in 2004, the same as that in China as a whole (Like the statistics of National Bureau of Statistics of China, the number of laid off workers was not presented). The report only announced that 0.2 million had been re-employed. Therefore, the consensus among scholars is that the official statistics of 'registered unemployment' are far too low to reflect the reality of redundancy (Wu, 2004).

The complicated definition of the term 'laid off' itself shows the hybrid nature of transition. According to the current explanation from the Chinese government and

scholars, the definition of the term 'laid off' relates to workers from state or collective owned enterprises that are in debt and have closed or partly closed down during the process of structural adjustment, who have lost their jobs, although their labour contracts have not been terminated. This definition does not include various forms of joblessness. In practice, there are other ways to make workers redundant. For instance, the term 'take a long holiday' (*fang chang jia*) is widely used in SOEs and COEs. In this way, the enterprises allow workers to leave their jobs without pay, but the workers might retain a labour registration with their enterprises. The other method is so-called 'early retirement' (*ti qian tui xiu*), which enables workers to quit their jobs before their due time, but terminate labour relations at their due time. A new programme of 'buyout' (*mai duan gong ling*) has been carried out in many enterprises since the end of the 1990s, which refers to offering cash payments to workers who agree to end their contractual relations with enterprises.

The failure to account for unemployed migrants is a major mission. Anhui has low urbanization. In 2002, the rate of urbanization was only 30.7 per cent, much lower than the Chinese average. Anhui is famous for its huge number of migrant workers. In recent years, the average number of migrant workers to other provinces has exceeded 4 million every year. This number is one of the highest in China. Estimated on the basis of a sample survey, the number of migrant workers from Anhui in other provinces is more than 10 million, which accounts for 15.8 per cent of the registered population (China Population Net, 2005).

In sum, the standard of industrialization and urbanization and the abundant labour supply have led to serious competition for jobs. Once a worker gets an offer in a large enterprise with good performance, he will value his job.

## **Summary**

This chapter began with an overview of Burawoy's notion of factory regimes. He distinguished the three types of factory regimes as market despotism, hegemonic regime and hegemonic despotism. I suggested that although Burawoy's notion provided a useful tool to understand the change of factory regimes in China. I argued that there is no benefit in discussing 'is this a case of market despotism?' and similar questions. However, this analysis of the case studies will make use of three important issues originating from Burawoy's understanding of factory regime – labour control, material support and contract.

We have seen that although some scholars have attempted to apply these terms to China, they were in fact developed with reference to Western societies and actually relate to a different phase of development – early capitalism, the post-World War Two strengthening of labour, the rise of globalisation and the subsequent weakening of labour. We have also seen that China's capitalist development has been uneven and the findings of different studies of labour control have in fact been affected by the nature of specific industries. It is for this reason that we have spent some time discussing the nature of Anhui.

As the above account suggests, in examining literatures we find it is necessary to consider further the contribution of the local government and the possible impact of ownership transformation as the nature of the factory regime. First, therefore, it is necessary to set the case studies in the context of the development of the particular industry we are looking of, white goods. This is attempted in the next chapter.

In this respect, this chapter lays the foundations to explore further, in the following two case studies, how the factory regimes have been built in the two top Chinese white goods enterprises in Anhui Province, how these regimes have led to a decline in the workers' status and how they have influenced the role of the trade unions.

## **Chapter Three**

# **The Chinese white goods industry in the context of globalisation**

The Chinese white goods industry was one of the first to open to market forces and though the industry has its own unique features, its history provides an important insight since the reform process began into industry development in China more generally. After developing for more than two decades, the white goods industry is commonly regarded as ‘China’s most mature industry’.

This chapter briefly reviews the world white goods industry, explains the dramatic changes in the Chinese white goods industry, and focuses on the development of the refrigerator sector in the context of Chinese economic reform and globalisation. Following an outline of the history of changes in the domestic market since the 1950s, the concentration process, and the growth of exports and the role of government are discussed, as are foreign and private capital flows and their impact on the industry.

### **3.1 A Brief Literature Review**

‘White goods’ is a trade term which covers a wide range of domestic appliances that are chiefly for kitchen or laundry use. White goods are generally distinguished from so-called ‘brown goods’. The latter are consumer electronic products such as TVs, video recorders, hi-fi systems, telephones, computers and cameras (Nichols and Cam,

2005: 1). White goods have very important implications for people's daily lives. Given the increasing importance of these goods in world consumption, several kinds of market reports have been published by various business agents, such as 'Global Market Information Debate', published by Euromonitor Ltd, and 'World Appliances Companies' presented by Dana Chase Publications. These business reports have described the significant increase in the white goods industry, provided some basic information and analysed its changing character in the context of globalisation. However, few social scientists have selected this area for further observation. Studies of the changing management methods and their impacts on the workers in this sector are even fewer.

Within this limited literature, the leading studies have come from Baden-Fuller and Stopford (1991); Segal-Horn, Asch and Sunea (1998); Nichols and Cam (2005); Lambert, Gilan and Fitzgerald (2005). Segal-Horn, Asch and Sunea considered globalisation in the industry since the 1980s. Based on data from the European white goods industry, they showed how changing economic conditions can diminish the value of global strategies. They concluded that certain factors specific to the white goods industry in Europe gave national strategies a competitive edge over international strategies in the 1980s. They claimed that globalisation strategies in the white goods industry have proved to be inferior to localization strategies. Later, Segal-Horn, Asch and Sunea reassessed competitive strategies in the European white goods industry by revisiting the effectiveness of national, regional and global strategies. They concluded that it is becoming clear that the major appliances industry is becoming increasingly global in character (Segal-Horn, Asch and Sunea, 1998:108).

A later study by Lambert, Gilan and Fitzgerald (2005) provided an investigation of labour relations in Australia by analysing E-Lux, one of the world's leading white goods companies, which bought out the last remaining Australian white goods company. In terms of their exploration, the three phases in the trajectory of Australian white goods are growth under the wing of the protective state; rationalisation and concentration after the waves of deregulation; and foreign takeover. After the mid-1970s, the state economic deregulation policy triggered waves of takeovers, mergers and closures, resulting in a more highly concentrated industry. Deregulation also created global competitive pressure through trans-national corporation (TNC) imports that undermined the local industry's vitality. Referring to E-Lux in Australia, Lambert *et al.*, (2005) stressed that deregulation disorganises trade unionism, undermines any lingering culture of solidarity and facilitates labour market flexibility, which E-Lux regards as essential to the maintenance of globally competitive factories in Australia. Their analysis of the global strategy of a trans-national corporation provides insight into the dynamics of competition and changing power relations in a deregulated environment in Australia. The important contribution of Lambert and his colleagues is their analysis of trade unions. For them the case of E-lux in Australia shows that trade unions are powerless, marginalised, isolated and relatively ineffectual in the face of the changes.

In the context of the change and development in the white goods industry worldwide, Labour in a Global World – Case studies from the White Goods Industry in Africa, South America, East Asia and Europe by Nichols and Cam (2005) explored the process of development in the white goods industry and the nature of work in this

sector in several countries, both developed and developing. The book provides a rich source of information on the conditions under which these commodities are produced in less developed countries, such as Brazil, Turkey, South Africa, Taiwan, and China. The research collaborators present an overview of the basic character of the white goods industry in the five developing and newly industrialised countries and areas. For instance, white goods firms in Turkey usually use their own brand names in the domestic market but also produce white goods for leading MNCs through subcontract agreements. The industry is highly concentrated. Since 2000, it has become exported-oriented, with a particular focus on countries in the EU (Sugur and Nichols, 2005: 148). There is clear evidence of globalisation in the Brazilian case: in particular, foreign ownership dominates. There is also evidence that outsourcing has increased (Araujo *et al.*, 2005:175). As well as reviewing the reshaping of the white goods industry in the context of concentration, globalisation and technological innovations, the collaborators also observe the management strategies, labour process and the role of trade unions in the above countries. After the separate analysis in various chapters, Nichols and Cam summarise similar presumed best practice management methods that have diffused to all the plants in the above countries - Six Sigma and more generally Total Quality management (TQM) – usually under American influence.

Only a few academic articles refer to the Chinese white goods industry. In the literature in English, Lin (2005) explored Haier's management methods. Lin introduced the OEC management-control system (in which O stands for Overall; E stands for Everyday and Everything; C stands for Control). It is presented as an important strategy in achieving the success of Haier Group. Under the detailed rules

and regulations, the workers are tightly controlled by daily evaluation. Monetary punishment is a crucial element in this method. Bruton, Land and Lu (2000) discussed the vigour of town and village enterprises. In their paper, Kelon, one of the top China's cooling appliances companies, was taken as an example. A considerable degree of freedom, largely developed outside the control of the central government, close relations with local government and flexible management method are seen to be its conditions of success.

In the Chinese literature in China, Jiang (1997) described the concentration of the Chinese home appliances industry in the mid-1990s and argued that the flexible market system rather than the intervention of government had resulted in the dramatic increase in the Chinese white good industry. Amongst other issues, Xian's (2002) research focused on the process of ownership transformation. The Yangzi Company, taken over by a German company, was a case study in his article. He described the process of merger and concluded that as well as specific business practices, the role of local government is crucial.

In addition, several books and reports have described and celebrated the development of Haier Company since 2000 (Pei, 2001; Sun, 2002; Yang, 2003; Ren, 2003). These books provide some basic information but lack sufficient academic rigour. A debate on managers and private owners stealing state properties during the process of SOE reform was begun in 2005. Gu Chujun, a famous private owner who took over two large-scale white goods companies, sparked this debate. When economists from the right and left wings expressed their views, some famous domestic cooling appliances

companies, such as Haier, Kelon and Meling, were taken as examples. This debate was limited to the economic field and had no relations with industrial sociology.

This thesis is mainly concerned with refrigerators. It is necessary to provide a brief review of the world white goods industry, following which I will focus on the development of China's white goods industry.

### **3.2 The World White Goods Industry**

The production of electric domestic appliances goes back to the late 19<sup>th</sup> century. At present, refrigerators, washing machines and other home appliances are common to many urban areas of the world. By the end of the 1970s, the centre of production and the major market was in Europe and North America.

While it is indisputable that there has been a general tendency to globalise, it is equally clear that not all industries in the economy have been equally affected (Segal-Horn *et al.*, 1998). Compared with other industries, globalisation has had a significant impact on the white goods industry. Since the 1980s, the white goods industry has become increasingly global in character. According to Nichols and Cam (2005: 4), there are three main regions in the refrigeration appliances market – Western Europe, the Asian Pacific and North America. In 2002, these regions

accounted for 70 per cent of units sold worldwide. Among them, the increase is fastest in the Asia Pacific region, whilst Western Europe has fared worst.

There are various factors that might have contributed to the globalisation trend in the white goods industry. Most of the technology and manufacturing processes are similar, despite some differences in the features and dimensions of white goods products and white goods production is mainly production for a mass market. The key objective is to sell essentially similar products in large numbers, to 'pile them high and wide'. Lack of sustained growth during the 1990s meant cost cutting and rationalisation, especially in Western Europe, and the pressure to cut continues. Also in the aspect of market, the Asia Pacific area has become a huge market since the mid-1980s. In order to reduce costs and expand into this new market, many world-leading companies have set up branches in Asia.

Concentration and relocation are the two basic characteristics of the world white goods industry in the process of globalisation. Historically, in the white goods industry, competitive strategies had been based on domestic markets. The expansion of scale economy and the development of technology have promoted the use of the international strategy. From the mid to late 1990s, a mere twelve companies controlled 80 per cent of the European market (Segal-Horn *et al.*, 1998: 105). In 2002, the five largest corporations controlled 30 per cent of the market with a combined turnover of 45 billion US dollars in domestic appliances revenues (Euromonitor, 2003). This concentration first occurred in Europe and North America and then in Asia Pacific. It often reflected the take-over or merger of smaller companies in

particular local markets. After the white goods industry became highly concentrated, relocation became another characteristic of this industry. In the process of relocation, China has figured prominently as a host in attempts to shift from North to South into less developed and newly emerging markets (Nichols and Cam, 2005:15). China has become a major player in the world white goods industry since the beginning of the new century.

Profitability for manufacturers has become very limited since the 1990s. Increased competition as a consequence of a saturated market and also of trade liberalization and reductions in the cost of components has meant that the growth in the number of refrigerators sold has not been matched by an equivalent increase in the value of sales. The industry has adopted a number of strategies to fix or at least to seek to ameliorate the effects of market saturation and declining or flat unit prices. One such strategy, which is in evidence worldwide, has been to re-vamp production: to cut the labour force; to outsource; to strip production down to assembly operation and to bring to bear a number of systematic modern management technologies. Concentration offers economies of scale and greater leverage over supply chains. Hence, it results in job losses.

Under this circumstance, as a newly emergent force in the world white goods industry, it is worth paying close attention to the development of China's white goods sector.

### **3.3 The Development of the Chinese White Goods Industry**

There are three phases in the development of the Chinese white goods industry: the period from the mid 1950s to the late 1970s was characterised by small-scale production and limited relations with the consumer market. From the 1980s, along with the reform, as one of the first industries that was opened to market force and world competition, the increase of the Chinese white goods industry was dramatic. Then, in the context of globalisation, a new phase began in the mid 1990s.

#### **3.3 .1 A Review from the 1950s to Early 1980s**

Refrigerator production in China began in the 1950s and was the first sector of the white goods industry to develop in China. The first refrigerator was manufactured in 1954. The first proper refrigerator factory, Beijing Snow Flake Fridge Factory launched in 1957, when it produced only 44 units (Li, 1990: 104). Such small-scale production continued until the late 1970s. By 1977, for example, output amounted to only 1,580 units in all China. The total output of refrigerators in China only accounted to 15,000 units between 1957 and 1977 (Jiang, 1997:109). During this period, the products were mainly used in the offices of official institutions and factories: few families had refrigerators.

The production of washing machines in China goes back to 1957 at which time there were only 4 plants and total output was only 216 units nationwide. One plant

produced only one unit. In the following two decades, production was almost suspended. In 1978, production only reached 336 units in all China (Li, 1990:96).

From the mid-1950s and through to the 1960s and 1970s, there was little market demand for household appliances because of the very low income of most Chinese people. The bicycle, the watch and the sewing machine were called the 'Big Three' home appliances in citizens' families. Very few families owned white goods products. For instance, there were only on average 0.2 refrigerators and 6 washing machines per 100 families in urban areas in 1981 (NBSC, 1999). As had once been the case in Britain, a refrigerator was regarded purely as a luxury item and only within the purchasing power of the well to do (Nichols and Cam, 2005:23). Most Chinese customers had no idea about refrigerators, microwave ovens and many other home appliances.

The second half of the 1970s was a vital period for the development of the Chinese white goods industry. By 1980, the output of washing machines had reached 250,000 units, and the output of refrigerators was more than 49,000 units (CLIA 2002: Table 1-2). Moreover, many sub-sectors have entered a period of dramatic growth.

### **3.3.2 Giving the 'Go Ahead'**

The Chinese white goods industry was one of the first industries that was opened to world competition. In particular, it was amongst the first industries in which foreign investment was permitted. A major expansion of the white goods industry took place

in line with these developments from the early to late 1980s. The number of refrigerators produced increased from 0.19 million units in 1983 to 6.7 million units in 1989 while the number of washing machines increased from 3.7 million to 8.3 million (CLIA 2002: table 1-2, 5). In 1988, the industry production value of refrigerators reached 52.7 billion yuan, a 108 per cent increase compared to 1987; the production value of washing machines reached 37.8 billion yuan, a 26 per cent increase compared to the previous year (Research Centre of Development Strategies, 1989). Freezer manufacture began in 1986, though at this time there was still no microwave or cooker production. Compared with other home appliances sectors, the performance of the refrigerator sector was outstanding in the 1990s. The total output value in 1992 was 6.94 billion yuan and accounted for 33 per cent of the total home appliances industry (Jiang, 1997:109). Expansion and structural adjustment perhaps best summarise the two characteristics of this period.

### **3.3.2.1 Expansion**

A huge market demand was the primary driving force behind the expansion of the white goods industry from the late 1980s to the mid 1990s. The growth rate of GDP was remarkable in the 1980s as well as afterwards. Meanwhile, the incomes of the Chinese people grew continuously. On average, the annual per capita national income rose by 4.1 per cent between 1985-9, and the consumption level was up by 3.1 per cent in real terms (NBSC, 1991). As a result, market demand for household appliances increased. However, small-scale production failed to meet the demand and imports were too expensive for the majority of the Chinese consumers. Refrigerators

and washing machines were therefore in short supply. It was reported that in Shanghai in 1987 the demand for refrigerators outstripped supply by a ratio of 7:1 (Xu, 1994: 59).

The huge market demand resulted in high profits and further attracted investment in the white goods industry. According to a survey by the Chinese State Planning Committee in 1987, the market price of refrigerators was 130 per cent higher than the production cost; in some cases it was even 190 per cent higher (Jiang, 1997:115). Household appliances factories found they could quickly make profits through the increased production that resulted from the high level demand. By 1984, there were 116 refrigerator factories in China. Furthermore, the number of factories increased to over 180 by 1987. For instance, in Hangzhou, the capital city of Zhejiang Province, 32 refrigerator factories were launched in three years (Xu, 1994:60). In 1989, the total production capacity in China reached 6.7 million units. Such increases met market demand and popularised refrigerators as common home appliances in Chinese urban families. By 1988, there were 28 refrigerators per 100 urban families (NBSC, 1999).

The rise in white goods production was facilitated by the large number of foreign production lines that were introduced to China. For instance, by 1988, more than 60 refrigerator production lines from 13 countries were imported by 51 factories in different provinces (Jiang, 1997:110). In particular, nine modern refrigerator production lines were introduced from the Italian Ariston Company alone (Fan, 2004). Meiling was one of those to import from Italy, while Haier imported from Germany. According to the Chinese Light Industry Yearbook (1990), among all the refrigerators

produced in 1989, approximately 80 per cent were from the imported production lines (Research Centre of Development Strategies, 1989:385).

While encouraging the import of foreign production lines, the Ministry of Light Industry also encouraged manufacturers to develop national production. With the help of experts from different fields, some key components of the refrigerator began to be made in China, particularly the compressor. One third of compressors began to be produced in China by 1990 (He, 1991:347).

#### **3.3.2.2 Structural Adjustment**

The imported modern technology helped to promote rapid development and laid the foundation for the Chinese white goods industry that exists today. On the other hand, though, this soon led to over-production. The first half of the 1990s witnessed the restructuring of the industry. Production of refrigerators and washing machines declined slightly from 1989 until 1991 (Table 3.1). The decrease was connected to a wider economic restructuring. At that time, the national economy was in an adjustment period, and the profit of state-owned enterprises dropped significantly. As the macro-economic situation took a turn for the better in 1992, the manufacture of white goods began to grow steadily, the industry going through a period of structural readjustment up until the mid-1990s.

**Table 3.1 Production of Refrigerators, Washing Machines (1989-1995)**

Year	Outputs (000 units)	
	Refrigerators	Washing machines
1989	6,710	8,250
1990	4,630	6,630
1991	4,700	6,780
1992	4,860	7,080
1993	5,970	8,880
1994	7,680	10,940
1995	9,190	9,480

Source: CLIA (2002: Table 1-2)

In general, from the late 1980s to the mid-1990s, the output of Chinese household appliances went up and a balance was basically struck between production and the market. In this period, almost no new factories entered the refrigerator sector. By contrast, some small scale factories withdrew from white goods sectors and several leading companies emerged. The trend of indiscriminately increasing production scale stopped. Furthermore, given a decline in the rate of growth of domestic demand, exports started to increase.

By the middle of the 1990s, most refrigerator companies were still under public ownership. Among the top 12 companies, Haier Group and Shanghai Shangling Ltd. Company were COEs. Yangzi Group and Changling Group were SOEs. Following the establishment of the modern corporation system, property rights changed. For instance, in the early 1990s, Haier Group and Meiling Company shifted to listed companies and further companies were listed on the stock exchange. In this same

decade, several large companies developed swiftly through mergers and acquisitions, their brands became very popular among Chinese consumers, the domestic home appliances companies remained dominant in the Chinese market. Furthermore, remarkable progress was made in product technology and quality. Therefore, an official report by the Chinese Light Industrial Association (CLIA) regards the first half of 1990s as the 'golden age' of the Chinese domestic household appliances industry (CLIA 2002: Chapter 1).

Towards the end of the restructuring of the domestic industry, in the mid-1990s, however, the 'golden age' of the domestic white goods industry came to an end. The Chinese white goods industry was affected by economic globalisation in the shape of a growing number of foreign companies which began to enter the Chinese market. The main strategy of foreign companies was to emerge in joint ventures with Chinese factories and the number of plants reduced whilst output increased and the process of concentration continued. Since the mid-1990s, few new domestic enterprises have entered the white goods sectors.

### **3.3.3 Going Global**

Since the mid-1990s, China has become the main player in the world white goods industry. In 2002, two of the top ten global manufacturers came from China, Haier Group and Kelon Electrical Company (China Euromonitor, 2002, Table 38). Besides the continuously increasing output, the entrance of foreign capital and the increasing expertise that it became new features of the Chinese white goods sector.

### 3.3.3.1 The Entrance of Foreign Capital

China's low labour costs and preferential tax policies have made it an attractive country for foreign investment. In addition, local governments have extended support to foreign companies in order to persuade them to invest in their areas (detailed discussion later). Many foreign manufacturers regard China as a huge potential market. Almost all of the famous multinational household appliances manufacturers have come to China, pushing up the production of white goods to unprecedented levels. Unit production of both refrigerators and washing machines approached to 16 million in 2002 (Table 3.2).

**Table 3.2 Production of Refrigerators, Washing Machines (from 1996 to 2002)**

Year	Outputs (000 units)	
	Refrigerators	Washing machines
1996	9,800	10,750
1997	10,440	12,550
1998	10,150	12,070
1999	11,190	13,420
2000	12,790	14,430
2001	14,390	13,340
2002	15,990	15,870

Source: CLIA (2002: Table 1-2; 5)

The entry of foreign capital resulted in changes in the ownership structure. The leading world producers entered the Chinese white goods industry mainly through acquisition or merger with existing Chinese enterprises. Many SOEs and COEs were

transformed into joint venture companies. For instance, in 1996, Electrolux set up a joint venture company in Tianjin to produce compressors and also invested \$41.4 million to establish a joint venture company with the Changsha Zhongyi Group. Whirlpool carried out similar investments in both refrigerator and washing machine factories. Bosch-Siemens also set up joint venture refrigerator and washing machine companies in Anhui and Jiangsu provinces.

However, in the early days of their operation, several joint venture companies were unsuccessful (CLIA 2002: Chapter 3). There were several reasons for this. For example, some foreign producers were not familiar with the Chinese market, its consumption patterns and styles of product, and this caused their products to underperform in the market. In addition, many foreign companies found their normal marketing strategy did not work in China. In the given Chinese situation, many of the sales channels of domestic companies were based on personal relations. In particular, commission played a certain role in the marketing. Therefore, it was not easy for joint venture companies to set up new sales networks in a short space of time. Having poor sales networks impacted on the development of the foreign companies seriously. Almost all of the JVCs underwent an immediate decrease in sales.

Then again, although many foreign companies took the form of joint ventures with Chinese home appliances enterprises, some of them failed in their dealings with the former managers of these enterprises and with local governments. Problems of management also impacted on production. It was, for instance, with these sorts of considerations in mind that the local government promoted Bosch-Siemens Company

to take complete ownership of the refrigerator and washing machine companies in Anhui and Jiangsu provinces in which it had previously had only joint venture status. Another example of foreign companies moving to full economic ownership comes from Electrolux. As mentioned above, Electrolux set up a joint venture company with Zhangsha Zhongyi Group in 1996. The company was 60 per cent owned by Electrolux and 40 per cent remained with Zhongyi Company. By 2003, Electrolux had purchased the remaining 40 per cent of Zhongyi and the company became wholly owned by Electrolux. Since then, Electrolux has invested heavily in expanding the refrigerator production line and set up a new washing machine production line. In addition to Electrolux, Siemens, LG, Whirlpool and Panasonic and some other top MNCs transferred from JVCs to wholly owned companies.

JVCs used to be the prevalent mode of operation for foreign companies in China. Since 1997, wholly foreign-owned enterprises have begun to outnumber JVCs (Yan and Warner, 2002). In the early stages of the 'open door policy', many foreign companies preferred to choose the form of joint venture to start their business in China. This was for several reasons: in the early stages of the 'opening-up policy', the government welcomed JVCs. On the other hand, China had adopted a protectionist attitude towards the foreign investors. In addition, many foreign companies were worried about being unfamiliar with Chinese conditions. Since the mid-1990s, China has become more open and more MNCs have gained better knowledge of local countries.

More and more foreign brands started to fight for a share of the market. By the end of 1990s, most foreign companies had completed their localization processes and had become familiar with the Chinese retail network, production and market. Their predominance in technology, management and brands began to play a key role and their production and market share increased significantly (CLIA 2002: Chapter 1). By 2002, the foreign brands accounted for nearly 20 per cent of market share. In the high-end fridge market (above 4,000 yuan per unit) Siemens shared 50 per cent of the market (Fu, 2003).

Besides Siemens, some other top world brands, like Samsung, LG, Sharp, Whirlpool and Electrolux, have become well known among Chinese consumers and have begun to share much of the domestic market. Because of the increase in the foreign brands, some previously famous Chinese brands in domestic markets have started to disappear or lose market share. For instance, a leading world brand, Electrolux, replaced Zhongyi, a famous domestic brand. Likewise, Siemens eliminated Yangzi, which was another major player in domestic markets until recently. In terms of sales, three of the top ten refrigerator companies were FIEs or JVCs in 2002 (Samsung, LG and Electrolux), as were four of the top ten washing machine companies (CLIA 2002: Table 1-6). Since 2004, some famous Japanese companies have planned to invest huge capital and 're-enter' the Chinese market with renewed rigour. This will heighten the competition further.

### 3.3.3.2 Concentration and Exports

As in the white goods industry worldwide, concentration is an important characteristic of the industry in China. The refrigerator sector has seen various stages in its concentration process: it has moved from concentration to spreading (an increase in the number of manufacturers), and then to concentration again. Nevertheless, the two periods of concentration (the first one was in the 1980s, the second was from the second half of the 1990s to the present) were quite unlike each other.

**Table 3.3 Market Share of Top 4 companies and the Average Output  
(from 1983 to 1987)**

	1983	1985	1987
Market share of top 4 companies (%)	78	42	32
Output (10 thousand units)	1.23	3.89	5.96

Source: Research Association (1992: 330)

From the above table, we can see that in the early 1980s production and the market were based on a relatively small production scale and limited factory numbers. But it was highly concentrated. In the mid 1980s, the high profits attracted huge investment in white goods sector and many new factories began to operate. The rate of concentration decreased in the late 1980s. Since the 1990s, market competition has been heightened. Partly as a consequence of the over-supply in the market, the setting up of the joint venture companies impacted seriously the small scale factories. The quality of the products, research and development, the investment in advertising and the after-sales service networks has played key roles in market competition. Many small-scale enterprises found themselves facing an impossible challenge.

Theoretically, in the context of harsh competition, small, less competitive plants should withdraw from the market. In practice, although some enterprises withdrew, the majority of small plants did not go bankrupt because of government protection. By 1995, there were a total of 186 refrigerator enterprises in 19 provinces, most of them small. In that year, although the top five companies contributed 50 per cent of the total output, 61 enterprises made losses (Chen S, 2003: 240; NBSC 1995). In terms of market share, several large domestic companies controlled the market and some famous brands such as Haier, Kelon, Meiling and Little Swan became very popular.

After the mid 1990s, market forces have played a more important role and the central government has reduced its intervention in house appliances sector. In this circumstance, further concentration is in process. Compared to other industries, the household appliances industry is one of the most highly concentrated. One indication of this is that between 1995 and 2001, the number of brands of refrigeration appliances and washing machines fell from more than 200 to 20 (China Euromonitor, 2002). In 2001, there were around 1,200 household appliances enterprises of various kinds (including foreign investment enterprises, though excluding non-state-owned enterprises in which sales income was below \$0.6 million per year) but less than 10 per cent of companies controlled about 90 per cent of the market (CLIA 2002: Chapter 3).

**Table 3.4 The Share of Top Five Companies\* in Total Production (1996 to 2002)**

Year	Share of top 5 companies in total production (%)	
	Refrigerators	Washing machines
1996	64	54
1997	68	62
1998	73	67
1999	72	69
2000	66	65
2001	66	73
2002	60	68

Source: CLIA (2002: Table 1-9, 13)

\*The number of companies for which estimates are available at this time

The course and extent of concentration differs between sub sectors. In the case of the microwave oven sector, manufacture began in the early 1990s. Before 1997, there were more than 30 local brands. Through drastic market competition, the output of the top 5 companies accounted for 77 per cent of the total in 2002. The Glanz Enterprises Group Co. in Guangdong Province, the leader of the sector, had a 60 per cent market share in 2001 (China Euromonitor, 2002). A price cutting war resulted directly in microwave concentration.

In washing machines, the 54 per cent of production accounted for by the top five companies in 1996 had risen to 68 per cent by 2002. By contrast, in refrigeration - our key concern - Haier, Kelon, Samsung from Korea, Xifei and Meiling had achieved a 73 per cent share by 1998, by 2002, their share had actually fallen to 60 per cent of the total (Table 3. 4). A contributing factor was that more and more foreign brands

were now fighting for a share of the market. Such developments at home were accompanied by growing exports.

Since the mid-1990s, exports have grown significantly, mainly to Asia, North America and Europe. Haier now has the biggest refrigerator sales in the world (Xiao, 2002) and China is the biggest manufacturer of small-sized refrigerators (Ding, 2004). Some leading companies began to shift their production focus to the overseas market. According to official statistics, refrigerator exports increased by 35.2 per cent annually between 1993 and 2002 (Da, 2003). By 2004, exports underwent sustained growth in spite of the increase of non-customs barriers and other disadvantaging factors. Compared with other sectors, the growth of the cooling appliances sector was most significant (Xinhua Net, 2005).

**Table 3.5 Domestic Home Appliances Exports (thousands of units) (1995-2002)**

Year	Refrigerators	Washing machines	Microwave ovens
1995	650	500	1,144
1996	720	560	1,496
1997	1,230	710	2,073
1998	1,280	530	3,244
1999	2,293	654	5,819
2000	3,546	1,008	8,368
2001	4,531	1,615	12,526
2002	6,103	2,267	20,345

Source: CLIA (2002: Table 1-14)

Between 1995 and 2002, refrigerator exports rose approximately nine-fold, washing machine exports almost five-fold and microwave exports seventeen-fold (Table 3.5). Several factors contributed to the rapid growth in exports. Firstly, most of the

Chinese white goods manufacturers had been affected by the oversupply of the domestic market since the mid-1990s. Output stood at more than 20 million refrigerators in 1999. Though China was capable of producing 20 million, the urban market was approaching saturation. There were 87 refrigerators and 92 washing machines per 100 urban families in 2002 (NBSC, 2002) and the penetration rate exceeded 100 per cent in some large cities. For instance, in 2001, there were 107.4 refrigerators and 102.8 washing machines per 100 families in Beijing (Beijing Statistic Bureau, 2001). Whilst foreign companies began to expand into the market in China, some large domestic companies, such as Haier, Kelon and Meiling, also tried to expand into overseas markets. Exports of refrigerators from Haier Group, for example, accounted for nearly 30 per cent of its gross output in 2002. Furthermore, Haier set up factories and research centres abroad in order to gain more overseas markets. In the Xingxing Freezers Company, exports reached 36 per cent in the same year (CLIA, 2002).

Products which carry domestic brands are mainly exported to East Asia and other developing countries. Apart from Haier, most exports from domestic producers are sold under foreign brands. For instance, Meiling Company, exports one third of its production but 90 per cent of this takes the form of Original Equipment Manufacturer (OEM) products. OEM is considered to be the 'pillar' of the Chinese home appliances industry in the future (Shen W, 2004). The Chair of the Board of Kelon Company explained why Chinese domestic brands have yet to become global:

One big issue is that "Made-in-China" doesn't represent high quality, even though our products are of very good quality. In overseas markets, the foreign customers aren't familiar with the Chinese brands. We don't have our own brand in the overseas market, but we manufacture other brands to sell in the international market.

Other key factors are that domestic Chinese companies are still unfamiliar with consumer demand in foreign countries and lack effective retail channels. Therefore, in order to expand in the overseas market, OEM is a relatively good choice for Chinese manufacturers.

A second factor behind the growth in exports from China is to be found in the market strategies of the big multinational companies. MNCs regard China as an export production base as well as a huge market. For instance, 82 per cent of refrigerators produced in the Shanghai Sharp Company and 72 per cent of microwave ovens produced in the Korean-owned Suzhou LG Company were exported in 2001 (CLIA, 2002: Chapter 1). After Bosch and Siemens invested in China nine years ago, they began to export their products, first to Hong Kong, and then to European countries.

### **3.4 Other Factors that Impact on the Chinese White Goods Industry**

Here we consider further factors that have consequences for the Chinese white goods industry. First, China itself is a huge market, but a big gap has existed between urban and rural areas in China for a long time. This gap has had serious impacts on the white good industry. Second, the Chinese government (central government or local

government) plays a vital role in economic reform and development, including the white goods industry.

### **3.4.1 Domestic Markets**

The huge potential of the domestic market appeals to both foreign and domestic capital. In contrast to Western countries, in China's urban areas, home appliances, such as refrigerators, washing machines and TV sets were not long considered as 'luxury' items. It only took about 10 years to popularize home appliances items in Chinese urban families. Mass production developed to meet huge market demand. But whereas the urban market has become almost saturated over the last two decades, the rural market not yet been tapped. China has more than 900 million rural residents in approximately 200 million families. Household appliances possession is very low. There were 13.6 refrigerators and 29.9 washing machines per 100 rural families in 2001 (Table 3. 6). This was nearly equal to the penetration rate for urban families in 1986 (Yan X, 2002). But manufacturers face real problems in improving the high level of penetration.

**Table 3.6 Possession of Main Household Appliances**

(Units per 100 families) (1990 to 2001)

Year	Refrigerators		Washing machines		Freezers in urban areas	Microwave ovens in urban areas
	Urban areas	Rural areas	Urban areas	Rural areas		
1990	42.3	1.2	78.4	9.12	*	*
1991	48.7	1.6	80.6	11.0	*	*
1992	52.6	2.2	83.4	12.2	*	*
1993	56.7	3.1	86.4	13.8	1.6	*
1994	62.1	4.0	87.3	15.3	2.3	*
1995	66.2	5.2	89.0	16.9	2.9	*
1996	69.7	7.3	90.1	20.4	3.5	*
1997	73.0	8.5	89.1	21.9	4.5	5.4
1998	76.1	9.3	90.6	22.8	4.5	8.5
1999	77.7	10.6	91.4	24.3	5.4	12.2
2000	80.1	12.3	90.5	28.6	6.0	17.0
2001	81.9	13.6	92.2	29.9	6.6	22.5

Source: CLIA (2002: Table 6-4)

\* Not available

The inadequate level and growth of farmers' incomes has so far limited their spending. In 2001, for example, the income of rural residents rose by only 4.2 per cent compared to the 7.8 per cent growth rate of urban residents' incomes (ibid). In addition, the insufficiency of the power network in the countryside has resulted in an unreasonably high electricity price. Farmers are forced to pay more for electric than urban residents. Insufficient water supply and road transport have also limited the ability of manufacturers to expand in the rural areas. For all these reasons, manufacturers will find it difficult to expand in the rural market in the near future, despite its huge potential consumer base. But the results of this remain to be seen.

The entry of China into the WTO in 2001 is widely expected to lead to further changes. After WTO entry, import tariffs on household appliances products were unilaterally reduced and the government committed itself to the elimination of non-tariff barriers. In particular, it became easier for foreign companies to import capital in order to expand their presence in the Chinese markets. The desire to move into rural areas is likely to increase as competition among foreign and domestic companies stiffens in urban markets. In line with this, the government has already decided to develop strategies to boost the purchasing power of rural consumers, and thereby to sustain the long-standing economic growth of China.

Unfortunately, for them, the Chinese domestic companies have paid little attention to potential demand from middle-class families. They have remained focused on their less-affluent customer base and have been keen on expanding production scale and gaining a greater market share. As a consequence, the high-end market was lost and captured by foreign investment companies. Since the end of the 1990s, the market demand for home appliances has changed. Instead of growth in the amount of demand, market demand has become differentiated. For instance, following the rise of the middle class, the demand for luxury fridges (above 4,000 yuan per unit) increased rapidly. It is reported that during the period 2000 to 2003, the demand for high-end fridges increased by 20 per cent per year. Such a big market demand and the supply shortage of domestic products provided a big opportunity for the multinational companies in China. By 2004, Siemens, E-lux and LG shared over half of the high-end fridge market and their brands specialised in high-quality products among Chinese customers. Conversely, of the Chinese brands, only Haier shared about one

third of high-end market. In spite of some Chinese companies later becoming aware of the meaning of the high-end market, their brands are considered as economy products among customers. It is not easy for them to change the customers' view and gain a greater market share in a limited time.

### **3.4.2 The Role of Government**

The role of the government in the Chinese white goods industry after the reform needs to be discussed in terms of various government levels: central government and local government. The influence of central government can be broadly classified into two periods: before and after the mid-1980s.

Generally speaking, the role of central government was significant in the early days of the white goods industry. Local government continues to play an important role and the market has played a key role since the late-1980s.

#### **3.4.2.1 The Role of Central Government**

Before the mid-1990s, the performance of the Chinese white goods industry was closely linked to the macro-economic policies published by the central government. In the early 1980s, a basic strategy of China's central government was giving priority to the development of light and textile industries. Although the basic policy was reducing state control and allowing the sectors to compete in the market, the policies published by central government still played important roles. For instance, the policy

of encouraging the defence industry to convert production to peace time use resulted in the big increase in home appliances plants. At the end of the 1980s, this decision led to a huge amount of equipment in defence industry plants becoming idle. It is relatively easy for the war industry's equipment to be redeployed to produce home appliances. Hence, refrigerators, washing machines and TV sets became hot points in changing the lines of production. Xinfeng Group, one of the top refrigerator companies, and Changhong Company, the top Chinese TV set manufacturer, were originally defence industry plants. However, attracted by high profits, the expansion of the home appliances sector got out of control.

The policy of promoting development was replaced by the policy of imposing restrictions on the expansion. In the case of the refrigerator sector, the State Council published 'The Subsidiary Provisions for Strict Control of the Scale of Fixed Assets Investment' in 1984. This was the first time that the central government was required to control the development of the refrigerator sector. As mentioned above, the control policy did not work well and the number of factories increased and many production lines were imported. In 1985, the State Council published several detailed regulations to resist the indiscriminate increasing scale of the sector. Again, in the same year, the central government published a list of sectors that were suspended from importing production lines. The refrigerator, washing machine and air-conditioner sectors were in the first list. However, the regulations had little effect.

It is important that, unlike the energy or defence industries, the state did not see the home appliances industry as a 'key' or 'pillar' industry. Hence, in spite of the above regulations, at state level, administrative control had been reduced and enterprises

were given more freedom to develop. In reality, since the second half of the 1980s, the state almost gave up control and let the white goods sector have its own way in the market.

#### **3.4.2.2 The Role of Local Government**

In contrast, the attitude of local governments has been positive since the mid-1980s. Attracted by high profits, local governments encouraged the establishment of home appliances factories and the import of assembly lines from abroad in the hope of boosting their local economies. Some local governments even set aside money from their budgets for enterprises to purchase such imports.

Both central and local governments also offered preferential policies for foreign and private capital. Many local governments had the important task of attracting foreign capital to invest in their areas. The officials were keen to help FDIs and private owners in any way they could, from favourable financial policies, positive media coverage, and for some, tolerance of the violation of labour rights (Cooke, 2005:191). Bosch-Siemens, for example, purchased a state-owned enterprise. In encouraging this more, the local government officials considered the company not only as a European company but also as one that needed to be looked after as part of the industry in their province (Zhang, 2002). Indeed, when the company laid off workers, the local government helped to deal with the labour dispute, and even paid the workers in order to settle their protest.

## Summary

This chapter explored the development of the Chinese white goods industry. It focused on the refrigerator sector. Though the first refrigerator was made in 1954, as a modern industry, the sector generally dates from the end of the 1970s. Yet after only about two decades, China has become one of the most important manufacturers in the world. In terms of the history of the sector, the chapter describes the process of it starting, going ahead and going abroad. From the end of the 1970s to the mid-1990s, huge market demand and a shortage of supply brought high profits. The high profits attracted many companies to enter the white goods industry and to import advanced technology and production lines. Such expansion resulted in the major features of the refrigerator sector: this industry is highly concentrated, aimed at the mass market, and with a majority of products that are cheaply priced.

The chapter also explained how globalisation, especially the entrance of foreign capital, impacted on the white goods industry. From the mid-1990s, changes have taken place with implications for the structure of ownership and the pattern of production. The chapter reveals that some other factors, such as changes in the domestic market and the role of government, have also influenced the industry, in which foreign companies have come to play an important part in high end refrigerators.

China's economic reform, in combination with globalisation, has continuously changed the Chinese white goods industry. The following chapters will explore, in more detail, how the entrance of foreign capital and the transformation of ownership from SOEs to private (including through foreign and domestic capital) have impacted

on the refrigerator companies and their workers. This is done with the aid of two case studies. Part 2 exams the case of ChinaCo1, Part 3 exams the case of ChinaCo2.

## **Part Two**

### **Case Study One: ChinaCo1**

## **Introduction**

Lambert *et al.*, (2005:263-265) pointed to three moments in the process of the restructuring of Australia's white goods industry, which aimed at reducing labour costs and increasing productivity. The first was rationalisation and closure. The second moment of the strategy was labour process change that embraced increased automation, continuous improvement, just-in-time techniques and flexibility in moving between product types. Lean production and teamwork were part of this. The third was the critical role of the state in creating a legal bargaining framework which would facilitate these changes. In addition, refer to the issue of MNCs' expanding in the worldwide, taking E-lux - 'the global forefront of these takeover wars' - as an example, they mentioned that every strategic move to swallow up its competitors was accompanied by a restructure involving plant closures, downsizing, outsourcing and casualisation.

In the context of a substantial globalisation of the worldwide white goods industry, as one of the biggest white goods players in the world, it is evident that China's white goods industry is also in the shadow of globalisation. As explored in Chapter 3, some of the same characteristics seen in the Australian white goods industry can be seen in China, such as rationalisation and closure, the change of labour process, and the role of the state. Therefore, Part Two concentrates on the issue of the labour process and seeks to examine the change of factory regime in a well-known Chinese white goods player.

It is based on fieldwork in ChinaCo1 from 2001 to 2004, describes a foreign-owned refrigerator factory and considers changes in ownership (from SOE to JVC and a shift to FIE) and related changes in the reform of SOEs, the strategy of FDI and the role of local government, all of which developments can hopefully now be better understood in the context of the previously outlined Chinese economic reform and the wider development of the Chinese white goods industry. It then examines how a new management regime is emerging with its focus on labour control in workplaces.

## Chapter Four

### From SOE to FDI— Brief History of ChinaCo1

In recent years, the reform of SOEs has led to the emergence of new types of enterprise ownership. At the same time, new management methods and industrial relations have emerged which are different from those in the traditional SOEs. The dramatic changes in ownership have captured the attention of scholars. There are hundreds of books and journal articles in Chinese. Most of them are in the field of economics and management and take a macro view.

Some journal articles and newspaper report referred to Case of ChinaCo1. For instance, Xian (2002) has described the ownership transformation process in ChinaCo1 and analysed the problems from the view of management and cultural conflict. Few writers have focused on the process of ownership shift in a particular enterprise from the workers' standpoint, which is focus of attention here.

#### 4.1 Chuzhou

ChinaCo1 is located in Chuzhou. It is a medium-sized city located in the eastern part of Anhui province. By 2003, its population was about a million and there was a hinterland of a further 3.3 million people. There were few large enterprises in the city and agriculture was the major economic sector in the planned economic period. In 1978, the agricultural population (those who lacked urban *hukou*) accounted for 91.1 per cent of the total. Agriculture accounted for 67.6 per cent of the total value of GDP (Chuzhou Statistics Bureau, 2003).

In 1992, the State Council approved Chuzhou City as an administrative unit to replace Chuxian Prefecture. This decision marked the beginning of the industrialization and urbanization of the city. In 2005, Chuzhou's GDP reached 32.8 billion yuan, a rise of 9.6 per cent from the previous year; the total value of imports and exports was 2.6 billion yuan, according to 2006 Government Annual Work Report (Liao, 2006).

Industry has been developing since the mid 1980s. Currently, home appliances, and machine manufacturing and tobacco are the 'pillar' industries in Chuzhou. In spite of the big growth, one also witnesses large differences in industrial growth between Chuzhou and other advanced cities in Anhui. Chuzhou always ranks low or middle among 17 cities in Anhui in terms of several important economic indications. For instance, Chuzhou ranked 8<sup>th</sup> for the number of large scale enterprises with business income at more than 5 million Yuan per year. The average wage of in-service employees (*zai gang zhi gong*) was 10,028 yuan per year in 2005, the third lowest in Anhui (Anhui Statistic Bureau, 2006). The target of the eleventh five year plan (from 2006 to 2010) is to narrow the gap between Chuzhou and other cities in Anhui Province.

As has been the case throughout China, reforming the SOEs and attracting foreign investment have been at the top of the local government agenda since the 1980s. By 2005, the proportion of large and medium-sized SOEs and state holding companies decreased by 13 per cent. During the reform of SOEs, a huge number of workers became unemployed. The exact number of unemployed and laid off is not included. According to the 2005 Government Annual Work Report (Liao, 2005), one of the

targets in 2006 is to ensure the rate of registered unemployment falls to under 4 per cent. In contrast to SOEs, private owned enterprises have increased rapidly; the number was 7,066 in 2005, up 174 per cent on 2001. Employees in POEs and the self-employed amounted to 0.35 million, an increase of 29.6 per cent compared to 2001. Non-state enterprises now play a key role in Chuzhou's economy. Many workers have to work in small scale POEs.

Due to the weak industrial base and the difficulty in government finance, it is not easy for government to realize its economic development target. Attracting foreign investment is considered the best choice in promoting the local economy. Since 2001, a special method, named 'one post, two duties', (*yi gang liang ze*) has been carried out in government agencies in Chuzhou. It requires that an official not only does his own job well, but also reaches a certain target for attracting investment. There has been some increase during the period of the tenth five year plan (2001-2005), the accumulated actual foreign investment reached \$0.21 billion. FIEs promoted the local economy to a certain degree. In 2004, the business value of FIEs was 3.8 billion yuan, accounting for 10.7 per cent of GDP, and contribution taxes for 0.2 billion yuan. About 21,000 employees were in FIEs (excluding temporary workers).

In China as a whole, FDI has been mostly concentrated in the South-east (Gao, 2002: 373). Cheng and Kwan (2000) argue that, in addition to policy changes, many other factors are also important in determining the regional pattern of trade and FDI, such as market size, income, labour quality and cost, infrastructure and geography. Furthermore, FDI often shows a tendency of agglomeration. Apart from labour cost and geographical location, Chuzhou itself does not enjoy any other location

advantages, however. Hence, foreign investment is limited and the performance of FIEs is not very good.

From 1989 to the end of 2004, 345 foreign investment enterprises had been approved; only 120 of them survived. Two reasons contributed to the 35 per cent survival. First, some investors broke their contracts and refused to provide capital after approval. Second, some of the projects themselves were not realities. A few officials made out investment projects in order to 'complete' their duties. Currently, among 120 enterprises, 78 enterprises operate normally, 30 enterprises are preparing to operate and the other two that have stopped production. The majority of FIEs were medium and small sized enterprises, only five companies had investment volume of more than \$ 5 million. Moreover, many FIEs in Chuzhou are in debt, some are in heavy debt. The total asset value of FIEs was 6.7 billion yuan, whilst the total volume of debt was 6.7 billion yuan. It means the debt ratio was 100 per cent. Many FIEs are at risk (Chuzhou Commerce Bureau, 2005).

The 2005 Annual Government Work Report stressed the importance of inviting outside investment and attracting foreign capital. The government called for all officials and staff at different levels to try their best to attract foreign and outside investment. In this circumstance, it is understandable that the government pays high attention to ChinaCo1, the only FIE that is one of the world top 500 companies.

## 4.2 SOE

The predecessor of ChinaCo1 was a small, state-owned machine factory that made heavy losses at the end of the 1970s. As a small SOE, it lacked developed technology and state support. As against this, though, it had autonomy of decision-making and hence flexibility in the market. Like other small enterprises, it was more independent and it could also change its products more rapidly (Cooke, 2002: 22). In order to improve the poor situation of being nearly bankrupt, the factory director tried to change its product lines. It was easy to shift to making electric fans and it was thought this product would have a good market. Three years later, the factory got good profits and had accumulated some capital. Based on the good performance, the director of the factory decided to purchase an assembly line to produce refrigerators (Fan, 2004).

In contrast to other SOEs, the investment for the equipment did not come from the government or through bank loans, but came from the workers. To raise the money, the factory adopted a special recruitment method. It required job applicants to pay 4,000 yuan in order to get the job. Four million yuan was collected in this way through recruitment. This kind of recruitment was known as ‘pay money for the entrance’ (*ji zi jin chang*). Although 4,000 yuan was an enormous sum at that time, many job hunters were willing to pay the money. Applicants in the urban areas wanted to get into a factory with a good future. ‘It was certainly worth the 4,000 yuan. Not only did I get a good job, but also I got an urban *hukou*’, a worker told me. This method was allowed and encouraged by the government in the second half of the 1980s. Especially in some small cities, the control of *hukou* was not as serious as the in big cities. However, four million yuan from one thousand workers was not enough

to purchase the advanced production line from abroad, which had to be rented from an Italian company. It was also necessary to rent land from the local government to start refrigerator production. But, by 1992, when it had over 2,000 employees, the company ranked No. 2 among China's cooling appliances companies in terms of sales volume.

Based on this success, the company imported and launched new production lines to increase output. By 1994, output had reached 0.6 million units and the brand had become popular among Chinese consumers. Furthermore, some products were exported to East Asia (Chuzhou Statistics Bureau, 2003). Given this, the managers decided to increase the scale of the company and they used the profits from the refrigerators to invest in air-conditioners, bath tubs and van production, a company group being launched in 1995. However, the investment in other sectors did not hit the expected targets and performance was not good. The company also lost their leading position in the refrigerator sector. Then, in the mid-1990s, as competition in the household appliances market became more aggressive, the group's managers became worried about the situation getting out of hand and started planning to withdraw from the refrigerator sector.

Some reports and analysis (Fan, 2004; Xian, 2002) found that the key reason for the losses of the SOE was the indiscriminate increase in the scale of the production. Management problems were another important factor. As mentioned above, the SOE was a small-scale factory that expanded to a big group (including up to more than 6,000 employees within several years). To cope with this expansion, more managers

were recruited, the majority through internal promotion. Their limited education level and the shortage of experience in managing large enterprises resulted in disorder in organisational problems. The managers tried to implement many methods, including drawing on experiences from abroad, but they were not successful. A manager explained:

The speed of expansion of our factory was fantastic. But the management level couldn't catch up with the development of the production. It resulted in disorder in production and management. The directors and managers tried to use many methods to improve the production, but the effects were not significant. Many new management methods, such as quality circles (QC), total quality management (TQM) and so forth, were implemented in our factory. A lot of slogans were posted on the walls of the workshops and were frequently changed. The workers didn't know which directions they should obey. I believe that the managers didn't actually know the meaning of the management methods. I don't think they had enough ability to manage such a big company group.

At the same time, a German company eager to invest in China, was searching for a collaborator. With the support of local government, ChinaCo1 and the German company signed a joint venture contract and Chinaco1 shifted to a joint venture company.

### **4.3 Joint Venture**

During the early and mid-1990s, a popular way of reforming and revitalizing SOEs was to convert them into joint ventures with foreign investors, a practice called 'grafting', which was encouraged by the central government. There are two ways of

forming these joint ventures. One is for the Chinese SOEs to convert their existing production buildings, equipment and land into shares in the joint venture, while the foreign partners invest capital, technology or equipment. The other is for the SOEs to restructure themselves into share-holding companies first, and then to transfer part of their shares to the foreign investors (Cooke, 2005:24). When the German company entered into a joint venture with the SOE, the former methods were used. Following the negotiations, the European company invested \$82.25 million and took 70 per cent of the company's stock. The SOE took another 30 per cent in the form of existing production, equipment and intangible assets (including the brand and sales network). The valuation price was \$32.25 million. The total investment was \$117.5 million.

According to the regulation for joint ventures published by China's government at that time, the local government only had the right to approve foreign investment projects that were less than \$30 million. The value of the combination of the two companies was much higher than that allowed in the regulations. If the central government regulation had been completely followed, it would have taken time to complete the formalities. In order to avoid the lengthy process of obtaining approval from authorities at a higher level, both the Chinese and German sides agreed to register four companies under the different names. In reality, it is one company. The SOE became a joint stock company and its name was also changed. In terms of the proportion of the stock held, seven German and three Chinese people formed the board of directors.

The new company was not successful during the period of the joint venture. In order to reach European production standards, the European managers therefore decided to sell almost all of the equipment of the SOE at a very low price and to invest substantial funds to launch a new production line and upgrade the technology. By 2000, the German side had invested \$16 million to purchase the equipment from US and European countries. Meanwhile, though, a serious problem occurred in the retail network. The European managers were not able to control the original retail network, because sale was often not dependent upon quality of the products but upon personal relations (*guan xi*) in China (Cooke, 2002: 26). Sales volumes decreased from approximately 0.5 million in the early 1990s to 0.2 million in 1998 and production costs could not be reduced without substantial changes in management and manning levels. The macro-economic circumstances worsened the company's situation. During the mid-1990s, following economic structural adjustment, sales volumes decreased seriously nationwide.

The difference between the two sides presented itself in many ways, including in production, marketing and management methods. With respect to the number and types of products, the German managers suggested the company should reduce the quantity and improve the quality and gain a large share of the high-end refrigerator market. The Chinese managers insisted on keeping up the quantity of the outputs and wanted to produce economy models of refrigerators for the lower end of the market. With respect to marketing, the German managers decided to use the famous European brand in the Chinese market instead of the original Chinese one. As for management methods and personnel arrangement, the German managers were not satisfied with current management methods with Chinese characteristics. The Chinese side

managers were more concerned with quantity than the quality of the products. They always decided the style of refrigerator according to their past practice rather than the market demand. Even worse, the personal tie played a key role in the managerial process. Hence, blind production and inefficiency were the two main problems.

The German managers decided to introduce new management methods (further discussion in Chapter 5). They preferred clear regulations, production according to a well- conceived plan and tight cost and quality control. In order to reach the German side's target, Chinese managers in the key departments were replaced by Germans. In spite of opposition from the Chinese side, the opinion of the foreign side could still be carried through into practice because of their majority on the board of directors. All these management changes worsened the relations between the two sides still further. The relation between the foreign managers and the local government officials was also not good. But, the German managers controlled the important departments of the company and they pushed out the Chinese managers.

This situation was not what the headquarters of the company in Europe had expected. They had to adjust their investment strategy fundamentally. Firstly, the four separately registered companies were combined into one company. Secondly, the planned output was reduced from 1.2 million to 0.4 million per year. Furthermore, they gave up the original sales network. In order to build an efficient sales network, a new sales company was started in Nanjing, the capital of Jiangsu province, to handle all sales and distribution for the products. The most important decision came from the headquarters of the German company, which wanted ChinaCo1 to become a long-

term competitor in the Chinese refrigerator market and not to focus on short-term profits. This policy change impacted seriously on the Chinese side. They did not have the ability to afford the heavy losses and the Chinese managers gradually became 'outsiders' to the company. Finally, all the stock held by the SOE was purchased at a very cheap price by the German company. In 2001, the company's name was changed again and it became a wholly German-owned enterprise. The German managers took overall control. What remains of the SOE group no longer has relations with the now wholly German company. Its business has shifted from refrigerators to air-conditioners, small electrical appliances and the auto industry.

#### **4.4 A Wholly German Company**

After the German company purchased all of the stock and the business became a wholly German company, ChinaCol's performance improved and profits rose. It has achieved a growth rate of more than 20 per cent since it became a wholly foreign-owned company.

Production capacity was 0.8 million refrigerators per year at the end of the 1990s. An annual output of more than 0.4 million units has been maintained since 2001 and the aim is to expand production gradually. In 2004, output reached 0.7 million. With respect to the types of the outputs, the company produces various models of refrigerators. There are three different cooling techniques: static cooling, dynamic cooling and non-frost cooling, and both the top end of the market and the less expensive segments are catered for. The company once produced economy model

refrigerators, but this soon stopped. Altogether the factory produces more than 20 different models to meet the requirements of different customers. The company claims to produce refrigerators with the highest production and environmental standards. For instance, ChinaCo1 is the leader in zero-degree technology and they introduced a no-frost model that exceeds China's class A energy standard in 2004. It also claims to have produced the first refrigerator in China with computerised temperature control. Managers are proud that they have introduced the most advanced technology from Europe to China. The plan is to continue to achieve the highest production standards possible, to be the leader in technological development, and to increase market share. In 1999 and 2002, ChinaCo1 was accredited ISO9001 and ISO 14000 Certification.

With respect to market, since 2002, the company has positioned its products in the highest market segment for price and quality. ChinaCo1 has a strong presence in the top end of the market, especially in the large cities. For instance, they sell the same number of high-end products as Haier, but the price is higher, so higher profits are made. ChinaCo1 was number two in terms of value in Chinese urban areas in 2004 (Stevens, 2004). The exact market position has resulted in great profit for the company. As noted in chapter 3, in China, a burgeoning middle class, keen to display its new-found wealth, provides an important target market for such products (Nichols and Cam, 2005:36). However, most Chinese manufacturers did not pay attention to the change in market demand, which resulted in high-end refrigerators being in short supply. ChinaCo1 immediately gained a greater market share.

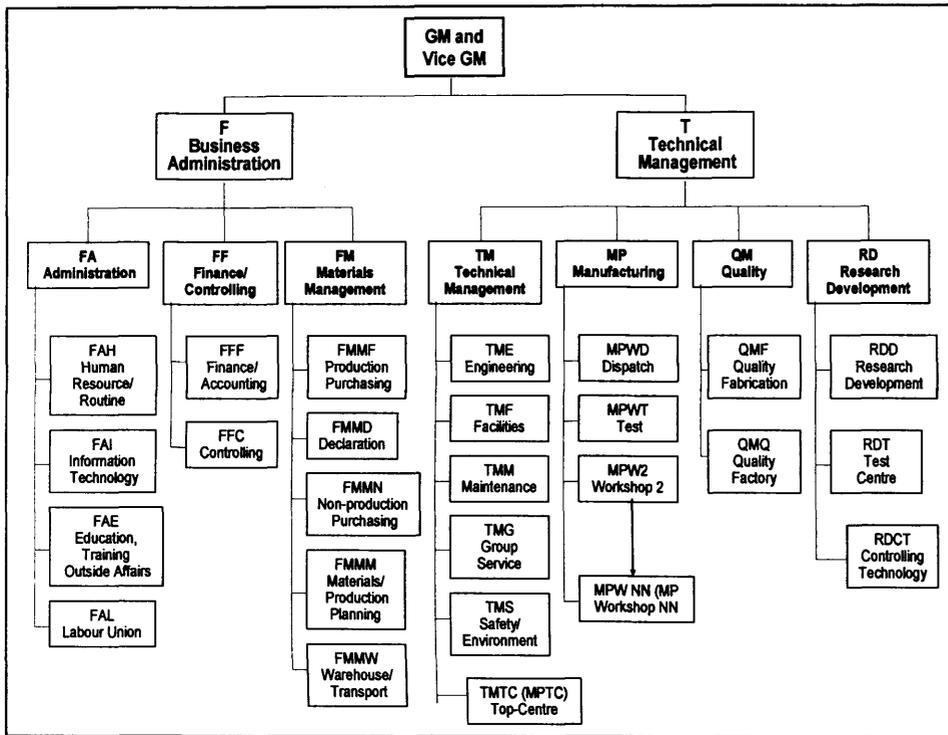
After the ownership transformation had finished, the main issue for ChinaCo1 was

attending to the standards of the European company and following the strategies of their headquarters. All of its factories, no matter where they are located, are required to provide the same quality products and achieve the same productivity. Moreover, the market strategy was also clear. The product has a fixed position in the high-end market. Facing the highly competitive refrigerator sector, cost and 'critical consumers' are the two market challenges of ChinaCo1. Reducing the cost in each step of production and making high-quality products are very important for ChinaCo1 to meet the challenge and make profits in China's market.

Since 2001, its products have been exported to East Asia and some European countries. At present, the company is the German company's biggest producer of in Asia. Furthermore, ChinaCo1 has achieved a very high level of localization. More than 97 per cent of all refrigerator parts, accounting for 85 per cent of the value, are purchased locally. The localization of the supply has reduced costs and increased profits. In 2004, a new small home appliances workshop went into operation. The first products are vacuum cleaners and all of the products are sold in the European market.

Accordingly, the organizational structure of ChinaCo1 was re-organized by the German managers. Figure 4.1 showed the current organizational structure of ChinaCo1.

**Figure 4.1 Organizational Chart of ChinaCo1**



Since ChinaCo1 shifted to a wholly German company, the top positions (General Manager, Vice General Manager of Business Administration and Vice General Manager of Technical Management) have been taken by Germans. The majority of senior managers of departments have been taken by Chinese since 2001. Nine workshops are in the manufacturing department and it is the biggest department in ChinaCo1. A summary of the development of ChinaCo1 is presented in table 4.1.

**Table 4.1 ChinaCo1: History**

Period		Years	Critical Issues Addressed
State-owned enterprise	Predecessor	Before 1984	Small-sized state-owned machinery factory. In the early 1980s, the factory was in a poor situation, nearly bankrupt. The director of factory decided to change its product line to produce electric fans and soon made profits
	Expanding	1984-1995	Import of refrigerator production line. Outputs increase significantly Becomes leading company in China's white goods industry Invests in air-conditioner, bath tub and van production Formed a company group
Joint venture company		1996-2000	Shifted joint venture company The situation of production and market took a turn for the worse The original brand was replaced by the German one Sold all the equipment of the SOEs and launched a new production line Investment strategy was adjusted
Wholly German Company		2000-onward	Shifted to a wholly German Company Positioned its products in high-end market Situation of production and market took a turn to the better and began to export



## 4.5 The Role of Local Government

As discussed in Chapter 3, the role of the government during the development of the Chinese white goods industry was not trivial. The role of local government is more important, especially in the areas of relative under-development, such as Chuzhou, where ChinaCo1 is located, where the officials are engaged in attracting foreign investment.

In the early stages of ChinaCo1, the fact that the company was not under the tight local government control meant that there was space to adopt some new methods to improve the factory, including the recruitment policy and renting production lines from a foreign company. After ChinaCo1 grew to be successful and became a top refrigerator maker, the local government began to take an interest in the company. Following their outstanding short-term achievements, ChinaCo1 made heavy losses in the mid-1990s. The SOE was a large-scale company group with approximate 6,000 employees and it was one of the local economic pillars. Were the group to get into difficulties, it would have increased the burden on the local government. Therefore, the local government actively encouraged the SOE into a joint venture with a world-leading home appliances company. The local government took on entirely the formalities of merger and approval; they even consented tacitly to the JVCs registering as four companies in order to avoid the complex approval process of the higher-level government.

When the SOE sold all the stock to the German company in 1995, the local government promised they would offer a good service to help the company finish the transformation formalities. As a consequence, the local government benefited from the transformation. ChinaCo1 become a stable source of tax and provided many employment opportunities. This was so because after the performance of ChinaCo1 improved and the production expanded, some related refrigerator component factories were set up and these factories increased the tax and employment opportunities further. ChinaCo1 is the biggest FDI in the local area and one of the biggest FDIs in Anhui Province. It is considered a vital source of energy in boosting the local economy (Zhang, 2002). The promotion of the local economy and maintenance of social stability are the basic responsibilities of local government and they acted toward ChinaCo1 in the light of this.

As far as the European managers are concerned, it took them some time to understand the importance of the local government. At the beginning, they were not keen on keeping '*guan xi*' (relations) with the local government. They considered that it was enough for the company to obey Chinese laws and regulations. During the joint venture period, they adopted an inflexible attitude to deal with the local government and the relations on both sides were not good. After the government helped the company to calm down on the workers' protest (see Chapter 6 for further discussion), the European managers understood the role and the power of China's local governments and began to build close relations. The European managers contacted the local officials through more informal methods than before. They attended social activities, offered public services and even maintained personal relations with the government officials. The company benefited from these formal and informal

relations, for instance, with more preferential policies. Interviews with the two German General Managers in 2001 and 2004 reflected changes in the relations with the government. In 2001, the former General Manager stated:

There are some problems of the external environment. The main problem concerns the policy. For instance, if the laws and rules of the government would be clearer and carried out more easily, it would be more favourable for our management. Also, the policies and rules should be consistent from central to local government. Furthermore, the officials of the government must be honest.

In 2004, the current Vice General Manager put things rather differently:

We have kept good relations with the local government. In China, business is not only business. Business should be linked with the government. From my view, it is very different to in my country. At present, we always report our business to the local officials and attend the local economic work conferences. Furthermore, I always invite the officials from the relevant government agencies to come to my house to drink beer. We are friends. In recent years, the officials clearly knew the position of our company. The company is one of the biggest taxpayers in the city. We are the so-called 'flag' of the city. The name of the main road in front of our company was changed to our company's name in response to my suggestion. I was awarded the title of honorary citizen.

The close relations with the European managers resulted in policies favourable to them.

## Summary

This chapter described the history of ChinaCo1 and focuses on the transformation of ownership. It reported the history of ChinaCo1 from being a small factory to China's leading refrigerator maker and then following heavy losses: from SOE to JVC, and on to being wholly foreign investment company. It is evident that despite some of the drawbacks of state-owned enterprises impacting on the development of the factory, the key issues that resulted in the loss of the factory were investment problems and the inabilities of managers to cope with an emerging market economy.

The chapter analysed the factors contributing to the failure of the joint venture. During this period, market and profit-driven forces had been the common understanding of the Chinese and the foreign sides. The divergence of their views arose in the aspects of production, marketing and management methods, and, to some degree, an emphasis by the Chinese managers on the mass rather than rate of profits. After the company shifted to an FIE, ChinaCo1's management strategies followed those of its parent company and its performance has been improved.

The chapter also presented the attitude of the local government during the ownership transformation. The local government carries major functional responsibilities, from local economic development to social stability. Investment from the world-leading multinational companies always brings opportunities for invigorating the economy and increasing employment opportunities, particular in Chuzhou – an inland city with developing economy.

In the following two chapters, I shall analyse the change of factory regime and its impacts on workers.

## **Chapter Five**

# **The Implementation of Modern Management Methods in ChinaCo1**

From the point of view of the labour process, with the entrance of foreign capital in ChinaCo1, traditional behaviour in the SOE period gave way to modern management methods and techniques. As one of the most important theorists in this field, Burawoy provided a guideline to explain the labour process in different periods of Western capitalist society. As noted before, we do not think it possible to impose his schema on factory regimes in China's enterprises, but Nichols *et al.*, in 2004, have drawn out certain aspects of labour regimes from Burawoy's work. These are labour control, material support and contract. This and next chapter are intended to argue about these three issues; beginning here with labour control and modern management methods.

Following with the ownership transformation, the importation of foreign management methods into ChinaCo1 has been one of the most important issues in the change of factory regime. And this implementation has been tightening the control significantly. This chapter brief shows how the German managers of ChinaCo1 were implementing modern management methods from its parent company as a strategy of raising production efficiency. It explores how these management methods impacts on workers. It also provides an account of how managers and workers viewed these changes.

## **5.1 The Change of Management Methods**

The globalisation of competition has contributed to the diffusion of modern global management techniques around the world. Management in China were encouraged to learn about modern management techniques in order to accelerate the modernisation process of the nation's industry in the 1980s (Wu, 2002). In China's enterprises, foreign management methods have been imported in various ways. JVCs and FIEs imported modern management methods mainly from their parent companies. One of the most important consequences of foreign involvement in Chinese joint ventures has been the introduction of a more systematic management approach in that the systems are defined in writing, standardized and operated on a regular basis (Child, 1994). Attracted by the high efficiency of JVCs and FIEs, more and more SOEs and COEs have adopted foreign management techniques and given up their old behaviour. From the 1980s, modern management theories have been a major subject in many Chinese business schools. The graduates became an important avenue to spread the modern management theories and techniques in enterprises (Cooke, 2005). Driven by the reconstructed goal of maximisation of profit, foreign management methods and techniques have been introduced in China since the beginning of the 1980s.

The introduction of modern management methods has been encouraged by government agents. Some ministries and government departments held seminars to spread management theories to the managers of large-scale enterprises. By the mid 1990s, the foreign management techniques had been adopted by a wide range of enterprises to various degrees, regardless of their type and ownership. One of the most important consequences of foreign involvement in Chinese joint ventures has been the

introduction of a more systematic management approach in that the systems are defined in writing, standardized and operate on a regular basis (Child, 1994).

Much has been written on SOE management, particularly on the problems of the SOE (Walder, 1986; Child, 1994; Yeung and Chan, 1999). These researches draw a picture of earlier reforms on the SOE management system. Research on recent reform of downsizing of SOEs and the increase of FIEs highlights the changes of human resources management (HRM) (e.g. Warner, 1999, 2002; Lewis, 2003; Zhu and Warner, 2004; Taylor, 2005; Cooke, 2005).

Amongst all this, little research has been conducted on the importation of foreign management methods into the Chinese enterprises and its impacts on workers. For instance, Yeung and Chan (1999: 763) found that because of poor quality management staff and the undereducated workforce, the implementation of TQM is particular difficult in China. Wu (2002) explored the implementation of lean production in SOEs and in particular the effects of this on the labour process in China's auto component sector. She argued that lean production had been implemented under pressure from joint venture component customers. It is evident that lean production has resulted in significant increases in work intensity and work related stress.

The next two sections provide a brief outline of ChinaCo1's process of application of modern management methods during the ownership transformation. Later, issues of labour control are addressed.

### **5.1.1 Management Methods in ChinaCo1 in the SOE Period**

Walder (1999:469) described the management in SOEs in the Maoist era: Professional managers were politically isolated and demoralized, and had little effective autonomy. Factories had very little autonomy in the conduct of business. Labour disciplines may have been lax. Before the mid-1980s, ChinaCo1 was just such a case. When ChinaCo1 was a small-scale factory, no systematic management methods were used. There were no detailed regulations in production process and human resource management. The management was largely based on the experiences of the factory's director. The management was confused and the labour disciplines were also lax.

During the process of rapid increase and expansion, the SOE's managers realized that the factory still faced the serious problems of low efficiency and high waste. Management in ChinaCo1 was urged to raise production efficiency through the implementation of so-called modern management methods. In the early 1990s, in order to improve the quality of outputs, total quality management (TQM) was carried out in ChinaCo1. This new method achieved good results quickly. Later, the director of the factory decided to launch a new management methods programme. Several modern management methods were introduced in the workplace at the same time. Training courses took place. Managers, staff and workers were required to join the courses to learn the importance of adopting new management methods and the basic knowledge of TQM, team working and other methods. Meanwhile, the management departments redesigned new regulations in order to promote the new management methods. Even now, some old workers who have shifted from the SOE still remember the names of some management methods. For instance, TQM and Just in time (JIT).

A number of problems occurred in the process of applying several kinds of new management methods at the same time. These problems resulted in the failure of their introduction. There are two possible reasons for this failure. The role of managers is the first. Managers, especially the heads of workshops, are important in the implementation of modern management techniques in the workplace. Although the director asked them to implement the new management methods, some workshop managers had no idea how to implement and supervise their workers in terms of these. In reality, many managers in ChinaCo1 did not know the basic theory of foreign management methods, despite having attended some training courses. All they could do was to follow the regulations in order to comply with the director's orders. Secondly, the complicated personal ties in ChinaCo1 affected the implementation of modern management methods. According to the regulations, all employees should operate in terms of the requirements of modern management techniques. Otherwise, the workers should be punished. These rules required managers to treat all alike without discrimination. However, the existence of personal ties made it impossible to treat everyone equally. Some workers could avoid being punished due to their personal relations with managers.

From 1992, the managers shifted their attention to expanding production and investing in other industries. The implementation of new management methods was ignored. Later, when ChinaCo1 was in difficulty, the application of modern management methods was not taken into consideration. As one worker concluded, 'The modern management methods played a very limited role in our company. They were only slogans on the wall'.

### **5.1.2 The Implementation of Management Methods from the European Parent Company**

Some recent studies concerning the problems of the FIEs in China have explored the cultural conflicts that have occurred in the process of the implementation of foreign management methods in many JVCs and FIEs (Child, 1994; Yeung and Chan, 1999; Goodall and Warner, 1999; Yan and Warner, 2002; Shen and Vincent, 2004; Law *et al.*, 2004). Their conclusions were normally formed from the perspective of the localization of human resources management or new organizational models. Yan and Warner (2002:140) pointed out that in the course of economic reform, disappointment was not unusual in many JVCs. For example, JVC performance depends greatly on qualitative factors such as individual personalities, organizational cultures, administrative style and management philosophy. The 'one bed, different dreams' system is common in JVCs and conflicts often occur between foreign and Chinese top managers. However, concerning the application of management methods to control the workers in the production process, both the foreign and Chinese managers often have the same ideas.

As discussed in Chapter 4, during the joint venture period, contradiction and conflict occurred between German and China's managers in the aspect of models of outputs and types of production. As far as the application of new management methods in the workplace was concerned, there was no dispute between managers from the two sides. The German managers were dissatisfied with the old behaviours in the production process and the confused plant management. In spite of many slogans about 'implementation of modern management methods' on the workshops' walls and many

forms for the staff to fill in, these management methods played little role in the production process in reality. In order to change this confused situation, the German managers adopted serious punishments. Two examples were frequently cited by workers and managers in the interviews: A staff member was sacked because he had ignored some surplus refrigerators for a long time and they were found by a German manager; and a driver was fined one month's wages and he was required to shift his post to a workshop because he forgot to pick up the General Manager from the airport. From the above two serious punishments, the workers and staff began to realise that harsh management came from 'foreign capitalists'. The ex-director of the Production Department expressed his feelings:

At the beginning of the joint venture period, the management was very confused in the workshop. I was vice director at that time. The director was from Germany. Punishment and equal treatment without discrimination were his basic principles. Monetary punishment was the normal method. Despite the fact that dismissal was seldom used, the German manager always mentioned that he had the right to sack workers. All the personal ties became useless, as the German managers had the final decision right. With this stick control, the slack mood was quickly changed.

When the company became wholly German, the German managers began to fully import modern management methods from their parent company. The European managers aimed to raise productivity and profits. Considering the role of modern management methods, the General Manager commented:

The most important thing is to help the employees to understand that the company must make profit and operate regularly. The workers, and even some managers, might not know the names of management theories. But many theories have been used in the company. These theories have benefited both the company and its employees. Although the theories came from abroad, they are suitable for China. Since most management methods have been successfully used in many companies in the world, why not in China? However, it is not easy to make the employees understand the methods at the beginning. For this reason, the company has not used 100 per cent of these methods. We implement new methods gradually.

Managers and workers in the company are aware of modern management methods to different degrees. Workers are clearly knowledgeable about total quality management, team working and the just-in-time approach, which have all been implemented in the company. Other methods such as kaizen and flexible production are less well known, at least by name (see table 5.1), although the workers have experienced their effects at first hand.

**Table 5.1 Management Methods Known by Workers at ChinaCo1 (percentages)**

	Workers	Managers
Team working	92	100
Total quality management	88	100
Just in time	72	82
Quality circles	56	84
Lean production	46	75
Kaizen	18	50
Re-engineering	16	43
Flexible production	16	48

The director of the Production Department explained the results of the above table when I visited ChinaCo1 in 2004.

Since 2000, many field management tools have been applied in our company. In order to achieve good results as soon as possible, the company decided to train the heads of workshops, production teams and the workers on relevant posts. Hence, not all the workers know the management theories equally. To be frank, I don't think such a high proportion of workers understand these theories. It is not realistic to ask all the workers to know the above theories. Our aim is to require them to obey the disciplines.

With regard to the aspect of quality control, the MNC's own quality management system has been used. The managing director sums up the gist of it in a way that echoes the idea behind lean production - 'reduce, reduce!' They have "failure modes and effective analysis" (FMEA). The design of this analysis requires new ideas and innovative thinking. In particular, it requires consideration that various unfavourable conditions could potentially occur. By carrying out the analysis in this way, the company can avoid the occurrence of unfavourable conditions in production. The

quality management system also involves parts purchasing and output. It is necessary to control these procedures and improve them constantly. In this aspect, a Japanese method is used. Function tests must be conducted on 100 per cent of the output. During the tests, the relevant data should be sent to the test centre, and these data are recorded. A control system, a customer service system, has been set up within the company. Workers are regarded as each other's customers within the company. Every worker must provide high quality parts for the next working procedure. The German director of the Quality Management Department said:

At the beginning, we found that the Chinese workers, even including some managers, did not attach importance to quality. We saw some progress from our efforts. However, to achieve the ultimate goal, we have a long way to go. The first task is to change the concepts of the employees. The second is skill training. In other words, it involves not only the ideas of the personnel, but also the working manner.

Nevertheless, the adoption of this series of management techniques improved the quality of products. The refrigerators produced by ChinaCo1 enjoy the prestige of high quality in the market. However, the workers in ChinaCo1 have to bear great pressure from the stress of quality control. From 2000 onward, ChinaCo1 gradually built a more exacting quality control system. The inner customer service system had a significant impact on the workers, as it directly related the products' quality to workers' pay. This system asked the workers to examine the quality of each other's work. According to the regulations, if a worker's product was found defective by the worker next to him, the first worker's wage would be reduced. If the workers in the following posts did not find the defective part and the imperfect product was found in the test centre, the wages of all the workers in this assembly line would be reduced.

Under this quality control system, as well as the speeding up of the pace of production, the workers can feel highly pressured:

I always feel nervous. I have to be very careful with my work in case defective parts are produced. Meanwhile, I have to check the quality of the parts produced by other workers. On the other hand, I must keep up with the production pace. It is too stressful. I find it almost unbearable.

Besides the implantation of the above field management techniques and quality control system, all employees are required to know another two management tools. The first is ChinaCo1's own quality-productivity package, named 'TOP'(Team, Organization and Productivity), which has been developed by the European parent company. It is also called 'the mode of team working management' in the German parent company. It is regarded as an important aspect of the parent company's corporate culture. It stresses the importance of team working across the whole production process, with communication, cooperation and improvement being regarded as key elements. TOP centres on two key terms: information communication and organization improvement. In 1998, a special section was set up in the Production Department. Two full-time staff are responsible for its work in the company.

The section organises work teams. Once a month, each team discusses the problems that should be solved the next month. The discussion is held at shift handover. The manager of the Production Department and the two full-time staff hold a liaison meeting to exchange information once a month. The section also focuses on

communication between the management and the workers in the workshop. Generally, the workers elect representatives to hold irregular meetings with the management. The representatives are expected to know workers' ideas and requirements, and to pass these on to the manager. This form of meeting was established in 1999. The section monitors the quality of goods from suppliers and seeks to link supplies to production in order to improve quality. It also promotes a suggestion scheme for employees. At first, the TOP activity produced good results. As a female worker put it in 2001:

The effect of TOP is very good indeed. Currently, the workers raise problems before or after work and put forward solution schemes. The company requires every worker to take part in the activity. Of course, I also take part. The methods benefit both managers and workers. The benefit to the enterprise is very obvious. It could solve the problems that occur in the course of production, reduce the costs and raise the benefits. Through the activity, the workers could gain some knowledge and know about the work fairly well. The activity of "TOP" promotes the workers' study so as to attain goals".

However, when I visited ChinaCo1 in 2004, the workers and staff's assessments were not as good as they had been in 2001. The workers complained that the heavy workload made them very tired and stressed. They had to try their best to keep up with the production pace and had no time to think about how to improve production. Moreover, the workers did not benefit from the improvement of production and the increasing efficiency apart from the limited monetary awards for individual workers who put forward suggestions. Hence, more and more workers were losing interest in the activity.

From 2002, a new field management tool named '5S' (sort, set in order, shine, standardize and sustain) was introduced. The basic principle of 5S is drawn from 'Total Productive Maintenance' (TPM) approach. Workers are required to keep their workplace tidy and orderly so as to improve productivity and reduce errors during the production process. Through training courses from top to bottom, all the workers understood the meaning of this tool. There are easy-to-understand posters on each workshop's notice boards. Most employees are of the view that both the special section and 5S have been useful in raising productivity and reducing errors during the production process. However, there are a number of workers who are dissatisfied with 5S. They complain that it has added to the pressure on them, not only in terms of workload, but also through tremendous psychological pressure, because it might reduce their wages.

## **5.2 Labour Control in Production Process**

Driven by the goal of the maximisation of profit, labour control over the production process has been tightened through the imported modern management methods and techniques. Following the application of the management techniques, speed-up has also been widely used.

Evidence provided by workers, as well as managers, consistently leads to the conclusion that the speed of the machinery has been increased. The German headquarters requires the factories in the different countries to have the same productivity. In order to achieve this target, the speed of assembly lines has

continuously been increased. The old assembly lines of the SOEs have been sold and advanced machines imported from western countries. The director of the Dept. of Production said: “The new machines really help the workers to achieve higher productivity. They accordingly have to work hard to keep up with the tempo.”

The speed-up began with the joint venture. The interviews in 2001 indicated that 63 and 65 per cent of workers considered the workload and stress to have increased compared with the SOE period. The workers also expressed the view that the speed-up was reasonable, due to the low productivity in the SOE period. However, things have changed since early 2003: the workers, team leaders and the directors of the workshops have begun to worry about the continuous increases in speed.

The speed-up has gone hand-in-hand with a reduction in the number of workers on production lines. After re-determining the work rate and the workload of posts, some posts have been merged or abolished, which means that some workers' workloads have doubled. Almost all of the workers and team heads I interviewed reported that it is difficult to keep up and they are worn out. The complaints from the assembly line were most pronounced.

A temporary worker complained:

I have worked in this post for 4 years. Honestly, I feel nervous almost every day when I enter the factory gate. Every day I am worried about whether I can keep up.

Initially, there were two workers working in my post. One moved the doors of refrigerators and the other installed the sealing strips. Last year, the two posts

merged into one. I have to do two workers' work. Every day, I move more than 300 doors and install the sealing strips. Horrible! Sometimes, I have seen the white doors coming to me from the conveyor belt as white ocean waves in front of me. Eleven hours per day is such a long time. I always feel that the work is unbearable.

Such suffering exists in a context that it is important not to forget, however. As the same worker continued:

My wife is an assistant in a store. She often complains of how tired she is. Currently, she never complains in front of me. She knows the real meaning of 'tired' when she sees me. When I am at home, I am so exhausted that I have no energy to chat, to watch TV. The only thing I want to do is to go to bed immediately. I am 32 years old. As a male, it is the time when I should be full of energy. However, I feel I have aged a lot.

You might not understand, but even under this heavy workload, I am still happy that I will become a contract worker next year. I don't want to look for another job. Currently, all the factories are owned by private owners. The capitalists are the same.

When I prepared to end the interview, he asked me if I could interview him for another 10 minutes. His team leader had allowed him to leave for 1 hour and 20 minutes: there were 10 minutes left. He explained:

The team leader set a worker to replace me in my post for one hour and 20 minutes. It is relaxing to talk with you. I can take a seat and have a cup of tea. I would like to enjoy the time. Please do not look down upon me. I am not lazy, I am just so tired.

Most of the workers I interviewed in 2004, shared this worker's feelings. Due to the sensitivity of the topic, I have failed to obtain hard information on how much the quota has been increased. The interviews provided by Chinese managers and workers lead to the conclusion that the quota increase has been considerable. The labour production quota had been increased in the joint venture period and the trend has become stronger since the shift to FIE. The management in ChinaCo1 did not deny the task quota increase. The European managers in particular considered that there was room to increase the quota still further.

As we will see in Chapter 6, 30 per cent of the workers' wages are linked to the performance of the team. Workers who cannot fulfil their quota therefore not only affect their own income, but also that of the other workers in the production team. In order to finish their tasks, some workers have to work in their breaks. During the busy season, the working time is 11 hours with only a one hour break. Sometimes, the workers have to work for 11 hours without stopping to finish their quotas. All of the Chinese managers and the officials of the trade union I interviewed were worried about the continuous speed-up and quota increases. 'I am an employee of the foreign capitalists. I have to fulfil my responsibility, but the workers are very 'unhappy', said a Workshop Head:

Since the company shifted to being a wholly foreign company, the boss puts profits first and puts stress on us to promote production. I understand that their target is to make the highest profit. But there should be a sensible limit. In 2004, the production plan required that the output should increase by 13 per cent compared to 2003. It was very difficult to reach the aim. Many workers considered that we had reached the top and that it is impossible to improve any more. A few days ago, I was shocked by the production plan for 2005. The

output has increased again. I was a worker. I sympathize with my workmates. But I have no way to reduce the quota. Between the foreign capitalists and my work fellows, I am always in conflict.

Even worse, the majority of the workers did not dare to complain about the speed-up and the quota increases, as they were worried that too many complaints would offend the managers and threaten their job security. The General Manager I interviewed said that he did not know about the workers' complaints. Moreover, he was still not satisfied with productivity. From his viewpoint, there was still room to improve the productivity of ChinaCo1. Compared with other companies in other countries in which the German company has invested, the productivity of ChinaCo1 is the lowest. "It is evidence that the Chinese workers need more pressure", he concluded.

### **5.3 Workplace Authority and Control**

Edwards (1982) identifies the emergence of three historically successive forms of labour control: simple, technical and bureaucratic. He argues that the modes of control have changed alongside technical progress. After the Second World War, bureaucratic regulation, in which rules are used to define and evaluate work tasks and to govern the application of sanctions, became the main form of control. Although his evolution in management strategies is largely on the basis of US experience (Hyman, 2006: 41), the third form of labour control could be also seen in ChinaCo1.

Currently, apart from four to five German managers in the top positions, all ChinaCo1's other managers are from China. However, a management system built by German managers provides the foundation for the new management regime and

makes it possible for management prerogatives to control labour. The governance and control are completed through the detailed regulations worked out by the management departments. Some rules have been copied from the parent company.

In accordance with ChinaCo1's organizational chart, there are nine workshops in the production department. This is the biggest department in the company in terms of the number of employees. The basic organizational structure is the same in each workshop: a head of workshop, a dispatcher, heads of shift production teams (who manage two production teams) and heads of production teams. The number of production teams varies depending on the scale of the workshops.

The authority of the head of the workshop has been fixed since the company became wholly German. With regards to the workers' interests, the heads of workshops enjoy the following rights: production arrangement, assessment of the workers' performance, control of labour attendance and making decisions about dismissal lists when the company has to cut the number of workers. Based on the above rights, the authority of the managers is clear. A worker described the relationship between the managers and workers as follows:

The head of the workshop is my top leader in reality. Of course, the German managers are in the top positions in our company. But they have no direct relations with me. The head of the workshop has the right to raise or reduce my income and to decide if I can keep my job. I have to obey him completely. No worker dares offend him, unless he wants to leave.

Compared with the situation in the SOE period, the relations between the managers and workers have become more distant simpler and more asymmetrical. The

managers in the workshops arrange production according to the monthly or weekly plan. They judge the workers' performances in terms of rules drawn up by management departments. The role of personal ties is not as important as before. As a worker put it, 'you should obey your leader's every instruction. It is a basic principle at the moment'.

**Table 5.2 In general, how would you describe relations between managers and employees?**

relations between managers and employees	%
Very good	7
Good	27
Neither good nor bad	48
Poor	2
Very poor	2
Don't know	14

As can be seen from table 5.2, the interviews in 2001 revealed that the relationship between managers and workers seemed not to be too bad. In the end of 2004, when I visited ChinaCo1 for the fourth time, I showed the above table to the chair of the trade union. He disagreed with the result and explained that there might now be some deviation from the results of the 2001 survey because the interviews that I had conducted were arranged by the staff of the Production Department. Some workers were very sensitive to their leader. Hence, he suggested that some workers had not expressed their true thoughts. However, he, too, thought workers were now angrier. 'Workers are angry today but dare not speak their anger', the chair concluded.

Generally, workers think more highly of the German managers than the Chinese ones.

As a worker put it:

I don't detest the German managers. They are very serious about managing the company. The good performance of ChinaCo1 is primarily due to their management. However, due to the language differences, it is impossible for us to have close relations.

The heads of workshops and the teams' leaders are OK. Most workers have to obey them. But I hate the Chinese managers in the office building. They are referred to as 'traitors' by some workers. They always give the German managers suggestions for how to exploit workers.

To sum up, the absolute authority of management has been fixed along with the ownership transformation. The introduction of new management methods has increased production and improved product quality, but has also increased the workers' workloads and stress. Bureaucratic regulation is the basic form of control. Compared with the SOE period, the workers are easier to control.

## **Summary**

Qualitative and quantitative data obtained from ChinaCo1 from 2001 to 2004 showed that the introduction of modern management techniques from the German parent company had resulted in this respect in a radical change in the form of factory regime. This chapter has described how these management methods, such as inner-customer services, TOP and 5S, have tightened labour control. During the application of these methods, the workers are in no position to resist. All they can do is to obey all kinds of rules.

It is beyond doubt that the new management methods have increased efficiency. The quality and quantity of output have increased significantly. However, it is also true that labour has intensified. The speed-up and the increased quotas in the name of 'modern management system' have tightened labour control over the production process. The workers have no alternative but to accept the new management techniques, given the oversupply of labour force in the local city. The 'equal' relations in the SOE era have also been replaced by bureaucratic relations. The workers have to obey the managers, with no exceptions.

In the next chapter, two further aspects of factory regime, material support and contract issues, will be discussed.

## **Chapter Six**

### **Labour Contract and Material Support System in ChinaCo1**

Because many commentators have focused on the role of ideology in Burawoy's model of hegemonic and hegemonic despotic regime, they have underplayed the aspect of material support. Both material support and contract are however significant sites of the change in the process of ownership transformation in ChinaCo1. ChinaCo1 transformed from a SOE to a FDI just under ten years ago and great changes have taken place in these two respects. This chapter looks at how such changes impacted workers in order to further the understanding of the current factory regime in ChinaCo1.

#### **6.1 The Issues of Contract and Material Support**

Since the 1990s, an increasing number of researchers have drawn attention to the reform of the Chinese economic system, in particular focussing on the reform of SOEs. These research studies, found in both Chinese and English literature, have focussed on the aspects of ownership transformation, corporate culture, the evolution of HRM and the change of employment relations. Within these areas of research the issues of contract and material support have been widely discussed.

With regard to the contract system, the studies have concentrated on the reform of the traditional employment system and the building up of the free labour market (Child,

1994; Lau, 1997; Warner, 1995, 2002, 2004; Braun and Warner, 2002; Ding *et al.*, 1999, 2001; Bodmer, 2002; Lewis, 2003; Song, 2003; Law *et al.*, 2004; Cooke, 2005; Taylor, 2005; Shen and Vincent, 2004; Wong *et al.*, 2005). They provide a historic overview of employment system reform in the last two decades. Most of them take the viewpoint of human resource management (Child, 1994; Warner, 1995, 2002, 2004; Ding *et al.*, 1999, 2002; Benson *et al.*, 2000 a; Lewis, 2003; Cooke, 2005; Wong *et al.*, 2005). For instance, effective recruitment and selection policies, and the achievement and problems of contracts from the viewpoint of employers are discussed.

The effect on workers of the reform of the employment system, especially the implementation of labour contracts, has also been a subject of interest to some scholars in the field of industrial relations (Lee, 1999; Mok *et al.*, 1999; Gallagher 2004; Chen F, 2006; Giles *et al.*, 2006). These researchers generally believe that since the deepening of enterprise reform, unemployment and lay-offs of state workers have become more severe. Downsizing, job displacement and the rise of the temporary workforce are becoming increasingly popular (Mok *et al.*, 2002: 402). Employment shocks have been large and widespread. China's experience is distinctive in that most job losses were involuntary, which raises the concern that workers may have had to cope with shocks (Giles *et al.*, 2006: 93). The implementation of the individual labour contract system has created a system of employment relations that places much greater emphasis on flexibility than it does on stability, which has further increased the insecurity and dependency of the Chinese workers on the management of the enterprises (Gallagher, 2004: 25).

The situation of workers being laid off by SOEs and becoming unemployed and the migrant workers in the private sector have drawn more attention from the scholars (Chan, 2001; Won, 2004; Zhu, 2004), such as collective action by Chinese laid off workers, the poverty of the laid off and unemployment and re-employment policies.

With regard to the issue of material support, the existing studies are mainly from two viewpoints: as a HRM strategy, how to build a new wage system to motivate the employees; as a part of reform of economic system, how to build a new social security system to replace the traditional welfare (non-wage) system (Ding and Warner, 2001; Gu, 2001; Yueh, 2004; Cooke, 2005). Again, there are limited studies concerning the impact of these changes on the workers. Ding and Warner (2001: 325) reviewed the process of the reform of the wage system and predicted that in the transition to the market economy, the state-administered reward system would be finally wholly replaced by a market-oriented reward system in which the wage level reflects the supply-demand conditions in the labour market and management-employee collective negotiation. However, Cooke (2005:70) argued that although there is an increasing proportion of SOEs that have established the collective negotiation wage policy, usually through the involvement of trade unions and the workers' congress in the mid-1990s, its effectiveness remains modest due to the limited power of the trade unions. Comparing the differences in wage determination between SOEs and POEs, Cooke continued, it is very common among firms in the private sector to design the wage system with a strong emphasis on responsibility and performance at the individual and group level. In addition, Cooke claims whereas employees in the state sector can exert pressure on their managers for higher bonus incomes, workers in the private sectors may be much less able to do so because of the threat of job loss. In general, despite

some variations, the trend of the payment system is the same: the management has been granted more power in deciding the workers' wages and bonuses.

Besides the payment system, the non-wage system has also been referred to by some researchers, predominantly at the macro-level. For example, Gu's (2001) research examined the belated welfare reforms in China's state sector and their impact upon the reform of the SOEs. One of the most notable changes is that the market-oriented reforms have wrought on the *danwei*-based welfare system. Here, indeed, as we shall see, a major change in material support has occurred that is of central importance to the change of labour regime.

It is obvious that the workers' views of contracts, payments and welfare are seldom referred to. The following sections present an overview of the changes in the contract system and to material support in ChinaCo1 and explore how these changes impact on the workers.

## **6.2 The Implementation and Types of Labour Contracts**

### **6.2.1 The Implementation of Labour Contracts**

The lifetime employment system during the planned economy period was criticized for producing little or no incentive for workers to provide effort. This criticism led to a series of employment system reforms, beginning in the mid-1980s, which have been an integral part of the whole reform programme. The guiding principle of the employment system reform is to promote labour flexibility. The implementation of

labour contracts is a crucial step. China's Labour Law, published in 1995, required that, 'a labour contract shall be concluded where a labour relationship is to be established'. The Labour Law is regarded as a success in fulfilling the need of enterprise managers, for example shortening and attenuating the employment relations rather than increasing the rights of the workers (Gallagher, 2004:26).

Accordingly, the labour contract system was implemented in ChinaCo1. 'It is the state law. All types of factories should implement the law, including our company', the head of the HRM department explained.

The labour contract system tightened labour control and had a serious impact on the status of workers in ChinaCo1. Firstly, it made it possible for the number of workers to be readily cut. In 1999, the general manager of the company decided to cut 200 jobs. When the workers' contracts expired, the company said it would not renew them. This redundancy resulted in a labour dispute. The angry workers gathered at the gate of the company on National Day and stayed for three days. For the sake of political stability, the local government agreed to pay more than 600,000 Yuan (\$72,464) to the redundant workers in order to end the dispute (Zhu, 1999). However, the company still did what it wanted. This would not have been possible before 1995.

Secondly, the contract system is an important means whereby workers can be controlled. The company only rarely terminates a contract at the end of the period. However, it is possible that the company will not renew it, either because of the

market situation or because of the worker's behaviour. As the HRM manager put it: "Workers who are not competent to do their job or do not behave well will be selected out. The basic way is not to extend the contract. Such control is very significant with the workers who want to conclude open-ended contracts."

Article 20 of the Chinese Labour Law specifies that in the case of a labourer who has been working continually in the same employment for ten years or more and the parties involved agree to extend the terms of the labour contract, a labour contract with flexible terms shall be concluded between them if the labourer so requires. Gradually increasing numbers of workers are qualifying for this kind of contract. The foreign managers and the heads of the Dept. of HRM have become worried about this. One of the heads of the Dept. of HRM gave the following detailed explanation:

At present, the average age of the contract workers is 32 years old. Many production workers are older than 40. Actually, they are too old to work on the production lines. But most of them have signed open-ended contracts with the company. We have to hire them until they retire. Moreover, many workers have currently qualified to ask for open-ended contracts and more will do so in the near future. This is what we are worried about. If we agree to conclude such a contract with each worker, we would have a big problem to contemplate.

Having made some open-ended agreements, the German managers were soon looking for a way to take advantage of loopholes in the law. After researching the Chinese Labour Law in depth, a method to deal with the 'problem' was finally found. A new

standard was added for workers who qualify for open-ended contracts: not only ten years' service, but also good individual performance is needed. Since 2004, the company has only signed open-ended contracts with 'good workers'. The director of the Dept. of HRM explains the 'new policy' as follows:

The Labour Law does not provide that the company MUST conclude the open-ended contract. The premise of signing the contract is the agreement of both parties involved. Based on this article, as a party involved, the company has the right not to sign open-ended contracts with each worker.

Initially, we signed this kind of contract with each worker. At present, we assess the worker's individual performance first. If he is good, I will agree to sign the contract. If not, I will not agree to his request immediately. Normally, I will sign a one or two-year contract with him first. After that, his performance would be evaluated again and then I would decide whether to sign an open-ended contract with him.

Honestly, I don't think this clause of the Law is necessary. I know many companies, including some state-owned enterprises, have never concluded this kind of contract.

As well as linking the contract with individual performance, many conditions that the workers cannot control are also included. The company has ruled that if the workshop might be outsourced, the workers in the workshop would not qualify to ask for open-ended contracts. In addition, if there were a possibility that the workers' posts might be rearranged, open-ended contracts would not be concluded. Generally speaking, the workers have to bear more 'flexible' contracts. Even workers who have concluded open-ended contracts are still seriously worried about their job security. Some old

workers were required to change their posts from production lines to off-line jobs whilst their wage grades were reduced accordingly. If the worker did not comply with the order to move, the company would terminate his contract.

Furthermore, recently, the adjustment of the company's structure has impacted on the workers' jobs. In 2003, a workshop making small home electrical appliances went into operation and 30 workers were selected for it. One year later, the headquarters of the European company decided to expand its production and move the workshop to another city, two hours away. The workers were faced with a difficult choice: if they wanted to keep their jobs, they had to move with the jobs to another city. If not, they might lose the jobs.

Because of the state of the local labour market and the relatively high income received by ChinaCo1 workers, most wanted to keep their jobs, especially those workers who came from the countryside. As well as their disadvantages concerning their age and education level, most were short of social capital. This made the labour contract an important source of leverage for managers, even more useful than the 60 per cent variable element in the calculation of their wages (which is discussed later). The logic is clear enough: 'We must work hard. Otherwise, the company may not extend our contracts'. Commons (1926: 285) stated the position starkly: the contract of employment 'is not a contract, it is a continuing implied renewal of contracts at every minute and hour. ... The labourer is thus continuously on the labour market---even when he is working at his job he is both producing and bargaining, and the two are inseparable.' In ChinaCo1, the workers do not have enough power to bargain: they

are in a largely passive situation.

### **6.2.2 The Three Different Types of Contracts**

The labour contract not only plays a role in controlling the workers, but also divides them. The current workers in ChinaCo1 may be divided into three categories in terms of their types of contracts.

Firstly, some workers came from the original SOE. Prior to 1995, the workers were mostly local school leavers and people from the towns and villages near the city who got their jobs via 'paying for entrance'. Then, when ChinaCo1 transformed to a joint venture company, approximate 1,000 of these employees were selected by managers from the original SOE. This was a very common method in the mid 1990s. Many of these joint ventures were formed in existing state-owned enterprises. Also, it was often the case that one company division would be converted into a joint venture, with the rest of the larger enterprise remaining state-owned (Lu, 2001: 194). The workers and staff who were selected for the joint venture company were relatively young, skilled and had good individual performance. At present, the average age of this part of the workforce is over 40 years old.

A second group of workers concluded fixed contracts with the company. The majority of them were below 40 years old and many of them came from the secondary technical school. Before the joint venture, the SOE recruited some school-leavers from local secondary technical schools. After the company established the joint

venture with the SOE, a double-track system was used to train the new workers in order to get high-quality, skilled recruits (students study basic theory and knowledge in the classroom for two years and practice in the workshop for one year). This system was introduced in line with the system of the German parent company. The company recruits about 60 students at junior grades every year in conjunction with a local technical secondary school. Before 2001, the students were junior graduates. After 2001, the school began to enrol high school graduates. When students enter this school, a contract requiring them to work for the company for four years must first be concluded. The technical school graduates are regarded as core and skilled workers. Many of them have been promoted to supervisory positions.

The third group of workers in ChinaCol are temporary (or seasonal) workers. Temporary workers have been hired since 1997. The basic requirements are that they should have graduated from junior school and be aged between 18 and 30. The recruitment process is very simple. The company posts its recruitment advertisements on the notice board of the factory and the local labour bureau. The applicants hand in their CVs and are interviewed for five to ten minutes by the staff of the Dept. of HRM. A member of staff explained, 'The temporary workers only engage in less-skilled work and are easy to manage due to the three-month contracts. It is not necessary to take time to select them seriously'.

Some of the temporary workers are laid off workers and some are from rural areas. At the end of 2003, in a new departure, about one hundred such workers were made contract workers. At the end of 2004, another 100 workers were transformed into

contract workers. One of them was Li. His story underlines the importance of getting a contract job at ChinaCo1. At thirty-two years old, he had worked as a seasonal temporary worker on three-month contracts for the previous five years. During this time, he said, he had always felt insecure but the contract that he now had – for one year only – might in future, he hoped, be extended to two years, which would make for relative job security, and as he also pointed out, this company paid the wages on time and also paid pension, unemployment and housing contributions. He had lacked all those benefits as a temporary worker. His wife works in a garment factory where it is common for workers to work 12 hours a day in order to reach their production quotas, which are impossible to meet in eight hours. In the light of this, he is ‘definitely very satisfied with the job’.

Both the European and the Chinese managers considered promotion to a fixed contract a good method to motivate temporary workers. The head of the Dept. of HRM made the following statement:

This method is very useful. It plays a very positive role in encouraging the temporary workers. A fair and easy method is used during the selection process. The condition for application is at least one year’s service. The applicants are ranked in terms of their individual performance marks from top to bottom. The first 100 workers are shifted to become contracted workers.

The change in the structure of the workforce has close relations with the implementation of the labour contract system.

Standing (1997) argues in a wide ranging review: “More companies have been turning away from reliance wholly or largely on full-time workers to use of temporary workers, part time workers, contract labour and out-workers, and have been subcontracting or using other forms of ‘outsourcing’.” The change in the recruitment policy of ChinaCo1 reflects this statement. A new policy is being drawn up by the HRM department. It requires that all the workers should obey the assignment of the company. In other words, the company has the right to change workers’ posts, normally from a good to a bad one. If he (or she) refuses to shift, his or her contract might be terminated. No matter if he (or she) has an open-ended contract.

In addition, managers at ChinaCo1 are attempting to shorten the assembly line and are contracting out work. One workshop was outsourced to a private local company. Thirty workers had no choice but to move their jobs to the private company, even though they complained several times. There were also plans to subcontract cleaning and security to other companies.

### **6.3 Promotion and Turnover**

From the perspective of management, promotion and turnover are two major issues. In ChinaCo1, two HRM strategies were adapted for the workers: tightening labour control through labour contracts and training and promoting a certain number of core workers.

### **6.3.1 The Selection and Promotion of Core Workers**

In describing the British labour movement during the mid 19<sup>th</sup> century, Hobsbawm (1979) argued that workers could be divided into two groups: the ‘artisans’, in possession of special skills or qualifications, and the mass of ‘common labour’, which could be hired, fired, or interchanged at will, without making any appreciable difference to efficiency. However, this typical division could not be used to explore the division of workers in China’s white goods sector. As noted above, the importing of foreign advanced technology and assembly lines is one of the main reasons of the dramatic development of this industry. Hence, in the case of ChinaCo1, in spite of the definition of ‘core workers’, the first group, the so-called the ‘artisans’, is not particularly evident. But, the second group, the situation of mass ‘common labour’, reflects Hobsbawm’s analysis.

After all the assembly lines and key equipment had been upgraded, each post was analysed by management departments. Accordingly, ChinaCo1’s promotion policy was changed. 20 per cent of workers who work on the key posts, such as foaming and inspection are now regarded as ‘core’ workers. ‘This rate is constant in the white goods industry’, the director of production department explained:

The majority of those core workers graduated from technical school and they are younger than 35 years old. In order to keep the skilled or core workers, the company provides some promotion opportunities for these workers. Some of them have been promoted as heads of production teams, and further as heads of

workshops. In contrast, the other 80 per cent of the workers are regarded as 'not very important'.

In Mao's period, as a part of the theory that 'workers are the masters of the factories and nation', the majority of middle level managers (cadres) and even the senior managers of factories were selected and promoted from amongst workers with outstanding individual performances. Since the reform, education has become the basic standard for appointment to such promotion and this has left few chances for the promotion of workers. As regards workers who have attained the title of national labour models, they have to enter college to gain a diploma in order to fit the basic standard for becoming a manager. Normally, many large and medium scale factories and companies require middle level managers (head of workshop, director of management department or section) to have at least a bachelor's degree. Under this system, the highest level the workers could reach is the head of a production team (Zhao, 2001). As a director of a workshop in a TV set factory in Beijing put it in 1998:

I was a worker and I graduated from middle school. However, my skill is outstanding and many workers would like to follow me. I'm confident in my ability. As a director of a workshop, I am qualified for the job. I don't think the education degree should be a vital factor for promotion. Currently, having a degree is the most important factor in promotion. I might be in the last generation of managers that were promoted from workers. In the future, all of the directors should have the certification of a university. As workers, we have no future in this respect. It is a pity.

(Source: Beijing, 1998)

In contrast, all of the workshop directors in ChinaCo1 were promoted from workers. Their backgrounds are the same: they are approximately 35 years old, graduated from technology school, and have more than ten years' service. Compared with other large and middle scale SOEs and FIEs, this promotion method is not usual. Two factors have contributed to this promotion strategy. First, Chuzhou is a small city, which has no significant attraction for professionals. Second, the workers are relatively old and are not easily managed by young professionals, even though these professionals are highly educated and have mastered some advanced management theories. Some managers with bachelors' or masters' degrees were hired as the directors of workshops, but they were not successful in management.

The German managers adjusted the promotion strategy and ignored the candidates' education levels. Accordingly, some experienced and skilled workers have been promoted to directors of workshops. Even in some key positions in management departments, the candidate's ability rather than any diploma they hold has become the vital factor. In key positions in the company, such as the head of the production department, the director only has diplomas resulting from at secondary technical school.

This promotion strategy has resulted in the changing of the training policy and further influenced co-worker relations and intensified the division of the workers. The head of the Dept. of HRM explained:

Since 2000, the basic thinking of human resources management has been clear. In order to ensure quality, more attention should be paid to the 20 per cent skilled workers. Some of them might be promoted to junior or middle-level managers.

Currently, all the heads of workshops, including me, are from the SOE. In the future, the graduates from our technical school will be the core workers. We have developed a plan to train them and update their knowledge. A detailed career development plan has been established for 20 per cent of the workers. I am not interested in the other 80 per cent, the unskilled and less-skilled workers. I consider this to be the basic principle of human resources management in the manufacturing sector.

Accordingly, some good young workers who had graduated from Chinacol's technical school were selected as 'reserves' to be cultivated. The company invited experts to test their ability and help them to work out career development plans. Some workers were sent to Nanjing, the headquarters of the German home appliances companies, to join training courses. This human resource management policy resulted in the 're-division' of the workers in line with contract types. The workers in the workshop were divided into three groups in terms of their age, type of contracts; and identities: open-ended contract workers from SOEs, fixed contract workers from technical school, and temporary workers. The 'core workers' belong to a special category.

### **6.3.2 The Rising Turnover Rate of Workers**

Although the contract system is claimed to give freedom to both employers and employees, the employers actually benefit most. Before 2001, the quit rate for workers was very low, whilst young managers and technicians frequently resigned. The main reason why they left ChinaCo1 is that they were dissatisfied with the boring life in Chuzhou. Relatively speaking, the workers were satisfied with the company. The company has offered significant attractions for workers since the joint venture was established. Data from the interviews in 2001 demonstrated that 96 per cent of the workers wanted to keep their jobs in ChinaCo1. As can be seen from Table 6.1, on the face of it, the majority of workers were satisfied with their current jobs. Around 65 per cent of them or more indicated that they were very satisfied or satisfied with a range of factors – pay, work prospects, fellow workers, physical working conditions, the way their section was run, the use of their abilities and the interest and skill in their jobs. These results were partly a function of their expectations being set at a low level, and partly a function of the related consideration that these jobs are good compared to others on offer to them. Indeed, almost two-thirds of them agreed that their jobs were good ones for people like them, and in answering questions they would often begin by saying ‘Compared to other workers...’ and indicate that compared to most others in the city, they were doing well. The following view is typical:

As you know, I am 36 years old, with only high school education. It would be difficult for me to get another good job. So many workers have lost their jobs or have been laid off, and their situation is not good. I have a job and can earn more than 1000 yuan (\$120) per month, so I feel that the job is valuable for me. At present, you could not imagine having an easy job like we had in the SOEs in the 1980s. You have to work hard no matter what kinds of enterprise you are in. Generally speaking, to earn money and support my family is my aim. In the company, if you work hard, then you can earn money and keep your job.

**Table 6.1 Workers' Satisfaction with Various Aspects of their Jobs at ChinaCo1  
(percentages)**

	Very satisfied	Satisfied	Dissatisfied	Very dissatisfied
Your usual take home pay	2	62	30	6
Your work prospects	2	65	31	2
The people you work with	22	70	8	0
Physical working conditions	2	72	19	6
The way your section is run	8	84	8	0
The way your abilities are used	8	63	20	8
The interest and skill involved in your job	10	63	22	4

The situation has, however, begun to change from 2003: an increasing number of workers are leaving. The workers who have left the company give different reasons for their decisions. Some are old, female workers who could not bear the continuous speed-up. They have to retire before they expire. A middle-aged worker commented:

I understand their decision. For some female workers, after reaching 45 years old, it is very difficult for them to keep up with the assembly line. For instance, a 45-year-old female worker in my workshop was always influencing the quota of her team. Even though her workmates did not complain to her, she was worried about her situation. Hence, she had to leave.

The feelings that the workers who had joined from the SOE were too old, too uncompetitive and too late to join the open labour market were widely shared among the workers I interviewed in ChinaCo1.

Some are young, skilled workers who are not satisfied with their salaries and the physical rigors of factory work and who would find it easy to get new jobs. The wage is not directly related to age, but closely linked to the post and ranks. The young, skilled workers complained even if they got the top workers' salary, this was only 1,200 yuan (\$145) per month. Moreover, they felt that the management was too harsh. Even some core workers resigned from their jobs. A 28 year-old male worker complained 'In China, there is no future if you are a worker'. 94 per cent of workers told us in 2001 that they would not like their children to do a job like theirs. This very high rate clearly demonstrated the workers' dissatisfaction with their situation.

More and more workers, particular skilled workers, have left feeling dissatisfied. However, the top managers have their own opinions. The General Manager talked about this issue with me in his office on the eighth floor of one of the highest buildings in the city:

If the workers would like to leave, I would no doubt let them go. Those workers who are older than 40 years old are hopeless. All of them want to work in my company till retirement. If they are incompetent for the job, I have no way to dismiss them. I hope they leave my company themselves. The company needs young and skilled workers. By the way, I also do not care about some skilled workers leaving the company. I am confident that ChinaCo1 is attractive to workers.

The increasing quit rate has resulted in contradictory perceptions: the workers consider the increasing turnover rate as evidence of the company's failure and some Chinese managers have started to worry about the loss of skilled workers, whereas the view of the German managers is that it is quite normal: 'I have never worried about the labour supply since I came to China. From here, you can see the crowds of people on the street. They are the labour resource', the General Manager claimed, looking down on the city from his vantage point.

To sum up, the flexible employment system provides the managers with a very useful tool with which to control workers. The workers are in a weak position. The two promotion methods - shifting some temporary contracts to fixed ones and promoting some workers to managerial posts - doubtless motivate the core workers.

For the majority of workers, managerial control occurs not only through the contract system, but also in the aspect of material support. Before we consider this, however, there is a further example we need to report about the increased flexibility management has gained in its control of labour.

### **6.3.3 Flexible Working Time**

According to the Chinese Labour Law, standard working hours are 8 hours a day, 40 hours a week and 2008 hours a year. Without doubt, working hours have been

lengthened since the national reforms in 1980s, regardless of the type of enterprise. In ChinaCo1, this is also the case. So-called flexible working time has contributed to this.

During the four interview periods, the managers from Germany and China stressed that, 'We never ask the workers to do overtime work. We obey the Chinese Labour Law seriously. What we have adopted is flexible working time'. Due to the nature of the refrigeration sector, the work is divided into two seasons in a year: the busy season and the low season. In normal time, assembly lines should be operated for 8 hours a day. This requires that the workers must enter the workshop and prepare for operation in advance. After the assembly line has stopped, the workers have to clean their posts in order to reach the standards required by 5S. During working hours, the workers have 15 minutes' break to prepare their lunch and 45 minutes' lunch break (After the German company took over the SOE, the workers' canteen ceased to exist. Many workers bring home-cooked meals to the factory so as to save money. Each workshop has a big steam cooker for workers to warm their meals. At 10.30 PM, all the workers stop working for 15 minutes to put their lunch-boxes into the steam cooker). In reality, during the normal season, the workers have to stay in the factory for at least 10 hours per day.

In the other seasons, ChinaCo1's management has made working times flexible in relation to the production season. As a manager of production department explained in 2001:

One important feature of refrigerator production is that it is based on different seasons. Every year we have a busy season (from April to October) and a low season (from November to March). In the busy season, the workers may need to work 11 hours a day and 7 days a week and there should be workers on shift 24 hours a day. In the low season, we give the overtime working hours back to workers. They may work 5-6 hours a day and 4 days a week. In any case, the work time isn't longer than that prescribed in the Labour Law (the 1995 Labour Law specified an eight hour working day). In addition, the flexible working system was authorized by the city Labour Bureau.

Workers particularly resent the two shift arrangement (each shift works 11 hours), which makes them very tired in the busy season. They have made several complaints about this system and the trade union chairman has relayed their complaints to the general manager, but he is keen on retaining this practice.

The situation has taken a turn for the worse for the workers since 2002. Due to good performance in the market, the workers have had to bear longer working hours to meet the market demand. The gap between the busy and low seasons is also no longer very significant. For instance, the month before Chinese New Year (normally in January or February) has become another busy season. Hence, the busy season lasts seven to eight months altogether. In order to reduce costs further, the two shift system has become the usual system all year round, no matter whether it is the busy or the low season. The managers require workers on the assembly lines to work in two shifts for 11 hours, but for only 2 or 3 days a week in the low season. A male worker said:

Each summer, I always feel that I am not able to survive. I have to work in the company for 12 hours a day and always 6 days a week. The worse thing is that I

can't have a good sleep at home. The weather in summer in our city is horrible, the temperature always reaches 35C and it is very moist. I have no air-conditioner in my apartment. Especially when I have worked at night and slept in the daytime, it is not easy to sleep. I always feel tired all day long and I sometimes cannot concentrate. Fortunately, the imported equipment is advanced; otherwise injury would be unavoidable.

The workers have no choice about whether to work of flexible working time. The head of the workshop always responds to workers' complaints by saying, 'You can leave, if you do not agree'.

## **6.4 Material Support**

### **6.4.1 Smashing of Welfare from Work Unit (*danwei*)**

Under the planned economy, Chinese SOEs historically constituted the central pillar of the so-called 'work units'. In urban areas, all state owned organizations, including enterprises, retail shops, hospitals, schools and government organs, are generally classified as *danwei*. The *danwei*-based welfare system was mainly underpinned by three elements: welfare housing, pensions and free medical cares (Gu, 2001). This welfare system was criticized as an obstacle of the development of SOEs. Nationally, the reform of the welfare system has been carried out since the mid-1980s. The target of the reform is to shift responsibilities for welfare provision from SOEs to a combination of government, enterprises and individuals.

With regards to ChinaCo1, along with the welfare reform, non-wage material benefits have become less work-place-dependent. There are still a few workers who live in houses that the SOE had provided for them. There are also a few employees, mostly single administrative staff who have moved from another city, who live in a company dormitory. But in keeping with state policy, the company has instituted a housing accumulation fund. In addition, the free medical system has been replaced by a medical insurance system that started in 1991. Some other welfare facilities, such as the kindergarten, canteen and playground no longer exist. Following the pension reform, ChinaCo1 pays employees' pension insurance.

Besides their wages, workers may receive subsidies in accordance with government regulations and a year-end bonus. Since 2003, the company has made good profits and workers' average wages have risen by five per cent in each two-year period. Apart from certain welfare benefits, local government regulations require that workers are provided with money to counter the effects of hot weather in summer and to help with heating costs in winter to a total value of 180 yuan (\$22). During the three Chinese traditional festivals, 500yuan (\$60) is paid to every employee each year. In addition, according to the Chinese laws and regulations, the company has set up social insurance schemes for the employees (including old-age insurance, unemployment and medical insurance) and a housing fund. From 2001, 5 yuan (\$0.60) lunch subsidy for each employee has been paid on working days. Besides the above, there are no other non-wage benefits in kind. This is in sharp contrast to the range of benefits that used to be available under the SOE. Dependence on *danwei* has given way to dependence on the wage.

#### **6.4.2 Changes to the Payment System**

Up to the mid -1980s, both workers and managers' wages were determined by government legislation and regional agencies (Benson *et al.*, 2000 b). Wage reform in SOEs has been underway since the mid-1980s. A new payment structure, the 'structural wage system', was implemented in 1985. Under this system, the wage package consisted of four parts: basic wage, positional wage, seniority pay and bonus (Cooke, 2005: 66). Later, the enterprises were given full autonomy in deciding the employees' wages under the guidance of the state regulations. In the following years, various wage systems were adopted. All of the reform experiments had this in common: enterprise management was granted more power in deciding the individual worker's wages and rewards.

In 1993, the old wage system was totally abandoned and replaced by a new system. The significance of the new system is that it has divided the wage package into two parts: a fixed wage and a flexible wage; in theory, at a 70 per cent to 30 per cent ratio. Operationally, it is easier to quantify the workers' performance under the new system and easier to link such performance to pay (Zhao & Nichols, 1998: 88). The leaders of the workshops and the production teams play key roles in determining the workers' wage levels. ChinaCo1's payment system changed along with the ownership transformation. During the SOE period, the company's payment structure and its reform were in line with the requirements of the state and local governments. In the mid-1990s, a position-skill wage system was adopted. After the company's ownership

changed to FIE, a total abandonment of the SOE payment system was announced. A new payment system was introduced, which is still in force. This pay system has reduced the proportion of the basic wage and has strongly linked pay to performance. In addition, there is no seniority pay.

There are now three parts to a worker's pay. There is a basic, fixed part, which accounts for 40 per cent of the total wage. There are nine grades for the basic wage: almost all of the temporary workers are in the first (lowest) grade; a few outstanding temporary workers are in the second grade; the contract workers on the production lines, including some staff at lower levels and the heads of production teams and shift teams, are between the second and fourth grades; the managers of the workshops and above are in the fifth to ninth grades. In each grade, there are some sub-grades. Basically, the grades are divided according to the employees' posts and skill levels.

A further 30 per cent of the wage is based on team performance (based on the workshop level and with emphasis placed on the idea that each section is a customer of other sections). There are three indications by which to assess the performance of the team: productivity, quantity and the rate of defects. In order to motivate the workers, from 2004, no maximum rate has been set for this part of the wage. The highest level reached has been 42 per cent, whilst one workshop only received 25 per cent.

The remaining 30 per cent of the wage is related to individual performance. Many indexes developed by the company are used to assess workers' performance,

including the workers' attitudes and behaviours, absences, productivity and the rate of defects. The failure to meet the indicators is linked to the workers' wages. This part of the wage is assessed at six-month or one-year intervals. Hence, assessment by managers potentially plays a very important role in determining workers' income.

### **6.4.3 The Workers' Assessment of their Incomes**

During the period of the research, the workers' assessment of their incomes has changed significantly. The average wage in the company was approximately 1,100 yuan (\$133) per month in 2001 and did not increase significantly in the following years. This level of income was half as much again as for the local area but only three quarters of the wages in Shanghai. Compared with the other enterprises in the city, the workers' income ranked among one of the highest before 2001. For instance, the workers in the company earned almost twice as much as those who remained in the extant part of the SOE to which the refrigerator plant once belonged. Many workers in the city are employed in small SOEs and COEs, the majority of which have made losses since the early 1990s. Workers in these enterprises have suffered financial difficulties. They have been laid off and have lost their jobs as the companies have become bankrupt or merged. At present, there are still few large enterprises located in the city. Many workers have to work in small-scale private companies which default on payment. Compared with those enterprises, ChinaCo1, the largest foreign holding company in the city, holds a definite attraction for most workers.

The data in 2001 showed that 64 per cent of workers I interviewed were satisfied or very satisfied with their incomes, whereas 36 per cent were dissatisfied. Many

workers were proud that they worked for such a famous German company. Their satisfaction mainly came from comparisons with the workers in other local factories. Among the reasons for dissatisfaction, some workers, especially young ones, thought that the wage at FDI companies should be higher. Some workers considered that some problems remained in the wage structure. According to the Chairman of the trade union:

About 10 per cent of the workers are not satisfied with the wage system. The workers hope that the share of the fixed wage will be larger than it is now. Then their income would be guaranteed to a higher degree.

**Table 6.2 ChinaCo1 Workers' Assessment of Changes in the Company over the Last Five Years (percentages)**

	Better	Worse	Same	Don't know
Right to make decisions	15	9	51	26
Workload	15	63	15	7
Pay	63	6	25	6
Stress	11	65	20	4
Satisfaction	29	18	42	11
Job security	38	17	27	19
Job prospects	23	15	25	38

A summary of their views, in 2001, on some of the changes that had taken place since the German company took over is presented in Table 6.2. The key aspect is that most saw the pay to be better, but most also saw this to have been at the cost of increased

stress and increased workload, not least in the form of the 11 hour long shifts of the peak season, which now extends for six to seven months of the year.

Since 2003, the degree of satisfaction with income has decreased. Not only the workers, but also some managers have complained that their incomes have risen too slowly in recent years whilst the company has enjoyed very good performances. The employees' incomes have only been raised by 5 per cent per two-year period. Compared with other FDI enterprises, their wages are relatively low. As a young, female worker noted:

A few years ago, we fellows were satisfied with our income. Currently, we are not as satisfied as we were before. Originally, the managers always guided us to compare our income with other factories in our city. Hence, we felt satisfied and happy. At present, many workers consider this comparison method to be incorrect obviously. As a branch of a world famous MNC, our income should be the same as the other Chinese branches. As far as we know, the workers' incomes in a washing machine factory in which the same German company has invested are much higher than ours. In addition, the output and profits have increased rapidly and our quota has been raised sharply. However, the income has been almost frozen.

The workers' dissatisfaction was noticed by the Chinese managers. The heads of the production department relayed the workers' complaints in written form. The general manager replied in a letter, which was posted on the wall of each workshop. The letter stressed that the company has already set up an excellent social security system and required the employees not only to consider their salary but also the social security system. In short, it argued that the workers should not complain about their

income. Furthermore, the manager promised that they would change the 5 per cent increase from every two years to every year. The Chinese managers and workers felt disappointed, but had no idea what to do next to further their complaint.

The greatest source of dissatisfaction among the workers in relation to their income is the system of annualised hours. As noted earlier, the managers in ChinaCo1 have implemented flexible working hours to reflect the production seasons. However, apart from the working times, the workers resent they have no overtime pay.

## **Summary**

This chapter has presented two important issues concerning the factory regime: contract and material support. In particular, it has shown how the new labour contract system and new payment system were implemented in ChinaCo1 during the ownership transformation.

This chapter briefly reviewed the traditional model of employment and material support in ChinaCo1. Like other SOEs in the planned economy period, ChinaCo1 provided the workers with lifelong jobs and unit-based welfare benefits. The reform of employment and the welfare system nationally since the early 1980s has impacted on employees in all types of enterprises, including the transformed enterprises. Radical changes have taken place in ChinaCo1.

The lifelong jobs system was replaced by contracts along with the implementation of the Chinese Labour Law. Currently, all of the contracts seem to comply with the law. The German managers have never given up trying to apply the more flexible employment methods within the scope of the law. The employees have ended up with harsh conditions being imposed upon them and it is not easy to secure a long-term contract. Whilst it is certainly true that workers have been distinguished by different recruitment methods and contract types, it is also the case that this distinction has resulted in job competition among the workers. The flexible contract system has become a useful tool with which to control the workers.

Although the workers' wages were without doubt relatively high for the city in the JVC and early FIE period, it has also been seen that a flexible payment scheme exists and that this payment system controls the workers in ChinaCo1. This chapter has described the annualised payment system and the workers' complaints about it. Under the current circumstance of the oversupply of the labour force, the pressure to increase income is weak. Worse still in the view of the workers, since 2002, their wage has not seen big increases alongside the company's achievement of good performance. Their dissatisfaction has thus increased. Moreover, in an interesting shift, workers seem to be now comparing their wage to that of others in the MNC sector, not to other local workers.

Material from interviews has been presented in this chapter, despite no exact data being obtained. This material has shown that the increases in speed requirements and quotas have resulted in significant increases in work intensity. It can be clearly seen

that the strict management has not only increased control over the workers, but also over the middle and junior managers.

After an analysis of three issues concerning the factory regime in ChinaCo1, it is evident that the current type of factory regime has been built following the shift in ownership. In another words, privatisation seems an important factor resulting in the new type of factory regime. However, it is too early to reach such a conclusion. In Part 3, a description will be given and an analysis undertaken of the changes in the factory regime in ChinaCo2 – a white goods manufacturer with over five decades of history as an SOE.

## **Part Three**

### **Case Study Two: ChinaCo2**

## **Introduction**

Burawoy (1985) not only distinguished types of factory regime in different capitalist periods, but also mentioned that the form of factory regime varies among countries with the patterns of proletarianization. Skill, technology, competition and resistance also resulted in regime variations within countries.

The research findings in case study one suggest that ownership transformation is an important reason resulting in the change of factory regime. However, are there other factors that contribute to the patterns of factory regime? In order to answer this question, it is useful to consider another well-known Chinese white goods manufacturer which adds a comparative dimension to this research – ChinaCo2. This manufacturer is a SOE with a history of more than fifty years (only taken over by a private owner for two years). In the last two decades or more, as ChinaCo2 developing into a leading domestic refrigerator company, the factory regime has also changed. From this case, we can see that there can be other factors affecting the change of factory regime rather than formal change of ownership. Besides privatisation, which factors also contribute to this change? How have the changes impacted on the workers?

Part Three explores these questions. In order to allow a comparison with the case of ChinaCo1, it thus also contains three chapters: Chapter 7) A brief history of ChinaCo2; Chapter 8) Labour control in ChinaCo2; chapter 9) Contract and material support issues.

## **Chapter Seven**

### **An Ownership Transformational Circle**

#### **—— Brief History of ChinaCo2**

In many respects, ChinaCo2, a well-known large domestic cooling appliances maker, went through a development process similar, to a certain degree, to ChinaCo1. It started as a small, state-owned factory, but it came close to bankruptcy, at which point the factory director decided to change the line of production to refrigerators; and the director's personal ability played a vital role in the early stages of renewing the business. Importing foreign production lines and the implementation the new management methods have resulted in success in the market and it now ranks among the top companies in China's cooling appliance sector. With reference to ownership transformation, ChinaCo2 was taken over by a private owner for two years but subsequently reverted to state ownership at the end of 2005.

In this chapter, I will first give a picture of ChinaCo2's local city, Hefei. I will then briefly outline the history of ChinaCo2 in terms of the different periods. I will explore the role of managers during the development process. Furthermore, this chapter will focus on some external factors related to the factory's development, such as geographical factors and the role of local government, in order to advance an understanding of change in factory regime.

## **7.1 Basic Information on Hefei**

Hefei is the capital city of Anhui Province, with a population of 4.4 million. Its level of economic development is higher than that of the majority of other cities in inner Anhui Province (including Chuzhou). However, compared with other Chinese large cities such as Shanghai and Nanjing, Hefei has not been at the 'forefront' of industrial reform policies such as globalisation and privatisation. Moreover, many of the economic indexes for Hefei are at middle levels compared with the capital cities of other provinces, and some are even at a low level. The municipal officials regard the promotion of the growth of the local economy as a matter of urgency. Adjusting the traditional economic structure is one of the most important factors in this endeavour.

### **7.1.1 The Adjustment of the Economic Structure in Hefei**

Following Deng Xiaoping's southern tour in 1992, the Chinese government came to accept the inevitability of a shrinking state and adopted policies aimed at fundamentally restructure ailing SOEs (Chen G, 2006). In Hefei, as in other areas in China, the changing of the traditional SOE system began in the early 1990s. By the beginning of the new century, following the decline of the SOEs, the number of POEs has increased significantly (see Table 7.1). According to Anhui Statistics Bureau (2005), the number of POEs had increased by 73.7 per cent by the end of 2004 compared with the same period in 2001, whilst the SOEs had decreased by 33.3 per cent.

**Table 7.1 Different types of Enterprises and Their Employees among the Industrial Units in Hefei at the end of 2004**

	Number of Enterprises	%	Employees (10 thousand)	%
SOEs	136	3.7	44.2	17.8
COEs	450	12.4	18.9	7.6
POEs	2387	65.7	80.2	32.3
Hong Kong, Macao and Taiwan investment enterprises	61	1.7	31	12.5
FIEs	104	2.9		
Other types*	495	13.6	74	29.8
Total	3633	100	248.3	100

Source: Anhui Statistics Bureau (2005)

In the last two decades, although the government of Hefei has initiated many priority policies in order to attract foreign capital, the achievements have not been as good as nearby large cities, such as Nanjing and Shanghai, as Hefei does not enjoy a good location and its infrastructure is not as good as other advanced cities. In recent years, a new investment policy has been encouraged by local government. The core of the policy is to devote major effort to attracting domestic investment. A municipal official announced,

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\* Other types of enterprises include stock cooperation companies, stock companies, state-owned joint management enterprises, collective-owned joint management enterprises, state and collective joint management enterprises and other domestic investment enterprises.

The cities on the Yangzi River Delta have already become the workshops of the world. At the periphery of Yangzi River Delta, Hefei does not enjoy as many good conditions. We would like to be the workshop of the Yangzi River Delta. Hence, attracting leading domestic companies to invest or set up their branches in Hefei is our new policy. This policy also impacts on the development of the local home appliances sector.

One of the most attractive aspects of Hefei is its cheap and abundant labour supply. According to official statistics, the average wage of employees-in service in Hefei was 16,369 yuan per year in 2004. Although this average wage ranked No. 3 in inner Anhui province, it is much lower than the 30,085 yuan average in the much more prosperous Shanghai. In addition, the oversupply of labour in Hefei is historically well known (Anhui Statistics Bureau, 2005).

Since the reform of SOEs and privatisation, the number of redundant workers has increased continuously. The registered unemployment rate was 4.42 per cent in urban areas in 2004. As noted before, this account does not include the laid off and the migrant workers.

### **7.1.2 The Home Appliances Sector in Hefei**

Hefei was an important manufacturing industrial base in the planned economy period. Since the mid-1980s, many manufacturing factories have been experiencing difficulties. In order to promote local industry, the home appliances industry has been

selected to be prioritised by the municipal government. Partly as a consequence of local government support, some local home appliances factories have achieved very good performances in both production and marketing. These good performances reached a peak in the mid-1990s, when the white goods products produced in Hefei constituted 20 per cent of the market in China. Hefei was generally acclaimed as ‘the famous city of the home appliances industry in China’ (Xiong, 2005). Meiling and Rongshida Company enjoyed outstanding performance at that time. In order to recognise the two companies’ achievements, two main roads across the city were re-named after the companies – Meiling road and Rongshida Road - a unique occurrence among the provincial capitals at that time.

However, this good situation only continued for roughly one decade. By the end of the 1990s, the ‘star’ companies were, sooner or later, in difficulty. Attracting foreign or domestic capital was regarded by both top managers of companies and officials of government as a good method to keep their original leading status. Accordingly, many well known foreign and domestic home appliances companies were attracted to invest in Hefei. The majority of them entered Hefei by merging or taking over local enterprises. At present, the leading domestic companies, such as Haier, Changhong, Midea and Hualing Company, have completed the merging process and some further expansions in scale. For instance, after taking over a nearly bankrupt local TV set producer in 1997, Haier Group invested 1.6 billion yuan to set up the Haier Industrial Zone in Hefei. In 2004, its total industrial output value accounted for nearly 10 per cent of the total output in Hefei. It is significant that producers from other provinces are playing a key role in Hefei’s home appliances industry. In contrast, the role of

local companies is decreasing. In the following sections, I will describe one of the best-known white goods players – ChinaCo2.

## **7.2 The Development of ChinaCo2**

Starting as a small-scale SOE, through twenty years of development, ChinaCo2 is currently the top white goods player in China. Its history could be categorized into four stages.

### **7.2.1 The Beginning (1983 to 1986)**

Like the majority of the Chinese top refrigerator producers, the predecessor of ChinaCo2 was a small-scale state-owned light machine factory established in 1951. During the planned economy period, the heads of the factories were accustomed to producing and selling their products according to plans handed down from higher authorities. By the early 1980s, it had long been a poorly managed and unprofitable factory whose workers were on low pay. The main reason for its loss-making was poor sales. The factory had to borrow money to pay the 300 workers' wages. Under these circumstances, the Municipal Economic Committee appointed a new director for the factory. He had originally been a cadre in a government agency and was considered able to pull the factory out of its bad financial situation. With strong market consciousness and personal ability, the new director played a vital role during the development process of the factory over a period of twenty years and he is regarded as the *de facto* founder of ChinaCo2.

The first important decision of the new director was to stop producing the traditional unsaleable light machines and look for new products for the market. After a market survey, he believed that refrigerators would have a good future in the Chinese market. He submitted a proposal to the local government and asked for investment. According to the experiences of other refrigerator factories at that time, an investment of at least 6 million yuan was needed to build a production line. However, the high-level institutions of the city only loaned the factory 0.98 million yuan, as they doubted the future of refrigerators. In spite of different opinions among the managers, the director stuck to his opinion. Due to his experience of working in a government agency and a strong network of personal relations, he obtained another 0.7 million yuan loan. The first self-designed production line was put into operation in 1983. Then, again with the approval of the municipal bureau, the designation of the factory was changed from light machinery plant to refrigerator plant. The following year, output reached 3,008 units (Zhang J, 1997), which marked the beginning of refrigerator production in ChinaCo2.

At the same time, refrigerator production in China was booming alongside a dramatic increase in market demand. The factories in Beijing, Shanghai and Qingdao shared most of the market. The market share of ChinaCo2 was only 0.56 per cent in 1984. Facing the huge market demand, ChinaCo2's crucial task became to increase outputs and to expand production. In terms of the previous experiences, some managers suggested upgrading the self-designed production lines. However, the director advocated taking advantage of advanced foreign technologies. He signed a contract with an Italian company to import a production line with a production capacity of 15,000 units per year and high tension foaming machines, key equipment in

refrigerator production. The introduction of this equipment was regarded as the most important decision for the success of the factory.

In the mid-1980s, central command and planning still tightly controlled the white goods industry: to produce the products and enter the market, a company had to be authorized and certificated by the government. Central planning agencies calculated the overall economic balance and government agencies at different levels specified and transmitted orders on output and distribution to subordinate productive units through a hierarchical bureaucratic command. In order to control the scale of the white goods sectors, the Chinese Ministry of Light Industry introduced the regulation that only factories with licences could produce refrigerators. In 1985, ChinaCo2 was listed among the 42 factories with the special licence required, which meant that the factory could produce 20,000 refrigerators per year under the terms of the plan. The Light Industry Ministry promised to provide the factory with the required raw materials at government-controlled prices. By the end of 1985, output reached 23,000 units and 1.2 million yuan profit was gained.

Besides contacting government agencies in order to expand production and enter the market, strengthening management was another strategy at this stage. The first step was setting up a quality assurance system. The low quality of the self-designed production line and the shortage of quality awareness resulted in poor quality products that were unsaleable on the market. More seriously, in August 1985, the output failed a quality inspection by a team organized by eight central government ministries. The factory was required to stop producing and improve quality in a limited time. This punishment raised the quality awareness of all the managers. The managers drew up a

series of rules to improve quality. In 1986, the products passed the quality test of the relevant institution and came to be in great demand. Later, output reached 42,000 units and the company ranked among the top companies in the city in terms of turnover, profit and tax.

### **7.2.2 Expansion (1987 to 1992)**

The core of the reform of SOEs in this period was the further relaxation of the role of central planning and the increasing autonomy in decision-making granted to managers (Choe, 2000). As noted in Chapter One, the introduction of the contract responsibility system granted managers significant powers to run enterprises. Therefore, the 'central position' of the director in ChinaCo2 was strengthened further. Although the Party Committee and the trade union were theoretically important, in practice the director very clearly emerged as the most important figure in the factory.

In ChinaCo2, importing a foreign assembly line and further modifying the production line to meet consumer demand were the two most important tasks in this period. In order to expand production, importing modern refrigerator assembly lines was the easiest way for all China's white goods producers at that time. Nine production lines were introduced from the Italian Ariston Company alone. ChinaCo2 was one of the companies, commonly referred to as 'the nine brothers of Ariston', to import such a production line.

The large number of imported production lines led to over-production, which resulted in intensive market competition in China's white goods sector. In addition, almost all

domestic refrigerators were produced on imported assembly lines without modifications. The structure, function and models of the products tended to be the same. While the majority of manufacturers were enjoying expanding production, the director realised the importance of the market. In order to gain additional market share, the director suggested launching a market survey to understand the market demand. The survey showed that Chinese customers, especially residents in South China, were not satisfied with the current models designed by foreigners. The basic model had a large fridge with a relatively small freezer. However, the Chinese customers would have preferred a large freezer to keep meat for a long time and they were used to buying fresh vegetables and fruit every day: thus to them, a big fridge was useless. The managers decided to modify the production line immediately and to produce new refrigerators with big freezers. This correct market forecasting resulted in a big increase in sales. While the majority of the factories faced an oversupplied market, the supply of the new model refrigerators fell short of the demand.

In 1989, 0.15 million units were produced and the company was listed in the top 500 Chinese industrial enterprises. Furthermore, the brand grew in popularity and it became one of the five best known brands of Chinese refrigerator. During this time, they also tried to export, but the export performance was not as good as they had expected.

### **7.2.3 Diversification and Facing Losses (1993 to 2002)**

Two characteristics might be identified in this period: a diversification strategy and setting up a company group.

#### **7.2.3.1 Diversification Strategy**

In 1993, the output of ChinaCo2 reached 0.5 million units, and the company thus ranked number two among approximately seventy refrigerator manufacturers in China. Based on their good performance in refrigerator production and sales, the director started his 'forest project'. The reason for diversification was that the director considered diversification to be the universal law of world-famous home appliances makers. Air conditioner and washing machine production, in his view, should become the next two targets of the factory. In 1993, the air conditioner factory went into production. Again, a joint venture washing machine company was then formed in 1995. ChinaCo2 had a 75 per cent interest in the venture and an Italian home appliances company had the remaining 25 per cent. Besides the above mentioned new products, ChinaCo2 also invested in some other industries.

Up until the end of the 1990s, ChinaCo2 was one of the top four domestic refrigerator producers. It had over 200 sales offices located throughout China to provide coverage of almost all provinces and major cities. The company exported its products and expected to continue to expand the percentage of products exported. By 2004, the

number of exports reached 0.4 million units. Only a small proportion of these exports were under its own brand name. More than 95 per cent of exports used OEM methods. Faced with the oversupply of the domestic market, increasing export was critical for the company. The director of the marketing department stated:

Unlike Haier, our brand is not popular abroad, especially in developed countries. We need time to introduce our brand. By the way, OEM could reduce the risk and sales cost. In the near future, OEM will be our basic method in exporting.

In spite of the increase in exports, the profitability of OEM has been relatively limited. In addition, intense competition since 2000 has resulted in the reduction of profitability in the domestic white goods sector. The whole sector has entered a 'low profits period' (CLIA, 2002). The production and sales situations are worse than before. Moreover, serious problems have arisen from inside the company.

In the domestic market, the performance of washing machines and other products was not as good as expected. The director had to pay special attention to refrigerator production. Furthermore, the profitability of the OEM method was limited and good quality was highly necessary. Hence, as we shall see, tightening labour control became an important issue in ChinaCo2.

### **7.2.3.2 Setting up a Company Group**

From a macro viewpoint, Deng Xiaoping's tour of the south in 1992 strongly promoted Chinese economic reform and the 'market mechanism' was actively initiated. One of the important steps was to introduce a group company system (GCS)

and to transform the large SOEs into corporations. Through the reform, the SOEs were pushed to become completely market-driven, no longer being government workshops. After this transformation, the reform of SOEs entered a new period, named 'system creation' (Yuan, 2002: 41). Several large scale SOEs were required to set up group companies (*ji tuan gong si*) in order to realize a 'modern enterprises system'.

As a model of a successful SOE, ChinaCo2 was selected as a pilot company. Approved by the provincial system reform committee, and based on ChinaCo2, a group company was formed in 1993. In the same year, authorized by the relevant central government agency, ChinaCo2 was transformed to a listed company and was listed on the Shenzhen stock exchange, issuing 3 million yuan stock to the public. It was the first listed company on the stock exchange in the province. Hence, ChinaCo2 Group Company became a large-scale state-owned enterprise with diversified businesses in the 'forest' including home appliances, plastics, paper production, copper products, trading, hotels, and food manufacture.

Although the original intention of establishing a modern corporation system was to push SOEs to become market-driven, state intervention, has been taken on another, local form. During the process of setting up a company group, under pressure from the local government, ChinaCo2 had to merge with five small-sized factories with either excess debt or nearing bankruptcy. This undertaking was a big burden for ChinaCo2. Though the managers of ChinaCo2 knew the poor situation of the factories, they had to comply with the arrangements made by the government. In addition, the workers from the above five factories were not familiar with the strict control in

ChinaCo2. Under these circumstances, a series of regulations were put into effect in this period to strengthen the management.

In the 1990s, many medium and small-scale SOEs suffered financial hardship and most of them did not have the ability to sort out the situation. The State and local government had to bear responsibility for the factories and workers. 'If you are in difficulty, you'd better ask the Mayor to help you' was the common understanding of managers and workers at that time. To the local governments, arranging for factories with good profits to merge with factories with debt was normal practice, the so-called 'social responsibility of enterprises'. For instance, Kelon Company, a town and village-owned company, was led to merge with two home appliances makers by the town government (Watanabe, 2002). Haier Company, which was collectively owned, acquired several companies at the end of the 1980s (Bonnema, 2003). Neither of the above factories were state-owned enterprise, but to 'help' factories in bad financial situations was their unquestioned duty. As the head of a SOE, the director of ChinaCo2 had to bear unconditionally the responsibility of merging. In fact, these mergers under government instructions seriously impacted on ChinaCo2, which had to help the enterprises they merged with to repay their debts and organise their workers.

Theoretically, after finishing the transformation of the corporation, the company should have been more independent from the government. In reality, the listed companies were usually directly majority-owned by the group company, which in turn is directly controlled by the government (Watanabe, 2002), as was the case for ChinaCo2.

Ironically, the 'forest project' appeared a success. However, not all of the companies of ChinaCo2 Group performed as well as might be expected, especially concerning the sales volumes and the profits of the air-conditioners and washing machines, which had never been good. The over-expansion to other sectors impacted the competitiveness of the refrigerator business. The Annual Report in 2001 showed that ChinaCo2 lost 300 million yuan.

The group company was suffering from financial hardship, even worse than that of ChinaCo2. It was impossible for the group company to help ChinaCo2. Faced with this situation, the municipal government decided to intervene in the management of ChinaCo2. The General Manager was asked to retire before his contract expired and was offered a position as an economic advisor in the government: the Vice General Manager of ChinaCo2 was appointed as the General Manager.

Having had an exceptionally good period for roughly 15 years, ChinaCo2 was in difficulty. It was generally accepted by both the managers of ChinaCo2 and the officials of the municipal government that the ossified system of SOEs obstructed the further development of the company, even though reforms had been carried out for two decades. Some problems could not be solved by the SOE itself. It was also thought that privatisation would bring in much-needed external investment so that ChinaCo2 would have more capacity to operate in the competitive white goods industry.

#### **7.2.4 Privatisation (2003 to 2005)**

One distinctive feature of China's economic transition has been the government's gradualist approach to the SOEs (Giles *et al.*, 2006). As mentioned in Chapter One, since the early 1990s, small and medium SOEs were encouraged to shift to private hands. Later, some large-scale SOEs were further encouraged to transform their ownership. At this time, it has been popular to criticize the low effectiveness of SOEs. Privatisation was commonly considered as a strategy to save the enterprise.

Based on this background, the municipal government suggested that the ChinaCo2 Group sell some stock to an emerging company, such as a multi-national company or a leading domestic company. Accepting the suggestion, the officials of the State Assets Committee at provincial level and the managers of ChinaCo2 formed a special team to look for and investigate possible buyers. In 2003, ChinaCo2 announced that a 20.3 per cent stock share had been sold for 207 million yuan to an emerging private cooling appliances company. The SOE group company still held a 9.8 per cent share and was the second largest shareholder. The purchase was regarded as the biggest news in the Chinese white goods industry that year. Actually, ChinaCo2 was not the first large-scale ownership enterprise to be taken over by this very popular private company in this period. In 2001, it had taken over a top cooling appliances company in Guangdong. After the private owner became the biggest stockholder of ChinaCo2, it announced that it controlled two of the top four domestic cooling appliances makers and would set up a Chinese 'kingdom of cooling appliances'.

Though it encouraged the transfer of ChinaCo2 to private hands, the government has never openly and officially called this process “privatisation” (*si you hua*) and, indeed, has remained evasive about the term. The ongoing practice of selling SOEs is often described as ownership by people (*ming ying hua*). In my interviews conducted in ChinaCo2, all the managers avoided using the word ‘privatisation’.

In addition, privatisation in China has been carried out in opaque ways, with little regard to the principles of fairness and justice. The government has never made it an official national policy and no national legislation exists to dictate the process. There are only a few government guidelines, which are far from clear and whose enforcement is highly problematic (Chen F, 2006). The transformation of ChinaCo2 was just such a case. The negotiation was secret and only a limited number of key managers knew the details. All of the interviewees, including managers at different levels, claimed that they did not know about the process. A senior manager of a production department gave me a piece of his mind:

I don't think you could know the process of negotiation and the purchasing process in detail, even I knew very little about it. I advise you not to waste time. They would tell you that's a business secret.

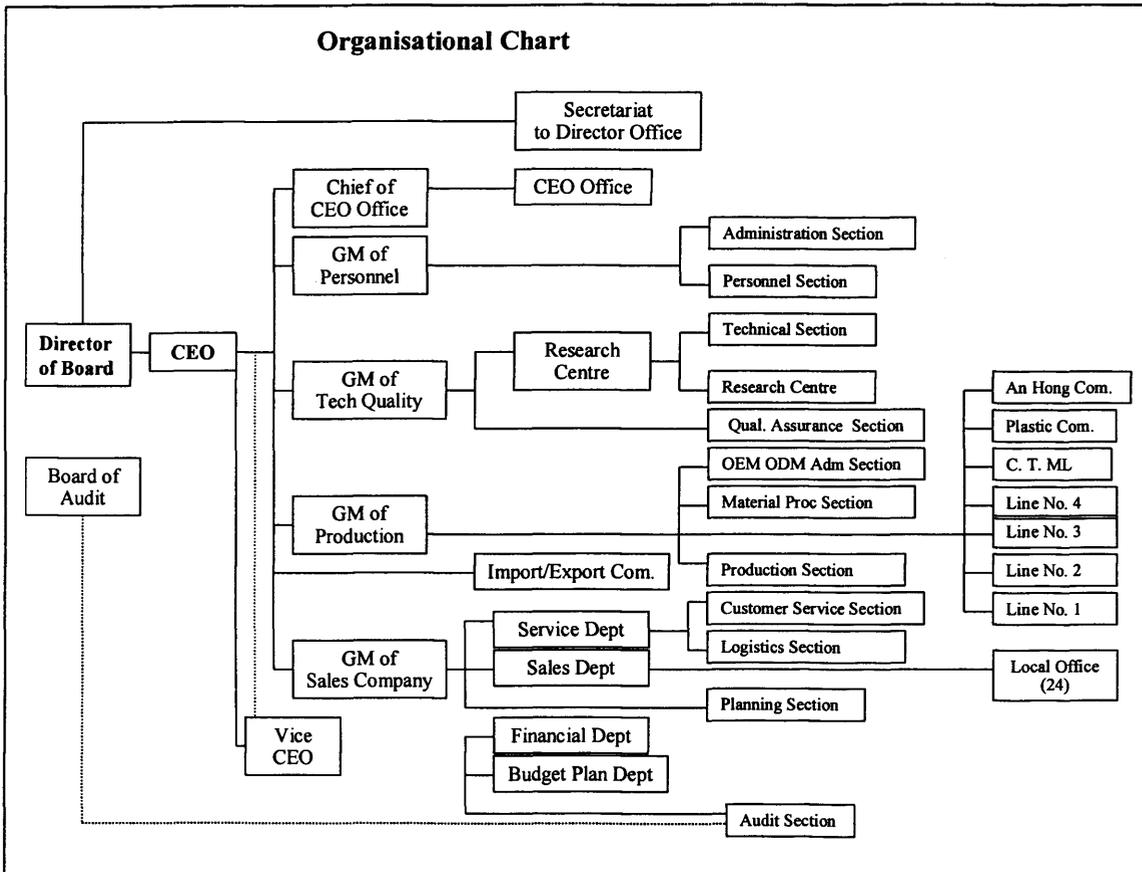
The workers also did not know much about the process of ownership transformation. All the workers I interviewed said that no one had given them any information concerning the privatisation. Only after the private owner took over ChinaCo2 did the workers know that the enterprise had completed the process of privatisation.

Many workers felt lucky that the private owners promised to keep them all on. During the downsizing of SOEs and ownership transformation, a huge number of workers lost their jobs, and this usually resulted in the workers protesting. Therefore, the maintenance of social stability was an important factor in all the workers being retained by the private owner. ChinaCo2 is located in a city centre and is only 10 minutes walk from provincial government buildings. This location made the enterprise very sensitive to the need to keep social stability. As early as in the SOE period, government officials asked the management of ChinaCo2 not to be too harsh with the workers and to prevent workers' protest. Preventing the workers from walking out or striking is one of the responsibilities of the managers, whether the director of a SOE or a private owner. A senior manager of the HRM department said 'If ChinaCo2 were in a suburb of Hefei, some workers might have been dismissed by the private owners'. Some workers also felt they were lucky due to the company's 'good location'.

After the private company took over, their first action was to clear the debt owed by the group company. As ChinaCo2 was one of the best performers in the group, the group company borrowed a huge amount of money from ChinaCo2. Without enough money to repay the loan, the group made over some land-use rights and the property of a washing machine company as compensation for the 837 million yuan debt. An additional 0.49 million square metres land-use rights were made over to ChinaCo2 for other debts. According to the 2004 annual stock market report of ChinaCo2, the procedure of transferring and changing the name of the owner was complicated, and it is still questionable whether the private company actually paid 207 million yuan for the stockholder's rights.

Based on his previous successful experiences, the new chairman of the board began his reform of ChinaCo2 in order to replace the traditional behaviour of an SOE with a complete market machine. The first issue was to reorganize the company's organizational structure in order to increase efficiency and install the same organizational structure as the other cooling appliances company that he had taken over (Figure 7.1). The other issue was launching a movement named "rectification" (*zheng feng*). This term comes from an ideological movement in the inner Communist Party in the 1940s. Through the rectification movement, all the Party members rectified incorrect styles of work and of thinking and willingly obeyed the Party's instructions. The private owner borrowed the 'old' word for his new company. His aim was that his employees would have the same ideology and obey him, and in addition understand deeply the meaning of high productivity and profit for the company.

**Figure 7.1 ChinaCo2: Organizational Chart**



However, the performance of the company after privatisation was not as good as expected. According to the Annual Report of ChinaCo2 published on the stock market, the company still lost 195 million yuan in 2003. The reason for the heavy loss was that the profits of the core business decreased seriously and the management cost increased significantly. However, the 2004 Annual Report showed that ChinaCo2 made good profits. It seemed that the ownership shift and the privatisation had succeeded. In reality, some information is not known by the public. According to a senior manager of HRM Department:

You couldn't believe the Annual Report totally. You know, that's the stock market with Chinese characteristics. In fact, the situation of our company in 2003 is better than that in 2002. The reason why the report showed a loss is that the new chairman would like to show that the profit in 2004 is much higher than that of the SOE. In this way, everyone has to admit that privatisation is the correct choice.

A surprising event took place, in the spring of 2005: the private owner was detained by the police. He was charged with embezzling funds from other enterprises and illegal transactions. In 2005, Changhong Company, China's leading TV set manufacturer, announced that it would purchase back ChinaCo2 two months later. Thus, ChinaCo2 finished a circle from SOE to POE and then back to SOE again. For both ChinaCo2's managers and workers, the future is extremely uncertain.

**Table 7.2 ChinaCo2: History**

Period	Years	Critical Issues Addressed
Predecessor	1951-1983	Small-sized SOE light industry factory with 300 employees. In the early 1980s, the factory was near bankruptcy.
Founding	1993-1988	A new director was appointed by municipal government. The first refrigerator was produced in 1984. Gained licences from Chinese Ministry of Light Industries.
Expanding	1988-1992	Imported production lines from abroad. Produced new model refrigerators and the outputs increased significantly. Set up joint venture industrial zone. Formed company group
Diversification	1993-2003	Invested in air-conditioner and washing machine company Re-organized the group company. Listed on Shenzhen stock exchange and transformed to state holding company. Became one of the top four refrigerator companies.
Privatisation	2003-2005	Taken over by private company and shift to POE. The new private owner was arrested. Purchased back by group company and transformed to SOE.

To sum up, the director continuously reformed the traditional SOE system for two decades, but it seems he failed in the end. Furthermore, an unexpected situation ended the privatisation process. In spite of the above, it is still clear that the role of market has been crucial during the process to transform the enterprise from a ‘government workshop’ to an independent corporation. Meanwhile, the intervention of local government is not ignored.

### 7.3 Basic Information Concerning ChinaCo2 after Privatisation

By May 2004, 2,383 contract employees (including 214 who had retired early, which are called 'nei tui') were employed by ChinaCo2. Approximately 450 were managers and management staff. Among them, eight were senior managers (one CEO, two vice general managers and five chief inspectors), 67 were middle-level managers and the others were junior managers and management staff. The number of technicians was roughly 150. Regarding the employees' gender, the proportion of female contract employees was 20 per cent.

**Table 7.3 The Age Groups of the Contract Workers**

Age groups	Below 30	From 30 to 40	Older than 40
number	764	673	946

**Table 7.4 The Education Levels of the Contract Workers**

Education level	PhD and master	Bachelor	Two years college	High school (including senior technical school)	Junior and primary school
number	13	301	432	1284	353

There were approximately 600 agency workers in ChinaCo2, more than 95 per cent of whom were male, with an average education level of junior high school. Most of them were below 35 years old. According to the head of the HRM department, the

management of ChinaCo2 was basically satisfied with the composition of the employees, except there were too many older contract employees.

With respect to production and marketing, continuing the SOE's strategy, the private owner decided to keep on expanding the scale of production and increasing output. ChinaCo2 would still concentrate on producing an economy model and expand the low-end market. The main market of ChinaCo2 is in the south-eastern part of China, especially in medium and small cities. Its brand is famous for its low price and energy efficiency. Currently, besides the key equipment imported from abroad, the assembly-line equipment has been made in China. Expanding production and increasing market share is their near-term goal. A new production zone would be operational in 2007, and they have announced that outputs would see a significant increase.

## **Summary**

This chapter has described the development of ChinaCo2 in the last two decades. It is evident that being market-driven has been the theme of the company's history, regardless of the type of ownership. From a small factory to one of the top refrigerator players, unequivocal market consciousness has played a key role in the development process, in which context the manager's personality at the foundation of ChinaCo2 cannot be ignored.

Some common features of the top domestic refrigerator makers have been discussed in this chapter. The majority of the top companies started from small-scale SOEs or COEs. The founders' personal abilities and foresight were indispensable in the early

stages: importing advanced production lines from abroad, establishing quality assurance systems, paying attention to meeting the needs of the market and strictly controlling the workers have been their basic strategies. Expansion, diversification, exportation and transformation into corporations have been common choices. Relatively, the division of ownership types is not significant, whilst the role of the market is crucial.

The chapter also examined the relations between the enterprises and the government. The role of the government in the enterprises, especially in the large-scale SOEs, doubtless exists, although the corporations are stated to be independent economic entities. In contrast to intervention in the planned economy period, the target of the government is for the enterprises to gain the highest profits possible in order to boost the local economy. In the same way as the entrepreneurs, the government officials have to behave in a market-oriented way.

The market-driven nature is very clear in ChinaCo2: the next two chapters will consider how this is realized and how its impacts on workers.

## **Chapter Eight**

### **Labour Control in the Production Process in ChinaCo2**

Since China's market-oriented economic reforms in the 1980s, the managers of SOEs have realized the importance of learning management theories and practices from Western countries. In parallel to the reform of the traditional systems, foreign management theories and techniques have been consciously imported into SOEs. For the directors and managers of SOEs, especially in large-scale enterprises, there are many channels for them to access international developments in management technologies, through the training courses held by government agents, from new managers just graduated from university business schools, through an increasing number of FDIs, and even from managers who have been abroad to visit and study. Since the 1980s, importing foreign management methods has been a symbol of a successful enterprise.

However, is there any difference between SOEs and FIEs during the adoption of the modern management methods? Were the traditional management concepts discarded? How has this introduction impacted on the workers? To answer these questions, this chapter examines the application of the new management methods in ChinaCo2. It also explores some 'traditional' methods still used in labour control. In order to understand the characteristics of labour control in ChinaCo2 in the market system, this chapter starts with the redistribution of the power in the factory due to the reforms.

## **8.1 Redistribution of the Power and Personnel Reform in the Factory**

### **8.1.1 Redistribution of the Power**

Prior to the reform, managers in SOEs were regarded as administrative cadres whose appointment and promotion were determined by the state (Ding *et al.*, 2001). The economic system reform resulted in one of the crucial characteristics of Chinese firms today being the overwhelming power of management to determine everything internal to the firms. Many researchers have found that managerial power was granted by the government through the implementation of a series of reform policies, especially the introduction of the contract responsibility system and the establishment of the modern enterprise system (Zhao, 1996; Ding *et al.*, 2001; Warner, 1999, 2002; Li, 2003; Cooke, 2005). Their analyses and conclusions are reasonable concerning the general background. However, when dealing with different industries like China's home appliances sector, certain distinctions are apparent. As one of the first sectors opening to the market, the managers were longing to gain real management power before the government granted it to them. This granting of power by the government to them was not common in the reform of the SOE system. However, there was not only one individual case in the Chinese home appliances sector: from the 1980s to the 1990s, several famous entrepreneurs (for instance, Zhang Ruimin, the head of current world leading home appliances players, Haier Group; Ni Runfeng, the director of China's top TV set manufacturer, Changhong Company; Xuan Guangzhong, the creator of China's top refrigerator factory in the 1980s, Yangzi Company) controlled the decision-making within the enterprises before the government granted them this privilege.

The same situation also occurred in ChinaCo2. A local government official was appointed as the director of ChinaCo2's predecessor by the municipal bureau. His background made it easy for him to control the decision-making in the small-scale factory. Furthermore, his close relations with the government agents increased this ability. Doubtless, he also had great personal ability. All of these factors resulted in the growth of his prestige, and his high status has continued for twenty years.

With more decision-making power, especially the right to appoint and dismiss mid-level managers, the director began to carry out a reform of the personnel system within the factory to raise the status of the managers. As the factory had started from a small plant, many ex-servicemen or experienced workers with limited education were promoted to become managers. Some had insufficient ability in management and some were only familiar with the traditional way of doing things. In order to speed up the reform, the director promoted some young persons with high educational levels to replace incompetent senior managers. Though the government called for promotion of cadres who were young and had professional knowledge, such full-scale replacement was not normal in SOEs in the mid-1980s. In addition, ChinaCo2 raised the entry qualification requirements for managers: a two-year technical college degree was regarded as the lowest acceptable qualification for a mid-level manager. Educational level has gradually become a crucial standard in promotion, which means that the workers have little chance to become managers no matter how outstanding they are.

Not only did the power held by the managers increase, but the role of the technicians was also strengthened. In the planned economy period, the workers in SOEs had enjoyed a 'leading class' status and the technicians had been regarded as 'number

nine' in the social stratum. The director gave prominence to the role of technicians and asked the workers to respect and obey them. He raised the wage level for technicians and provided opportunities with them to visit advanced cities. The reform brought about the revival of an emphasis on 'expertness', i.e., professional knowledge and expertise (Ding *et al.*, 2001).

The new stratification, namely the central status of managers and the important role of technicians, was formed and fixed in the early stage of ChinaCo2, earlier than that in the majority of SOEs. Again, in the Chinese home appliances industry, ChinaCo2 is not an individual case. For instance, Chinese researchers have claimed that the key factor in success of the Haier Group was the increased power of the managers, which emerged in the 1980s (Wang, 2002:11). The increased power of managers within enterprises provides favourable conditions for such managers to introduce new management methods to practice flexible marketing strategies and tighten the labour control.

When ChinaCo2 was taken over by the private owner, he emphasized the necessity for a more efficient decision mechanism. But the shift in ownership did not result in another redistribution of management: the private owner only wanted to modify things slightly based on the system that already existed in the SOE.

### 8.1.2 Personnel System Reform: the Managers

In parallel with redistribution of power, the reform of the personnel system of the managers and technicians also began. Strict control of the staff and junior managers is a characteristic of the labour control in ChinaCo2. Linking individual performance to job security and promotion was the main issue in the reform. Before the reform, the managers in SOEs not only enjoyed an 'iron rice bowl', but also an 'iron chair', meaning that a manager would not lose his position unless he was to make serious mistakes.

In 1986, the annual assessment system was first implemented to evaluate the lower and mid-level managers. Political attitudes, managerial skills, work attitudes and achievements can be summarized as the four basic standards used to evaluate the managers. A one-hundred-point scale was used to evaluate individual performance. If a manager did not meet certain standards, he would be reduced to a lower rank. By 1992, 32 managers were removed from office.

In 1993, a further two steps increased the speed of the personnel reform. Firstly, all the workers, staff, managers and technicians are now called the 'employees of ChinaCo2', replacing the division between the managers and workers (the senior managers are still in a separate system). Secondly, a new promotion system was implemented, namely, 'bid for post' (*jing zheng shang gang*). Under the new system, all employees have the right to bid for the senior and middle-level managerial positions. The competition process is required to be open and fair. The aim of the reform is to provide all the employees, including workers, with more chances to be

promoted, and furthermore, the company has more opportunities to select high-quality managers. In reality, workers have seldom been promoted through this system.

Stricter control processes were subsequently introduced. The five per cent elimination system was implemented in 1995. In terms of the new rules, 5 per cent of staff and managers in each department had to be eliminated per year. The individual performance of each employee was assessed and judged by their heads according to the exhaustive standards drawn up by the HRM department (the personnel department was renamed the Department of HRM in the early 1990s). Each department and workshop had to eliminate the 5 per cent of staff or managers who scored the lowest in the assessment. They had to move out of their post and entered the 'inner labour market'. The displaced staff's wages were reduced the next year and they had to undertake training courses. The Department of HRM helped them to hunt for a job within the factory. Normally, their new jobs would not be as good as their original jobs and their wage level would also be lower. At the end of 1995, the HRM department worked out a similar assessment standard for workers: combined with the inner labour market policy, this method was spread to all the employees in ChinaCo2 and has continued up to present.

After privatisation, the first important step of personnel reform was the further downsizing of the management. The 30 administrative sections were reduced to 18 and 150 staff and managers were made redundant, accounting for nearly one quarter of the total staff and managers. Many redundant staff had to move to the workshops. Staff members younger than 40 years old were sent to the production lines and the others went to the auxiliary shops. Such a large number of staff being reduced in rank

and all of them being sent to the workshops increased the insecurity of the employees. After the reduction in staffing levels, many junior managers had to take on several responsibilities and their workload increased. More seriously, all the employees were anxious about the next cuts.

## **8.2 The Introduction of New Management Methods**

As at ChinaCo1, the new director took over a small-scale and nearly bankrupt factory. There was no systematic management method. In addition, labour discipline was slack. Some workers even went out fishing during working time. In order to change the situation, borrowing foreign management methods and creating new management ideas were considered as the two important tasks.

In contrast to the German managers in ChinaCo1, the director of ChinaCo2 claimed to have doubted the benefit of directly introducing the foreign management techniques into China's enterprises and claims also that he was keen to create and carry out his own management methods, while also not completely rejecting the advanced foreign management methods. In fact, when we look into the core of his so-called 'self-created' management methods, we find their principles may well have evolved from Western management technologies. But the point is that the process of introducing modern management methods into ChinaCo2 was not systematic: the managers merely selected some 'useful' methods to sort out problems in the production process.

### 8.2.1 The Introduction of Total Quality Management (TQM)

Among the various kinds of modern management techniques, TQM might be one of the most popular methods in China's enterprises. It was introduced in China in early 1984 (Rui, 1997). TQM was one of the first foreign management methods introduced in ChinaCo2. Although TQM itself lacks clear definition, three component principles - customer orientation, process orientation and continuous improvement - are generally acknowledged (Nichols and Sugur, 2004: 94). Wilkinson *et al.* (1997, 801) further divided TQM into two versions, hard and soft:

'Hard' TQM concentrates on the tools and techniques and the systematic measurement and control of the work process, ensuring conformance to performance standards and the reduction of variability.

'Soft' TQM, on the other hand, places more importance on the areas such as increasing the customer orientation of organisation, training, teamwork, employee participation and cultural change.

In their research on several industries in Turkey, Nichols and Sugur (2004: 95) commented on TQM: 'there is no need to regard the 'soft' and 'hard' version as a simple dichotomy and in the Turkish case it would be something of a departure if the 'soft' form were to predominate'. This understanding of TQM fits absolutely the ChinaCo2 case.

The understanding of TQM held by ChinaCo2's managers was not very clear. Hence, the introduction of TQM in ChinaCo2 was not a complete and systematic process. At

the beginning, TQM was only used as a tool to improve quality. Although the concept of TQM was known by managers and some workers in the late 1980s, the widespread introduction in ChinaCo2 was from around 1992. The General Manager announced that 1995 would be the 'Quality Year' of ChinaCo2 and he required that the activities during the 'Quality Year' should be associated with ISO9001 certification.

As the director was deeply interested in 'creating' management ideas, he combined the basic theory of TQM with some of the characters of the refrigerator industry, and a 'unique' 3 - dimensional (3-D) management model was promoted in 1995. A brief explanation of the 3-D model is that everything should be controlled by different level managers. The three dimensions refer to employees, equipment and all events. The basic principle is 'act as we write, write as we act', which means everything should be done according to the regulations. In order to ensure that the 3-D model worked, the daily clearing routine was carried out. Accordingly, all the heads of management and production sections, including production teams, had to fill in a 'daily clearance form', which included data concerning quantity and quality, problems and the way to sort them out. If a problem could not be dealt with immediately, a solution had to be written on the form. The head of the company examined the forms at the end of the day and gave a comprehensive evaluation, the results of which were then submitted to the managers of each division. The evaluation results were linked with the employees' pay.

As explained by a manager, one of the targets of 3-D management was to encourage the workers to participate in management and to make everyone responsible for

producing quality goods. Such an idea was not familiar to the workers. A worker made clear:

I could not remember all these new words. I am also not interested in participating in management. The only one thing that I am very clear about is that on account of the implementation of these new ideas, we have to be very careful during the production process: you might be fined even for a little mistake.

The 3-D model influenced ChinaCo2 for a couple of years until the director retired, and the three component principles of TQM were not completely introduced. Even so, it is evident that, despite the 'soft' rhetoric about participating in management, the 'hard' rhetoric was that workers clearly controlled and liable to punishment.

Similar management methods were also implemented in other Chinese refrigerator companies during the same period. For instance, Haier Company introduced the OEC (overall everyone control) management control system in 1995, which enforces firm work rules and discipline: every employee has to accomplish their work target every day, and the aim is overall control of everything so that every employee finishes in his job every day, with a 1 per cent increase over what was done the previous day (Lin, 2005). In order to make the OEC system work, a '3-E (everyone, everything and everyday) card' is required to be filled in by each employee every day. Each supervisor examines and evaluates the 3-E cards and rewards or punishes the employees in terms of this evaluation. The manager of Haier claims that OEC system arose from the basic theory of TQM.

In sum, both ChinaCo2 and Haier Company used 'hard TQM' and the core of their management methods was complete control of the production process.

### **8.2.2 Total Productive Maintenance (TPM) and 5S**

In order to gain high productivity, TPM was introduced in ChinaCo2 in the early 1990s. At that time, a competitive situation among several top domestic white goods players began. The technical level of these enterprises was almost the same: key equipment had been imported from Western countries and the standard equipment was made in China. There were also no big differences in the market prices of their outputs. Hence, the quality of the products was regarded as the most important factor in increasing the market share.

In 1991, a head of a workshop put forward the idea that improving the quality of workers and keeping the quality of the equipment were equally important in the production process. He suggested that TPM should be introduced. The General Manager accepted his suggestion and appointed him to take charge of this work. Theoretically, TPM includes a complete operation system. The core point of TPM was to require all of the workers, including both operators and maintenance workers, to take responsibility for the maintenance of the equipment. However, in ChinaCo2, as with the introduction of TQM, only some points of the system were accepted.

After the application of TPM, keeping each machine running smoothly was an essential part of every worker's job. The maintenance workers suffered a greater level of stress because a stoppage of the assembly line would result in punishment. Many

maintenance workers had to work on Sunday in the busy seasons because the machines were fully occupied during workdays and Saturday. A head of a workshop told me:

Originally, the maintenance workers' job was relatively relaxed. If the production lines kept running, they had nothing to do. They got together to chat sometimes. After the application of TPM, they had to pay more attention to the operative maintenance and their work became stressful.

The workers on the production lines were required to maintain and clean their equipment themselves. The self-maintenance programme under TPM doubtless intensified the production workers workload.

Two years later, the initiator of the TPM programme resigned from his job. ChinaCo2 did not arrange for another manager to take up his job and the programme gradually ended.

As a continuation of TPM, 5S has been carried out in ChinaCo2 since 2003. When I visited the factory, many slogans could be seen in every workshop. The workers were required to keep the workplace clean and in order. The head of the production department was in charge of the implementation of it. He was the initiator of TPM programme. Having worked in a FIE in Guangdong for some years, he had gone back to ChinaCo2 to hold the post of the director of the production department. He still believed the application of TPM and 5S would be of benefit to the company. At the same time, he also admitted the result of practicing 5S was not as good as had been expected:

I know that 5S is also applied in ChinaCo1. To be honest, comparatively speaking, the result of the application of 5S in ChinaCo1 is better. This phenomenon shows the difference between our two companies. The appliances of modern management techniques in ChinaCo1 is a systematic project. It took about ten years to replace the SOE's traditional behaviour with the German management methods. We were in the SOE system for more than fifty years. Although the company had finished restructuring (*gai zhi*) and had just finished the ownership transformation, the traditional concept and behaviour still impacted ChinaCo2 seriously. With respect to the introduction of modern management techniques, personal factors rather than regulations play the key role. Take the application of TPM as an example: the effect was OK when I was the leader of this programme. It became useless immediately after I had left the post.

More than ten modern management methods have been implemented over the last twenty years. Some were borrowed from Western management theories and some were self-created. Some management ideas were rewarded by government agents. In reality, from the viewpoint of the outcome, we cannot match ChinaCo1.

With respect to the workers, he continued:

The workers' workload is not heavy enough. The workers are passive and unwilling to accept new management methods. As managers, we have to require the workers to obey. From my personal view, the most effective methods are monetary punishment and the managers having the right to sack workers.

### 8.2.3 Quality Controls (QCs)

'Quality is our life' or 'Quality is the soul of enterprise': such slogans can be seen in many of China's enterprises. In ChinaCo2, quality control has been a crucial topic for both managers and workers for more than two decades. With the setting up of the quality assurance system, QCs were introduced in 1984, when a special office was formed. The director was the leader of the QCs office and the members included some technicians and the heads of workshops. In order to educate the workers, several training courses were held and 90 per cent of the workers were required to participate in the courses.

After 1990, QCs were replaced by a so-called self-created quality control method, namely a 'bidirectional quality assurance system'. The meaning of 'bidirectional' is that the managers tested the quality of the products in each step of the procedure in terms of important indications announced by the quality inspection department. The defective product costs were recouped through fines, whilst the workers had the right to refuse poor quality raw materials and defective products from the first step. The aim of this system was to ensure the quality of materials and motivate the workers to participate in management.

In 1992, soon after the application of the bidirectional quality assurance system, the concept of 'quality chain' was put forward in ChinaCo2. The whole production process, from design, production, and sales to after-sales service, was regarded as a chain. Each link was required to be checked very carefully. If any mistake was found at any point, the employee working at that point was fined.

Although QCs, the ‘bidirectional quality assurance system’ and the quality chain played a certain role in improving the quality of products, harsh punishment was more important. In order to implement the QCs, regulations were published at the same time stating that the highest punishment for defective products should be a fine of an amount up to 60 per cent of the workers’ bonus. In the following year, the punishment level was raised. The monetary punishment has been widely regarded as a useful tool to implement management methods and improve production by the managers.

In an interview, an old worker could not remember the content of the QCs. In contrast, however, he clearly remembered that he was fined 50 yuan for a defective product, the amount being equal to one week’s wage. After 1996, the head of a workshop was granted the right to decide the level of fines in terms of the quality assurance regulations governing the technical evaluation standards.

In the interviews, many workers complained that the evaluation standards were too harsh. Especially after privatisation, the degree of punishment became more serious than before. Besides fines, the punishments might affect job security. If a worker was fined or warned more than three times, he might be asked to leave his post and shift to the ‘inner labour market’, in reality, the same as being ‘laid off’. A head of a production team stated:

When we were in the SOE, ChinaCo2 was famous for its stringent regulation of the workers in our province. Since privatisation, more stringent regulations have continuously been applied. A worker has to be fined for each defect, such as being late, defective products, not keeping his post clean. No one can get 100 per cent of the flexible part of his wage.

When I was in school, the teacher told us that the capitalists used the 'carrot and a stick' method to manage the workers in Western countries. Currently, why is there only a whip in our enterprise?

### **8.3 Quota Increase and Cost Control**

Quota increase is common in China's white goods sector, especially since finishing the technological updating by importing advanced equipment from abroad. Cost control is also widely adopted. Since the end of the 1980s, the profitability of white goods companies has been limited. Facing market competition, the main strategies of ChinaCo2 are to expand production capacity and reduce cost.

The maximum designed production capacity of ChinaCo2 was 1.3 million units per year. However, by the end of 2004, output reached 1.42 million units. The increased output mainly relied on overtime working rather than increased quotas. In the last two decades, the management of ChinaCo2 has tried many ways to increase productivity, but they have not yet achieved a great deal of progress. How to improve the efficiency of production is an urgent problem.

In ChinaCo2, quantity and quality are controlled separately. With regards to quantity, the production department assigns output to the workshop each week in terms of market demand. If a workshop does not fulfil its quota, the wages of the whole workshop will be reduced. Accordingly, the head of the workshop assigns duties to each production team and uses the same punishment method.

Relatively speaking, the workers' workload is not as heavy as that in ChinaCo1. The managers of the production department admitted that the gap in productivity between ChinaCo2 and some foreign investment enterprises was significant. In 2002, in order to improve efficiency in the production process, ChinaCo2 invested much money to invite experts from a China's leading university to launch a project, namely 'adroit manufacture'. The managers hoped this project could tackle the problem of low productivity. Unfortunately, the project was announced to have failed at the end of 2004 due to the 'super-advanced theory' not working in practice. The failure of this project delayed the speed-up and quota increase. The manager of the production department stressed that the productivity must be improved:

In recent years, I have visited some famous foreign invested cooling appliances factories, such as LG and Siemens. The quota of these factories is much higher than that in ChinaCo2. We should raise our quota soon.

Cost control is another important issue. Economy model refrigerators have been ChinaCo2's main products since it became a leading company. The profitability of such kinds of refrigerators is very limited. Special attention has been paid by the managers of ChinaCo2 to reducing cost. The management of ChinaCo2 worked out their first regulation about cost control in 1987. Since then, costs have been linked with the workers' bonuses and wages. Roughly ten years later, along with being continuously upgraded, the model of 'cost control through science and technology', which was created and named by the director, is still implemented in ChinaCo2.

In 2000, the average profit of China's white goods sector was only 4 per cent. Though the price-cutting war did not seriously impact the refrigerator market, it is impossible

to gain profit through increasing price. Using for reference the ‘model of Handan Iron and Steel Factory’, a famous example of cost control in China, and combining the characteristics of refrigerator production, a new model arose in ChinaCo2. Its unique feature is explained as the very good combination of technical innovation with cost control. There are three key points in this model: first, the definition of cost control is expanded to the whole process of design, production, sales and after-sales service. The target is to reduce costs in each link in the production process in order to increase profits. The second point is to mobilize all the employees to join in. The director believed that once all the employees participate, the target must be reached. The assurance rules and the inspection standards have been upgraded and the requirements are stricter than before. The third key point is the most important. It directly links cost control with each employee’s income. A ‘list of compensation’ is used in the company. The workers are asked first to check their cost themselves. If a worker fails in an operation and thus increases the cost, he should be fined. In order to remind the workers to pay attention to cost control at all times, a poster has been placed on the workshop wall, ‘If you want more money, please reduce cost’. Despite slight adjustments, the basic structure of the model continues to the present.

Many workers I interviewed reported that they always feel tense during the production process and worry about the fines. ‘Any mini cost increase of the product might be fined. But I am not a robot’, a young worker complained. In contrast, the managers still consider the punishments not to be serious enough. According to a director of the production division:

It seems that the regulations of the ‘cost control through science and technology model’ are very strict on the workers. In practice, the fine is not always as high

as the regulations. For instance, a head of production line reported that a worker destroyed some accessories worth 1,000 yuan due to his carelessness. According to the rules, the worker should be fined 1,000 yuan. That's impossible. If I fined him according to the rules, he would have no income for a month. I only fined him 60 yuan.

It is obvious that the above management methods in ChinaCo2 are similar to the Fordist management method that treated workers as merely an appendage of the production apparatus. But a pronounced Chinese characteristic is that failure to all as such means directly suffering through fines.

## **8.4 The Control of Working Time**

Controlling the working time was an important content of labour control after the refrigerator production. Due to the productivity of ChinaCo2 not being as high as the management expected, the control of working time became a crucial issue in the labour process.

### **8.4.1 The Control of Work Attendance**

In order to strengthen labour discipline, '22 rules' were worked out by the management in 1983. The principle was to link individual performance to monetary punishment, and these punishments were serious. For instance, in 1984, a head of a workshop was fined one month's wages and a worker was sacked. Based on the rules, 'the system of checking on work attendance' was published in 1987 and timecards

were subsequently used. A list of the names of those arriving late, leaving early and who were absent was posted monthly at the main entrance of the company. Since 1989, the employees' attendance has been linked to their monthly bonus. In 1994, 'the regulation of employees' work attendance and requests for leave' was formally implemented. This regulation has been used up to the present with only a few adjustments concerning some items. When the regulations came into effect, it became more difficult for the workers to ask for leave. In particular, since the end of the 1990s, the number of workers on the production lines has been gradually cut. Because of the cutting down of staffing levels, the current staff shortage is significant. The rules of ChinaCo2 at company level specify that 70 yuan should be deducted from the wages for one day's sick leave and 100 yuan for leave of absence for private matters. This is the minimum standard and the directors of workshops have the right to draw up their own deduction standards. Normally, the standard deductions implemented by the workshops are higher than required by the company regulations. The average wage of the workers is 1,000 yuan per month. Under this standard, the workers have to put up with less serious illnesses and do their best to avoid asking for leave.

#### **8.4.2 Flexible Working Time and Overtime Working**

Like other cooling appliances companies, the workers on the production lines work in one shift in the low seasons and in two shifts in the busy seasons. In the plastic-box workshops, the workers work in three shifts. Compared with ChinaCo1, the management of the working time in ChinaCo2 is not as tight and meticulous. For instance, the German managers in ChinaCo1 require the workers to enter the workshops half an hour before the time they are due and prepare for the operation.

The production lines must start at the appointed time. In ChinaCo2, the eight working hours include preparation time. The workers are required to enter the enterprise at 8 am and prepare for about 20 minutes. The assembly line starts at 8:20 or later. The enterprise provides free lunch for the workers and the workers have a half-an-hour lunch break. During the eight working hours, there are no other breaks. The heads of production teams replace workers who go to the toilet or have a drink of water.

In ChinaCo2, there are two kinds of overtime working. One refers to work over weekends and public holidays in the busy seasons: the enterprise pays the workers overtime rates for this work. The other kind of overtime working refers to the extension of working hours on weekdays: the workers are not paid overtime rates. The workers are dissatisfied with the long periods of flexible working time, especially with no overtime rates being paid on weekdays. The director of the production sector explained:

In terms of our production plan, there is normally no need to do overtime work on weekdays. This kind of overtime work is always due to management or logistical problems. The workers have to take time to wait for materials to be provided. I admit it is the fault of management rather than the workers. However, the workers don't work during this time. They only gather to chat and wait for the materials. Hence, it is reasonable that the company doesn't pay them for this time.

The special words 'big pitched battle' (*da gan*) (pooling all resources to complete a certain project) have been used in the busy seasons in ChinaCo2 for a couple of years. After the change in ownership, this method has been retained. For instance, from June to October 2004, the workers on the production lines worked 11 hours a day and 6 - 7

days a week and there were workers on shift 24 hours a day. The workers only had one day's rest per month during the 'big pitched battle' period. The company paid the workers overtime wages. However, the workers were not willing to work overtime. They complained that the work time was too long and that they had no time to do housework or to look after their children.

After privatisation, ChinaCo2 changed the procedure used to create its production plan. The number and the types of products are decided by information provided by the marketing department. Production is according to a weekly plan rather than a monthly plan, namely 'flexible production'. Due to the limited level of management, the production department is always notified very late of the dates when overtime is required. The workers often do not know whether they are required to work over the weekend until Friday afternoon. The workers have made several complaints about the 'flexible production', but no improvement has occurred. On ordinary days, the workers avoid asking for leave for private business and the weekends and public holidays become very important to them. Hence, the workers particularly resent the 'flexible production', which means that they do not know when their rest days will be, this finally resulted in the workers' walk-out on the National Day in 2004.

The National Day, on the 1<sup>st</sup> October, is accompanied by a seven-day public holiday. The workers would usually use the time to have parties, visit relatives and travel. A head of a workshop gave notice to the workers on 30th September that they had to do overtime on the National Day and did not allow the workers to ask for leave. This behaviour enraged them. On the morning of National Day, some workers closed the workshops' main entrance and called for the workers in other workshops to join them

and walk out. Approximately 400 workers walked to the provincial government building on National Day. The event shocked the officials of the government and the senior managers. After the event was calmed down, the head of the workshop was dismissed from his post. Two organizers of the walk-out were required to leave their workshop and other posts were arranged for them. Each worker, no matter whether he joined the strike or not, was required to attend the 'rectification movement'. Besides attending the meetings hosted by different management levels, the staff from the management departments interviewed the workers one by one. They were required to promise orally and in writing that they would obey the company's rules and would not join another strike. The workers were warned that if they joined a strike again, they would be punished. The Party Committee and trade union was criticized by the general manager. Despite the managers admitting that they should be held responsible for the strike, they are still keen on 'flexible production'.

## **8.5 The Response to Control**

As far as the effectiveness of the introduction of Western management techniques and the application of so-called self-created management methods are concerned, the results are controversial. Comments coming from newspaper reports and senior managers are generally positive. Both foreign and self-created management methods are regarded as playing important roles in the production process. At the same time, it is a common view among senior managers that more foreign management techniques should be adopted in the workplace.

The workers and some junior managers feel the opposite. For instance, none of the interviewees could clearly explain the meaning of the 3-D model despite many managers and workers knowing the name. Further, the majority of the workers I interviewed knew little of the management methods that the company has implemented in recent years. As a middle-aged worker put it:

My educational level is limited and I am not interested in it. What I should do is to follow the head of the production team and the requirements of all kinds of regulations. Otherwise, I will be fined.

A manager expressed his feelings as follows:

This is a common defect of SOEs, particularly the large SOEs with good performances. The director and senior managers have realized the importance of management in the market mechanism. Some are keen on learning directly from Western management techniques. Some are deeply interested in 'creating' new methods, such as the director of our SOE. The key point is how these methods work, no matter where the management methods come from. The problem in ChinaCo2 is that it is not easy to keep the new methods working for a long period. For instance, you asked me to explain the 3-D model in detail. It is a pity that I could not remember it at all. We have too many new ideas: never mind the workers, I do not know all of them.

After the private owner took over ChinaCo2, he was basically satisfied with the management, but emphasized that some management methods should be upgraded, as the regulations were too general to operate, especially concerning the workers. He said,

I promised to keep all the workers' jobs and not sack them when I took over the enterprise. Since it is so, they should be under my control. Both employer and employees must have a clear consciousness. All of us are in the market. No market, no anything.

Almost all the managers I interviewed expressed the same point: in respect of the introduction of modern management methods, there is no division between the two types of ownership.

With regard to the workers' responses, the above management methods made the work much more stressful. I asked the workers the same question that I asked in ChinaCo1: 'Could you work at the pace of your job until you are retired?' The responses to the question are same. Many workers said that although the work is harder than before, they would currently like to keep their jobs. Two unforeseen factors worried the workers: whether the speed-up would increase continuously and the labour control become stricter till it was not bearable; and whether the company would let the workers take early retirement.

The fear of unemployment is the most important reason for the workers not being able to escape this control. For the majority workers in ChinaCo2, other employment opportunities are limited in the city. In addition, the severe management methods have been widely implemented in various types of enterprises. As a leading refrigerator enterprise, the labour control in ChinaCo2 is, comparatively speaking, reasonable.

The other reason comes from the relatively good pay, which will be discussed in detail in Chapter 9. In recent years, despite the profit of ChinaCo2 not being as good

as in the 1990s, the workers' wages have been higher than the average income in Hefei. The managers have always claimed that the high income comes from the implementation of modern management techniques. The workers also believe that, in this respect, they are benefiting from these management techniques.

Being workers in a large-scale enterprise that has maintained good performance for two decades, they are used to depending on enterprises. This strong dependence was not reduced even after the ownership transformation. In addition, the workers' limited individual capital and lack of competitiveness in the free labour market has increased their dependence. Hence, they have to accept the intensified labour, as they have no other choice.

## **Summary**

This chapter has explored the process of the redistribution of the power in ChinaCo2. It has shown that the double influences coming from the State and the director's personality enhanced the management powers. The 'central statuses' of the managers and the decline in the status of workers provided the foundation for setting up the new factory regime.

This chapter has described the application of new management methods, both imported from Western countries and self-created. During the process, the top management in the SOE played a dominant role and the private owner subsequently kept his methods and made them stricter. From this point of view, there is no significant difference under the two types of ownership. Under the market system, the

application of modern management techniques and abandoning traditional behaviour were common element.

Beyond any doubt, this application resulted in the increase of productivity to a certain degree. However, it has been seen that the introduction of foreign management methods in ChinaCo2 was not a systematic project. Hence, the results are varied: some methods achieved good results and some were suspended. It seems that ChinaCo2 overall is in the early period of the introduction of modern management techniques. The management level is still limited.

We might conclude that there are common basic ideas in the various management methods - for instance, TQM, TPM, 5S, QCs, the 3-D model and cost control system - no matter what fashionable names they have or where they are from. One of the basic characteristics of these methods is to link the employees' performance with their income via different ways and to control the workers in all dimensions. Labour has been intensified and performance linked to monetary punishment. In general, the workers have accepted these management methods as a response to the harsh employment environment.

The following chapter will analyse the material support and contract system, in order to further the understanding of the factory regime in ChinaCo2.

## Chapter Nine

### Contract and Material Support Issues in ChinaCo2

As discussed in Chapter 8, it seems that although ChinaCo2 is in the early stages of the adoption of modern management methods, the use of some management techniques is already underway. At the same time, ChinaCo2 has undergone change with respect to two other issues affecting the factory regime, contracts and the material support system. The managers have given up almost all the traditional systems formed in the planned economy period and have tried to set up a series of new contract and payment systems in order to meet the demands of the market economy system.

As a SOE, the reform of ChinaCo2 has followed the adjustment of the state's macro-policies, such as the *hukou* system, welfare system and free labour market policy. Meanwhile, some stricter control systems have been implemented within ChinaCo2: the latter are regarded by top managers as successful.

In this chapter, I first explore the different types of workers who exist at ChinaCo2 due to the different recruitment policies in the different periods. Then, focusing on the reform of the contract system, I shall look at the new employment system and the impact on the workers. I also examine changes in material support and explain how the payment system has tightened labour control.

## **9.1 The Reform of the Employment System within Enterprises**

At present, the workers in ChinaCo2 are divided into two cohorts in terms of different contract types and recruitment methods: regular and agency workers. The distinction between these two groups of workers basically comes from their different '*hukou*'. Most regular workers are from urban areas whilst agency workers are from rural areas.

Due to the *hukou* system, all the workers in ChinaCo2 who were recruited before the end of the 1990s came from local urban areas. Currently, these workers are called the regular workers. Therefore, the reform of the employment system, begun in the 1980s, has specifically affected this group of workers. As far as the agency workers are concerned, they are the outcome of the free labour market and the increase in the flexibility of the *hukou* system. They have almost no relations with the traditional employment system.

### **9.1.1 Employment Reform: the Regular Workers**

The employment reform within ChinaCo2 was carried out in 1984. After ten years, the director announced that the employment reform in ChinaCo2 was completed. The core of the employment reform within ChinaCo2 has been the introduction of a flexible employment system replacing the rigid permanent system.

ChinaCo2 began its employment reform much earlier than the reforms carried out by the State. As early as 1984, the director announced that he had been granted the right to sack workers who broke the labour rules seriously and refused to mend their ways despite repeated admonitions. Prior to the mid-1980s, dismissing workers had been of

little significance in China. A few workers complained to higher authorities about this new right to sack workers, but to no avail. The director insisted on publishing and implementing the policy. A member of the trade union staff said:

Normally, unless a worker was arrested by the police, he would not be sacked by SOEs in the planned economy period. The director asked the personnel department to work out very serious punishment regulations to control the workers. Later, he asked the Workers Congress to agree to him enjoying the right to sack workers. He claimed “Since I have no right to recruit and select good workers outside the factory, I need the right to sack the bad ones internally. Otherwise, I have no way to manage the workers.”

In 1985 ChinaCo2 began to use the labour contract for the new workers who registered after 1984. Therefore, it is much earlier than its implementation nationwide, and is thus regarded as the ‘formal beginning’ of the employment system reform within enterprises. The basic principle of the reform in this period was ‘one factory, two systems’ (*yi chang liang zhi*). The workers were divided into two groups: the workers who registered before 1984 still enjoyed permanent jobs. The new recruits registered after 1984 were required to sign a two-year labour contract with the factory. They no longer enjoyed lifelong jobs and some welfare benefits, such as free housing and medical care.

Various policies were introduced to control the workers separately. The so-called ‘dual system’ was summarised as ‘new policy for new workers, old method for the old workers’. For the permanent workers, an ‘unemployment system within the enterprise’ (*nei bu dai gang*) has been adopted since 1986. It was called ‘inner labour market’ by ChinaCo2’s managers. If a worker seriously broke the labour regulations,

he would be asked to leave his current post. The company provided a certain period for him to hunt for a new job within the factory. The period of 'waiting for a job' (*dai gang*) was six months and the wage was decreased gradually each month. When the deadline expired, if he could not be recruited by any unit, he would be sacked. During this period, a certain percentage of basic wage was paid. This policy has been used up to the present. As against this, the contract workers were required to obey the regulations: if they disobeyed the rules, their contract would not be renewed.

The overall labour contract system (*quan yuan he tong zhi*) was implemented in ChinaCo2 in 1995 and all the workers were required to sign a labour contract. Since then, the 'one factory, two systems' principle has been replaced. All the workers were required to conclude labour contract with the company. Furthermore, ChinaCo2 regulates its workers more tightly than does the Chinese Labour Law: it closely links the workers' job security with their individual performances, which is regarded as an effective method to control the workers. The management worked out a series of regulations concerning various aspects to evaluate workers. The managers continuously threaten the workers, stating that if their performance is not good enough, their contract might not be renewed.

More harshly, there is no open-ended contract awarded to workers in ChinaCo2, no matter how long their service: there is now only a one-year contract. At first, ChinaCo2 followed completely the Chinese Labour Law. The workers who had worked in ChinaCo2 for more than 10 years could conclude open-ended contracts with the enterprise. The others signed fixed-term contracts, normally of one to two years. However, in 1997, the director of the company announced that in order to

deepen the reform, all kinds of contracts, including fixed-term and open-ended contracts, were annulled. All of the workers re-concluded one-year contracts, regardless of their age and years of service. This method was opposed by some older workers, but the new one-year contract system was eventually brought into effect. This is explained as a good method to awaken the workers' 'sense of job crisis' - meaning that no one can expect a permanent job. As a senior manager of HRM department put it,

We need to compete with large domestic enterprises and the world-famous multinational companies; competition is very fierce in this sector and so our management should be strict.

Concerning the aspect of the workers' job security, it is believed that the most effective method to control the workers is by being more flexible and issuing shorter contracts: 'Only when the workers understand completely that they have no job security, will they work hard and be easy to manage', the senior manager continued. All the managers I interviewed explained that the employment reform has no relation with the type of the ownership, but close links with market competition. Even if ChinaCo2 had not been taken over by the private owner, the employment reform within the SOE would have continued.

From 1995, ChinaCo2 recruited many migrant workers as seasonal workers. From that time, ChinaCo2 distinguished between regular (contract) workers and temporary (or migrant) workers. The temporary status specially referred to migrant workers because most of them come from the countryside without city *hukou*. From 1999, all migrant labourer recruitment work was shifted to a labour agency and all migrant

workers were called agency workers (further discussion in 9.2). This increased flexibility of workers' contracts over the period of two decade, can be seen in table 9.1

**Table 9.1 The Changes in the Employment System in ChinaCo2**

System	Life-long employment system	Two-tiers system	Contract system	
Year	Before 1984	From 1985 to 1994	1995	After 1995
Type of workers	Permanent or fixed workers	Dual system Permanent workers (registered before 1984). Contract workers (registered after 1984).	Implementing overall labour contract system in 1995, included open-ended and fixed-term contracts.  Recruited migrant workers from 1995.	All employees are contract workers. Company signed one year contract to all workers in 1997.  Migrant workers changed to agency workers in 1999 (discussed later).

### **9.1.2 New Employment System: the Recruitment of Agency (Migrant) Workers**

White goods factories were not among the first industries to open to job seekers from rural areas during the reform years. However, since the late 1990s, an increasing number of migrant (peasant) workers have joined the industry. As can be seen in chapter 3, this period is the one in which Chinese white goods industry experienced a period of fierce market competition while finding it increasingly important to reduce costs, including labour costs.

#### **9.1.2.1 The Definition of Agency Workers**

In recent years, the increasing use of contingent work has caused extensive debate among academics and practitioners in the west (Bergstrom, 2003: 1). The most widely applied definition of contingent jobs includes all jobs that are of uncertain duration (Lautsch, 2002; Bergstrom, 2003). Bergstrom further claimed that 'this includes employees working on limited duration contracts or working through temporary work agencies'. Saving and reducing labour cost is the basic reason for the increase in firms recruiting contingent workers. The use of flexible work is undoubtedly to the benefit of the employers. To achieve cost savings, management tries to hire contingent workers at significantly lower wages than regular workers and also attempts to avoid paying fringe benefits. The creation of simple, low-skill tasks for contingent workers makes this possible (Lautsch, 2002).

With regard to the situation of the contingent workers, many commentators claim that most contingent workers have lower wages compared with permanent workers; they also experience income insecurity, worse working conditions and get fewer training opportunities. Bergstrom (2003) concluded that contingent workers tend to have more difficulties in influencing their working conditions and it is difficult for them to get support from trade unions.

The above exposition provides a basic platform to understand the situation of contingent workers, whether in North America, Europe or in China. But in China, the definition of contingent workers is complicated. The term ‘urban temporary workers’ (*lin shi gong*) normally refers to those workers who are not permanent workers but who have urban *hukou*. An example is the temporary workers who work in ChinaCo1. The term ‘migrant workers’ (*nong min gong*) specifically refers to those workers from rural areas. Their most important characteristic is that they have no urban *hukou*.

Millions of migrant workers have moved from impoverished inland provinces to the more developed coastal provinces, and most of them work in foreign investment labour-intensive enterprises. The harsh realities of these migrant workers (*da gong zai*) have been highlighted by many correspondents and scholars. Reports of the bad conditions suffered by the migrant workers, for instance, low wages and late payment, overtime working with no pay, and occupational injuries, can be found in China’s newspapers almost every day. Since the late 1990s, some academic articles have been published. Chan’s articles and books have exerted a certain influence in Western countries. ‘China’s workers under assault’ (2001) is a powerful book that documents and examines the horrible exploitation of labour in contemporary China, particularly

the vulnerable migrant workers from rural workers (Yu, 2004). Chan presents twenty-three cases as examples of forced labour and the violation of labour standards and calls for an understanding of the reality in China, and for a realistic and practical strategy to address this issue. Some surveys sponsored by overseas NGOs have been carried out in Southern China since 2000 providing much quantitative and qualitative data showing the vulnerability of migrant workers. The above studies are focussed on the situation of migrant workers who work in the foreign investment labour-intensive companies in Southern China.

Since the new century, the number of migrant workers has also increased significantly in large-scale SOEs and FIEs in inland provinces. This segment of workers has not been paid attention to by researchers.

#### **9.1.2.2 The Recruitment of Migrant Workers**

In the planned economy period, enterprises were not allowed to recruit peasant workers. Hence, the people without urban *hukou* had almost no opportunity to work in SOEs in urban areas. In spite of the strict limitation imposed by the government agencies, some SOEs still hired peasant workers from the countryside. Most peasant workers were arranged to do the hard, dirty and dangerous jobs that the permanent workers were not willing to do. Only in some sectors, such as refrigerator or heating factories, might the peasant workers do regular jobs in busy seasons.

Following the introduction of the liberal policies in both urban and rural areas, particular the flexibility of the *hukou* system, more and more migrant workers have been hired as temporary workers in FIEs in coastal cities. Their low payment, hard-working attitude and simple recruitment procedure has attracted many enterprises, including SOEs, to hire migrant workers. It is worthwhile to notice that many companies, including some large-size profitable SOEs, are replacing contract workers with migrant workers.

During the planned economy period, the main difference between the regular and migrant workers was that the latter had no right to enjoy a permanent job and management could lay them off at will. They did not enjoy many of the welfare benefits available to the regular workers. In addition, their wages were lower, about 70-80 per cent of those of the regular workers. After the implementation of the labour contract system, all the SOEs' permanent workers shifted to become contract workers. Despite this, the gap between the contract and temporary workers is still significant. Moreover, there is no specific law regulating migrant workers in China, and there is nothing in the law to prohibit employers and managers from treating temporary workers less favourably than regular workers.

The practice of hiring migrant workers has been widely adopted by China's enterprises. The number of temporary and migrant workers is rapidly increasing in the home appliances sector, and this has a close relationship with the technological development in the white goods industry. As noted in Chapter 3, the Chinese white goods industry is a mature sector and most of the production lines have been imported from abroad. Through development over more than two decades, many enterprises

have imported advanced production lines and the new machines have made the operation process easy and reduced the requirement for the workers to be skilled. In the Chinese white goods sector, it is commonly believed that only less than 20 per cent of workers in the production process need to be skilled. In addition, the skilled workers, such as the workers responsible for painting and foaming, have more skill than workers who simply assemble parts. However, these are not significant distinctions. Hence, employing migrant workers has become a common choice of home appliances makers.

#### **9.1.2.3 Agency (Migrant) Workers in ChinaCo2**

ChinaCo2 began to recruit migrant workers in the busy seasons in the second half of the 1980s. Initially, the temporary workers were only used in dirty and difficult posts and the number was very limited.

The managers realized that the enterprise benefited from hiring the temporary workers. First, the enterprise saved certain labour costs, as they did not need to provide welfare housing, pensions or free medical care for the temporary workers. Secondly, the existence of temporary workers impacted on the job security of the permanent workers to a certain degree and forced them to work harder. The number of temporary workers has gradually increased since 1995. Currently, the migrant workers are not only used for the dirty and hard jobs: many of them do the regular jobs side-by-side with the regular workers. In the last five years, the number of migrant workers has increased steadily while the number of contract workers has stabilized. There are currently 600 migrant workers, about one-third of the workforce. Subsequently, migrant workers have been deployed on the main production lines. Since 2003,

according to a new regulation published by the provincial government, all migrant workers must be transferred to labour agencies. The employers and migrant workers pay a management fee to the agencies and they allocate migrant workers to employers in terms of the employers' demands.

The introduction of intermediaries in the labour market means that the employment relationship takes the form of a three-party relationship. Bergstrom (2003:37) argued that there are particular problems related to the use of temporary work agencies and concluded that the role of temporary work agencies is ambiguous.

In China, the 'ambiguous' role of the labour agencies has resulted in the migrant workers being in a more vulnerable situation. The migrant workers sign labour contracts with agencies rather than the employers. Prof. Zheng from the Chinese Institute of Industrial Relations, ACFTU, is worried about it:

The government's original idea of the introduction of labour agencies is to regulate the labour market and to build harmonious labour relations. That is certain. In practice, there are many problems. The most important one is that the labour relations among employers, employees and labour agencies are not well defined. At present, the migrant workers are required to sign labour contracts with agencies. Thus, the labour relations are defined as between migrant workers and agencies. The workers were then allocated to work in the companies. The relations between the workers and companies are defined as 'service relations' (*lao wu guan xi*) rather than labour relations. This is a confusing definition. The service relations might blur the concept of labour relations. There is a big loophole in the regulations. Both enterprises and agents have opportunities to shake off their responsibilities to the workers. For instance, in some areas, neither enterprises nor the agents have agreed to pay the agency workers' social insurance: neither of them will admit their responsibility.

Source (Zhang: 2006)\*

The method of employing migrant workers through agencies was welcomed by the management in ChinaCo2, especially the head of the HRM department, who explained that ChinaCo2 only pays the agency workers wages and the compulsory social insurance, and pays the agency for some management fees. The workers have no relations with the company besides working there. A manager of the HRM department said:

We have paid the money to the labour agency company. They are responsible for dealing with the agency workers' problems.

The other benefit to the company is that the agency workers are relatively easy to control. This belief is shared by all the managers I interviewed in the production sector. As a senior manager of the Dept. of HRM put it:

First, most of them are from rural areas. They are not familiar with life in the city and would like to obey the enterprise's rules. Second, they are easy to satisfy. The working conditions in enterprises are certainly better than they are in the countryside, and the income is higher than from farm work. The most important reason is that the formalities of recruiting and renewing or not extending the contract are simple.

The management has no plan to shift some good agency workers to become regular workers, the method used by ChinaCo1. In contrast, their plan is to shorten the one-year contract to half a year. In short, changes in contracts have increased the vulnerable of all types of workers.

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\* Zheng Q (2006), Chinese Institute of industrial Relations, 28<sup>th</sup> June

## 9.2 Material Support Issues

Like ChinaCo1, in the last two decades, ChinaCo2 has replaced a work-unit based welfare system with a social insurance system. At present, the wages are the only source of workers' income: non-wage benefits no longer exist.

### 9.2.1 The Reducing of Non-wage Benefits

During the pre-reform era, Chinese SOEs operated not only as firms, but also as mini-welfare states, providing employees with lifetime employment, housing free healthcare and pensions (Gu, 2001). Almost all social resources were controlled by the work unit (*dan wei*). With regard to material support, different levels of material support were provided by different units. Normally, large-scale SOEs provided their employees with better benefits than those of medium and small-scale SOEs. A good *dan wei* provided good housing, healthcare, childcare, schools, shuttle services, extra foodstuff and jobs for children (Li, 2001).

When ChinaCo2 was a small-scale SOE, the welfare benefits it provided for the workers were limited. Following its development to a large-scale enterprise with good performance, the workers' benefits also improved. Using welfare housing as an example, from 1983 to 1993, ChinaCo2 invested 11.4 million yuan to build apartment buildings. In 1994, 310 apartments were built and sold to the employees at very cheap prices. At the same time, ChinaCo2 provided young single professionals and workers with free dormitories. Moreover, free shuttle buses and a free gas supply were also

provided. For each important festival, such as National Day and Chinese New Year, all the employees would get extra foodstuff from the company, for instance, fruits, cooking oil and cakes. Toilet tissues were provided for female workers. ChinaCo2 had a kindergarten and a primary school. ChinaCo2 rewarded employees' children with 800 yuan if they entered university. An office with three full-time staff was formed in 1984, its responsibility being to look after the retired employees. Such welfare provision in the early 1990s also reduced the workers' dissatisfaction with the tightening labour control.

Since the mid-1990s, two factors have contributed to the cutting of the welfare provision of ChinaCo2. The work-based welfare system was required to reform by the State. As part of the government's effort to restructure SOEs into 'modern corporations', a series of measures were implemented to reduce the historical burden of SOEs. Welfare system reform was a crucial aspect of this work. The second factor is more fundamental. Following the entrance of foreign capital in China's white goods sector, the market competition became severe. Social welfare benefits offered by enterprises were regarded as a factor resulting in a reduction of the SOE's competitiveness. ChinaCo2 announced in 1995 that they would no longer offer cheap housing for employees, and that the single professionals and workers should pay for their dormitories. Later, the kindergarten and primary school were transferred to the local education bureau. The teachers and staff had no relations with ChinaCo2. Employees had to pay for the shuttle buses. Since 2002, no extra foodstuff has been provided for festivals. The only remaining benefit is a free lunch supplied for the workers at work.

Many workers and some junior managers I interviewed were dissatisfied that all the non-wage benefits, in particular extra foodstuff for festivals, are no longer provided. However, all they can do is to complain behind the managers' backs: all their requests for non-wage benefits are dismissed by the top manager, 'That is the traditional concept; the workers must change their ideas'.

### **9.2.2 Payment System Reform and Control**

In the last two decades, especially in the mid-1990s, the employees' income was relatively high. In 1995, the annual income of the workers and staff in ChinaCo2 reached 10,000 yuan, much higher than that of other enterprises in the city. An old worker said:

Around 1995, the production and sales of our factory were very good. At that time, although the basic wage was fixed, the factory paid us a lot of bonuses with various names. Don't be surprised that I used the words 'a lot of'. My income was roughly 1,000 yuan per month in the 1990s. I remember we were always asked to go to the financial office to draw money under multiple names, such as bonuses, subsidies and so on.

The high average income is one of the reasons why the payment reform was relatively smooth. The payment system reform in ChinaCo2 went through a similar process to the rewards reform of SOEs, but some steps were taken in advance of this reform. Two characteristics of the reform payment system in ChinaCo2 might be summarized as follows. Firstly, the income gap was widened: the percentage of the total income formed by the basic wage was reduced and the flexible part, linked to individual

performance, was increased. Secondly, the structure of the payment system became virtually fixed in the late 1990s: after privatisation, only some minor adjustments were made.

### **9.2.2.1 Widening the Income Gap**

The first step in the payment system reform concerned the distribution of bonuses. At the national level, enterprises were allowed from 1979 to distribute bonuses from retained profits. Following directions from the State, ChinaCo2 distributed bonuses in 1983 for the first time. Bonuses were not simply distributed evenly as in most other SOEs: the paying of bonuses at first had close relations with technical invention, changes to management strategy and the raising of the status of technicians. After one technicians group finished a technological innovation project, the director rewarded the group with a 6,000-yuan bonus. This payment of bonuses was not only the start of the reform of the payment system, but also the result of a series of system reforms within ChinaCo2.

The first monthly bonus scheme was established in 1985, and the distribution of bonuses was according to the employees' positions. Workers on assembly lines were rewarded the highest bonuses, followed by the off-line workers, while the managers and technicians were given the smallest bonuses. However, this distribution method was used for only half a year. The director suggested that this kind of distribution should be changed. In his view, technical creativity and strict management were the two basic principles of enterprise survival in the market. In order to succeed in the competitive market, the most important factor was the promotion of the 'core

competitiveness' of the company. To achieve this target, it was necessary to adopt a policy favourable to technicians and managers. Since 1986, the order of the bonus levels has been adjusted: managers and technicians, workers on production lines, off-line workers.

This policy was soon successful. Two important technical creations, the big freezer model refrigerators in 1989 and the technology to keep things fresh in 1998, resulted in huge profits for ChinaCo2 and also proved that the decision of the director had been wise. In order to attract more high-level technicians and managers, the managers suggested that the income of the technicians and managers should be raised by a big margin. Since 2000, the technicians and managers have been able to earn two to three times as much as ordinary workers. Moreover, annual bonuses and rewards for innovation are not a small matter. Adopting a policy favourable to technicians was a common method in SOEs, but such a big rise in pay levels was not normal. Since the ownership transformation, the income gap has been widened further. The average income of managers and technicians is three to four times higher than that of the workers.

#### **9.2.2.2 Linking Individual Performance with Workers' Income**

Another significant trend of the payment system reform is linking individual performance with income and adopting a more flexible rewards system.

The structure of workers' payment has been adjusted since 1984, when the basic wage accounted for 50 per cent and the bonus the other 50 per cent of the wages. The

relative level of the basic wage was offset according to wage standards for certain workers published by the provincial government. The bonus distribution was based on the performance of the workshops. Accordingly, a strict performance appraisal system for workshops was worked out, including output, quality, cost control, the rate of injury which impacted negatively on workers' wage. For instance, if the proportion of first-class outputs did not reach 90 per cent or if a serious injury occurred, the bonus would not be rewarded. Any bonus was distributed to the workers in terms of their positions.

In 1986, the heads of workshops were granted the right to distribute the bonus using their own methods and standards. The bonus was distributed based on their judgment of the workers' individual performances. However, there were no unified company-level standards to appraise the workers. The heads of workshops had the right both to draw up the standards and to assess the workers' performance. This led to an increase in the powers of mid-level managers. Moreover, the performance of the enterprise was very good and the bonuses rose rapidly. The bonuses contributed the majority of the workers' wages. The workers therefore paid more attention to the bonus. Hence, the workers not only worked hard to achieve good performance, but also maintained good personal relations with the mid-level managers in order to obtain good assessments.

The post and skill system was implemented in ChinaCo2 in 1993. Job responsibilities, the degree of technology and workload were the basic standards to determine the level of the post. The bonus system was replaced by a flexible wage linked to individual performance.

The post and skill wage system was updated in 2001. The latest payment system divides all the employees into 12 grades, each grade including 10 levels. The division is in terms of different positions or jobs. 40 per cent of the payment is a fixed or basic wage decided by the post. Normally, the grades of ordinary workers are below grade three. The core skilled workers, some staff and the heads of production teams are in the fourth grade. Technicians, heads of workshops and managers are in the upper fifth grade. The other 60 per cent of the payment is flexible and is based on the employee's individual performance.

At the beginning of the new century, the 'golden age' of the Chinese white goods industry finished, all the producers had to face intense competition and profitability became limited. Reducing costs, including labour costs, has been a common method used by enterprises to address these issues. Despite ChinaCo2 having kept its leading position among domestic refrigerator manufacturers, the income of the employees has not increased in the last five years. The average wage of contract workers is less than 1,000 yuan per month, whilst the wage of agency workers is in the range of 600 to 700 yuan. Besides the wage, there have been no bonuses, no subsidies, and no free daily necessities distributed during festivals. The income of the managers and technicians has not been raised either. After privatisation, the private owner retained the payment structure in the SOE period. The managers' and technicians' wage were raised and the workers' wage were not. At present, the average wage level of junior managers is up to two times that of the workers.

## **9.3 Further Difference between Workers and Attempts to Change**

### **Their Traditional Views**

The reform of the employment and payment system not only tightened labour control, but also resulted in the division of labourers. This division of workers has further led to potential competition among the workers in respect of jobs and wages: it is also used by management to strengthen labour control. At present, the workers in ChinaCo2 are divided into two types: regular and agency workers.

#### **9.3.1 The Regular Workers and Agency Workers**

The *hukou* has played a key role in the division into the workers in China for nearly fifty years. The dual structure formed in the 1950s resulted in the fundamental division of the two types of the workers – urban and rural - with other factors being secondary. Some surveys carried out in the 1990s showed the increase in temporary workers did not influence the job security of regular workers in SOEs, as they were used to the temporary workers only being used for the dirty and hard jobs, and the regular workers were not willing to do these kinds of jobs (Zhao, 2001). This is not the case now.

Currently, the low wages, hard work, and easy control of agency workers potentially play a role in threatening the job security of the regular workers. More and more unskilled and even semi-skilled posts have been taken by agency workers. A manager stated bluntly: ‘If possible, I prefer to use agency workers’.

As noted in previous chapters, less than 20 per cent of posts on production lines are defined as 'key posts' and around 20 per cent of workers are selected as 'core workers'. These figures are regarded as average percentages in China's white goods sector. In the case of ChinaCo2, the same percentage of core workers is also accepted. At present, this 20 per cent of core workers is mainly selected from the young workers graduated from technical schools. They are allocated to the key posts. At the same time, for the unskilled workers, the distinction between regular and agency workers is becoming less clear. Both regular and agency workers work side-by-side on production lines. All the standards (both quality of products and individual performances) are the same to assure the quality of the work. The monetary punishments are also the same.

In 2000, the recruitment policy was adjusted. Besides hiring tens of technical school leavers as skilled or core workers per year, the contract workers have since then been gradually replaced by agency workers. This change had worried old workers. Although all the regular workers were retained in the process of privatisation and the managers promised that they would try their best to keep the workers' jobs, some old workers began to worry about their posts.

A 43 year-old worker said:

In the last two decades, I have witnessed the increase of the number and role of migrant workers. In the SOE, I was confident about my job. But after privatisation, anything is possible. I have to catch up in terms of speed. Otherwise, my post might be taken over by them in the near future.

### 9.3.2 Difference Amongst Regular Workers

The structure of the regular workers in ChinaCo2 is not simple. The regular workers might be classified into five types, even though they have same one year contracts with company.

The first type is the workers who registered before 1985. During the planned economy period, the workers were allocated by the local labour bureau according to the inflexible employment plan. Normally, the basic qualification of the applicant was registration in that city, except for graduates and some ex-servicemen. The workers in the SOEs and COEs were the so-called permanent workers. They enjoyed lifelong jobs and much welfare provided by the State and the enterprises. Like other SOEs, all the workers in ChinaCo2 registered before 1984 were allocated by the local labour bureau. School leavers were assigned on the basis of their individual performance in school, their background and other factors. The sequence of assignment was normally from large SOEs to small SOEs and COEs. Hence, the quality of workers in small SOEs was not as good as it was in large ones.

The second type of workers entered ChinaCo2 via taking over their parents' jobs (*ding ti*). In the early 1980s, in order to deal with the unemployment problem in urban areas, various employment practices were conceived by the State. One of the policies was allowing children to replace their retired parents in industrial enterprises. Accordingly, many workers took the jobs left by their parents. Thus, there was no guarantee of the quality of the workers. Families would always select the child with the lowest ability to take over the job. Moreover, they had complicated personal ties

due to their parents having worked in the factory for a long period. If a worker was to be punished, his parents and his parents' work-fellows would plead for mercy. It was difficult for the managers to control such special groups of workers. In 1985, although the government still allowed children to take over their parents' jobs, the ChinaCo2 director announced that the special recruitment policy within the factory would stop. In spite of strong opposition from the older workers, the director stuck to his opinion. Currently, most of the workers hired through this policy have stayed with ChinaCo2. The average age of this group is over 40. In the interviews, many managers on the shop floor complained that this group of workers were still not easy to control.

All the above two kinds of workers have more than ten years service. According to China's Labour Law, they have the right to ask for open-ended contracts. On the one hand, ChinaCo2 refuses to sign open-ended contracts. On the other hand, the managers do not dare to sack them because they have right to sign open ended contracts with company in terms of Labour Law. 'They always give me headaches' a senior manager of HRM department complained.

The workers who were recruited from 1985 to 1992 belong to the third type. In order to hire good quality workers, ChinaCo2 asked the city labour bureau to grant them the right to recruit workers. The first 30 contract workers were employed in 1985. They were the first contract workers in SOEs in Hefei. From 1985 to 1992, ChinaCo2 recruited approximate 300 contract workers. At this time, ChinaCo2 became attractive to job candidates due to the high level of income it offered and its big name. Hence, these workers are of a high standard.

In 1992, several small, nearly bankrupt enterprises were taken over by ChinaCo2. Approximately 300 workers of these enterprises entered ChinaCo2 at the same time. Up to the present, nearly 200 of these employees are still working in ChinaCo2. They are the fourth type of the workers.

Young and skilled workers who entered ChinaCo2 after the end-1990s belong to the fifth type of workers. Since the end of the 1990s, ChinaCo2 has seldom hired workers from the labour market. A senior technical school was selected to provide a certain number of skilled workers for ChinaCo2. The majority of the technical school leavers are from the suburban counties of Hefei. They are satisfied with the jobs in ChinaCo2.

A young worker told me:

I definitely know Shanghai and Shenzhen are much more attractive. I am also confident that I could find a good job there. However, it would not be easy. My parents are in Hefei. I have to look after them. In addition, Hefei is not bad. It is a big city and the cost of living is not expensive. If one decides to work in Hefei, ChinaCo2 is a good choice. I know many young workers have the same idea.

Many managers I interviewed complained that the quality of workers in ChinaCo2 is not good enough. Shortening the workers' contracts, increasing their job insecurity and linking their income to individual performance are all regarded as good ways of controlling workers. However, the head of HRM department stressed 'How to control the workers according to their different characters is a difficult problem for us'.

### **9.3.3 The Changing of Workers' Traditional views**

As discussed above, since the mid-1980s, making a profit has been clearly set as the enterprise goal, replacing the old objective of plan fulfilment under the planned economy. However, some workers who were familiar with the traditional system were not willing to reform or were even against the reform. The director realized the power of the old concept in the workers' minds.

The first step in changing the workers' traditional views was to discard the view of a 'job for life' and the concept of an 'iron rice bowl'. In order to improve the quality of products, the factory director required the workers to follow the technical requirements strictly and to reduce the number of defective products. He made a speech to all the workers in a conference: 'whoever affects the factory's brand due to his defective product, his bowl will be broken' (which means he will be fired). Under this pressure, all the workers were very careful in the production process.

The second step is to require the workers to know their real status in the factory. The director mentioned the 'famous new concept' to the workers: if an enterprise wants to succeed in the market, the role of technology and management is crucial. Hence, the workers should understand that they are not 'number one' within the factory. 'You are a worker, only a worker'. Besides, the workers should also respect the technicians and managers. In spite of dissatisfaction with the decline of their status, the workers had no choice but to accept the change. A head of a workshop said:

I was very young at that time. But I remember things in the 1980s clearly. You know, we workers were respected as the masters of the factory and the state. We were very proud of our status, though we worked in a small factory. We were familiar with our status. A series of reforms that were carried out by the director seemed of no benefit to the workers' status. Honestly, many old workers disliked the decline. But we had to accept his view and had no power to reject it.

In the early 1990s, after a series of reforms, the director made a very famous speech about the workers' status. It was published in a well-known newspaper:

All the workers in China's enterprises consider that they are the Masters of the SOEs and the State. The workers have enjoyed the status for a long period and it has been offered by the Party state. Currently, it is an obsolete conception. The workers have to be clear that they are the employees of the factories. The 'iron rice bowl' does not exist at all. The only thing for them is to work hard and contribute to the factory. The new concept for the workers should be 'no market, no meal for you'.

The slogan of 'You are not the master any more' not only impacted on the workers of ChinaCo2, but it was also quoted in the teaching materials of some business schools. The director was proud of his success in changing the workers' views. In his opinion, this step was fundamental to the setting up of a new type of factory regime in a market economy.

One of the key reasons for the smooth transformation of ownership of ChinaCo2 was that workers understood that their status was that of employees of the factory instead of 'masters', as it had been fifteen years before. 'We are employees. We don't care about who is our boss', a worker said concerning privatisation. Over the past two

decades, most workers in ChinaCo2 have come to accept that the core values of the market reign.

## **Summary**

This chapter has presented the reform of employment, the material support system and other control methods implemented in ChinaCo2 over the last two decades. The target of the reform has been very clear since the early 1980s: building up a factory regime in order to survive and to develop the company in the context of market-oriented reform. The results of the introduction of modern management techniques were not as good as had been expected. The significance of other two control methods became crucial.

This chapter began by presenting employment reform in ChinaCo2. It went on to explore the process of implementing labour contracts. Compared with ChinaCo1, the use of labour contracts in ChinaCo2 was earlier and more flexible but has subsequently tightened: the first contracts were concluded as early as 1984; ChinaCo2's managers refuse to conclude open-ended contracts, despite the 10 years clause in Chinese Labour Law; they set up an 'inner labour market' putting employees whose performance was considered inferior in other department on reduced wages for six months, after which they in effect, with no wage, resigned. The agency workers are considered to have no 'labour relations' with the company; they have no chance to become regular workers. All these reforms had been regarded as complete in the SOE period, with no big changes after privatisation.

In short, the new factory regime was formed during ChinaCo2's SOE period and had no close relation with the ownership transformation.

This chapter also examined the process of the change of material support. Firstly, the welfare benefits in the planned economy period were reduced and further cut in the mid-1990s. The wages now constitute all the means of material support. Secondly, the payment structure has been continuously revised in ChinaCo2 since the mid-1980s. Reducing the fixed part of the wage, linking individual performance to the workers' income and widening the income gap are the major changes to the payment structure. Besides the above, the workers' wages have not significantly risen since 2000. The workers' overtime payment was also cut. Like the employment reform, the payment structure was fixed at the end of the 1990s.

The agency workers have come to have a significant impact on the job security of the regular workers recently. In addition, requiring the workers to change their 'traditional concept' and setting up the new idea of accepting serious labour control with no resistance is a factory regime with a 'Chinese characteristic' in ChinaCo2.

The radical changes that there occurred in the two white goods manufacturers in the process of ownership transformation have been explored using the expanded three issues of factory regime that derived from Burawoy. Amongst the three issues of factory regime - i.e. labour control, material support and contract - there are no fundamental differences between ChinaCo1 and ChinaCo2, in spite of some differences in the degree of harshness with which the workers are treated, although

the two enterprises are currently in different forms of ownership. Marketization is the most important reason resulting in the factory regimes and the intensity of the labour.

Comparatively, the management methods currently used by ChinaCo1 are more effective and successful than those of ChinaCo2. Benefiting from its parent company – a world-renowned company - ChinaCo1 introduced complete and mature management methods in the white goods production process. In contrast, the management methods used in ChinaCo2 come from the managers having learned foreign management theories and they have been continuously improved during the process of the development of the enterprise. Partly as a consequence of this, effective labour control makes ChinaCo1's workers more exhausted than those in ChinaCo2 in the production process. Referring to the other two issues of factory regime – material support and contract - the managers of ChinaCo2 have adopted harsher and more severe strategies to control the workers, including much closer link with wages of individual performance and much more flexible labour contracts.

To sum up, there is no fundamental difference in factory regime between ChinaCo1 and ChinaCo2 could be seen, although they are currently in different forms of ownership. Fierce market competition has led to the much the same situation for workers.

In the circumstances, how do the trade unions face the new challenges? Do they change their role along with the new factory regime? Do they have enough power and ability to protect the workers' interests? In the next two chapters, I shall analyze the role of the Chinese trade unions in the current factory regime.

## **Part Four**

### **Trade Unions in the Changing World**

## **Introduction**

According to the Webbs (1965), a trade union is a continuous association of wage earners for the purpose of maintaining or improving the conditions of their working lives. This notion has been regarded as a classical definition of trade unionism by Western researchers (Farnham, 1995). However, this definition is not applicable in Chinese trade unions due to their dependence on the Party/state. Chinese trade unions have been under the leadership of the Chinese Communist Party from their very beginning. For more than eighty years, although the structure of politics and the economy in China have seen great changes, changes to the role of trade unions have been relatively limited.

In this section, I want to examine the role of Chinese trade unions in the changing world of the Chinese Political economy. Chapter 10 provides general information concerning the structure of Chinese trade unions, relations with the Party and the reform at different levels. Chapter 11 focuses on the unions in the two white goods enterprises.

## Chapter Ten

### The Chinese Trade Unions in the Context of Reform

In the west, trade unions have begun to be depicted as a 'hollow shell' with regard to their roles in workplaces and the wider political spectrum (Hyman, 1997: 318). In this circumstance, the role of the Chinese trade unions in the context of economic reform and globalisation is an important issue.

An increasing amount of literature has been published in Western journals that provide some research on the Chinese trade unions. These generally suggest that whereas some changes have taken place in Chinese trade unions since the 1980s, the fundamental role of the trade unions and the relations with the Party/state have remained within the traditional system. Chinese unions are regarded as a 'Party Organ' (Taylor *et al.*, 2003) or the representative of the state and management (Metcalf *et al.*, 2005) rather than the protector of the workers' interests, as the ACFTU claims. The majority of the literature published in Chinese, however, stresses that the situation in China is special. The unions should not function in the same way as Western trade unions.

This chapter thus has five objectives. The first is to analyse the Chinese official trade union – the ACFTU and its relations with the Party/state. The second objective is to present the ambiguous role and uncertain functions of the trade union in the transition

towards a market economy. The final three objectives are to outline the structure of the Chinese trade unions and to examine the role of the local trade union federations and the enterprise unions. I intend to argue that in the transition towards a market economy, the Chinese trade unions still have to stay in the traditional political framework, which is one of the important reasons why the Chinese trade unions at different levels have played ambiguous role and failed to perform adequately in the new context of a market economy.

### **10.1 The Chinese Trade Unions and the Relations with the Party/state**

According to the Trade Union Law in the PRC, all trade unions in mainland China must belong to the ACFTU, which is accordingly the biggest trade unions federation in the world. The total membership stood at 13.7 million in 2004 (ACFTU, 2004). Furthermore, in terms of this law, all workers enjoy the freedom to join a union, but any union must be approved by and under the leadership of the ACFTU.

The basic political principle of Chinese trade unions is to accept the leadership of the Communist Party at all levels (Article 4 of Chinese Trade Unions, 2001). Dependence on the Party/state could be regarded as the most important characteristic of the Chinese trade unions distinguished from the unions in Western countries. It is also the starting point to understand the Chinese unions.

The dependence of Chinese trade unions on the Party/state has been criticized by researchers from international trade union organizations and by the academic

community (Solidarity Centre, 2005; Chan, 2000 b, 2002, 2004; Clarke *et al.*, 2002; Clarke, 2005; Chen, 2003 a; ICFTU, 2004; AFL-CIO, 2006). For instance, a report from the Solidarity Centre (2005) pointed out that the ACFTU is still an integral part of the state and Communist Party structure: the Chinese government keeps a tight rein on the ACFTU and its activities. Serious criticism has also come from the International Confederation of Free Trade Unions (ICFTU): its research report makes the criticism that the workers in China are not free to form or join the trade unions of their choice, and the right to strike is not protected under the law (ICFTU, 2006). The same criticism has also been advanced by the AFL-CIO (2006): it argued that the ACFTU is now fully subordinated to the Party's single-minded drive to create wealth for managers, investors, and the Party cadre who batten on export enterprise. They argue that the Chinese trade unions merely function as an arm of the Party/state (Chan, 2000 b).

Although the above views have different origins, their conclusions are the same: the Chinese official trade union is still under the leadership of the Party; it is not an independent organization; and it is defined as an organization between the state and the workers (Chen, 2003b; Zhang Y, 1997).

The close relations between the Chinese unions and the Party/state date back to the revolutionary history of the 1920s, when trade unions were formed to support the Communist Party in their fight with their enemies. The ACFTU, established in 1925, was and is the only national trade union federation in China, under the control of the Chinese Communist Party (CCP). Since the CCP came to power in Mainland China, it has kept strict control over the ACFTU. In the 1950s, the Soviet Union was China's

role model, and the ACFTU was designed on Leninist lines as a ‘transmission belt’ between the Party and the workers (Ding *et al.*, 2002). Therefore, during the revolutionary period (1925 to 1949) and the planned economy period (1949 to 1978), the ACFTU was a component of the Chinese political structure under the control of the Party, rather than an independent workers’ organization.

Another organizational principle, which is ‘the Party is in charge of the officials of the unions’ (*dang guan gan bu*), plays a crucial role in guaranteeing the Party’s leading status in trade unions. In almost all cases, union officials are not elected by members but chosen by an appropriate Party organ. Union officials are responsible to the Party and government administration and are empowered by the state (Metcalf *et al.*, 2005).

At present, Chinese economic reform has been in progress for nearly three decades. However, there have been no radical changes in the relations between the Chinese trade unions and the Party/state. All trade union operations have followed the Party’s directions and all reforms have been controlled by the Party. Moreover, Chinese official trade unions never attempted to break off their relations with the Party during the reform. The ACFTU’s recent official documents still assert the Chinese trade unions should serve the overall interests of the Party and the state.

## **10.2 The Reform of the Chinese Trade Unions within the Given Political Framework**

### **10.2.1 The Challenges to the Chinese Trade Unions**

Clarke (2005) summarized the role of the union under the planned economy system: the Government, as the representative of the interests of the whole society, controlled the economy through various administrative units, and the workers were designated the 'masters' of the enterprise and the state. The unions' role was not to press the sectional interests of their members, but to subordinate their members' aspirations to the building of a radiant future. This perspective is shared with many other researchers.

Since the mid-1980s, China has transformed from a socialist planned economy system to a 'market economy system with Chinese characteristics'. During this process, the ACFTU has faced some challenges:

The first challenge has been that, following the reform and downsizing of SOEs, huge numbers of workers lost their jobs and their standard of living became significantly worse. In many non-SOEs, the workers' interests were constantly eroded. In such circumstances, successful capitalist enterprises were marked by increased wage differentiation, the erosion of the status of manual labour, increased labour discipline and employment insecurity, the crude assertion of managerial authority and the increasing use of temporary and migrant labour (Clarke, 2005:14). However, the trade unions in the non-state-owned enterprises were very weak: some employers in private companies tried to prevent the formation of a union in their company.

The second challenge has been that, with the rapid increase in POEs and FIEs, the contrast between managers and employers on the one side and workers on the other has been growing - with respect to payment, working hours and working conditions. Currently, the number of employees engaged in labour disputes has increased

continuously in recent years and the number of workers involved in disputes has been rising over the last decade (Table 10.1).

**Table 10.1 Labour Disputes in China Handled by all Levels of Mediation Offices, 1995-2004**

	Labour disputes handled by all levels of mediation offices (10,000s)	Employees involved (10,000s)
1995	3.3	12.3
1997	7.2	22.1
1998	9.4	35.9
1999	12.0	47.4
2000	13.5	42.3
2001	15.5	47.5
2002	18.4	61.0
2003	22.6	80.0
2004	26.0	76.0

Source: MOLSS (1995 to 2004)

The third challenge has been that, the downsizing of the SOEs and COEs reduced the union members and the number of the unions at the grassroots level. The decline in the number of SOEs reduced not only the potential membership base of the trade unions but also their institutional power in the political economy (Howell, 2006:8). By the end of 1998, membership of unions in FIEs and POEs was only 31.1 per cent and 9.6 per cent respectively (Zhang, 1999: 30). Although The ACFTU Blue Book (2004) announced that by the end of 2004, the total membership stood at 13.7 million and the membership rate was 63 per cent (ACFTU, 2004:48), the majority of the members of trade unions are in the public sector and government institutes. A large

number of non-state-owned enterprises have no trade unions and a huge number of migrant workers are outside the trade unions. In terms of the bulletin of the ACFTU (2006), only 13.8 per cent of migrant workers have joined the trade unions and only 23 per cent of foreign investment enterprises have set up trade unions.

### **10.2.2 The Limited Reform of the Chinese Trade Unions in Recent Years**

Facing the above challenges, the officials of the ACFTU realized that it would be difficult for the unions to survive without any reform. The reform of the unions began in the mid-1980s. Changes to different aspects of the Chinese trade unions have been experienced: the 1992 Trade Union Law highlighted the need to pay attention to workers' interests and underlined the role of the trade unions in defending their members' interests (Howell 1998:160). The trade unions have contributed to the drafting of some new legislation referring to the workers' interests, such as the introduction of the Labour Law in 1994, and the revision of the Trade Union Law in 2001. The ACFTU has also continued to play an active role in other legislation. From the mid-1990s, the ACFTU began to promote the collective contract system, the tripartite consultation system and labour law supervision. In addition, the trade unions help and encourage laid off and jobless workers to gain re-employment.

The ACFTU has taken on the unionization of non-state enterprises as a major task for the past few years. According to ACFTU statistics, by the end of 2004, trade unions had been formed in 459,000 non-state enterprises, a growth of 28.6 per cent over the previous years (ACFTU, 2004). The officials of ACFTU are very proud that it set up trade union branches at 24 Wal-Mart supermarkets in China within four weeks. This

success, as claimed by a top official of the ACFTU, 'will definitely open up a new stage and will be written in the Chinese trade union history' (Xu, 2006). In addition, the ACFTU issued a new directive in 1998, urging strenuous efforts to be devoted to organizing migrant workers in to the trade unions. It has also actively promoted tripartite consultation system, collective negation and collective contract system. The issue of direct election has been raised in some trade unions at the grassroots level. In recent years, the ACFTU has claimed many times that they would want to give up the traditional model and explore a new path.

However, the above reform is not regarded favourably by international trade unions and Western scholars, who generally believe that the reform of the ACFTU has been unsuccessful: the literature on Chinese trade unions is replete with reference to 'multiple roles', an 'ambiguous role' and a 'dual role' (Chen, 2003a; Taylor *et al.*, 2003; Clark *et al.*, 2002; Clarke, 2005; Howell, 2003, 2006; ICFTU, 2005). The ACFTU is still regarded as a weak union (Metcalf *et al.*, 2005) or part of the socialist state bureaucracy (Chan, 2002). Amongst these researchers, Chan has recently made some optimistic estimates concerning the future of the ACFTU after seeing certain progress by the ACFTU in the process of economic reform: it succeeded in setting up trade union branches at Wal-Mart supermarkets in China, and there is increasing demand for the profound reform of trade unions coming from local and enterprise trade union officials (Chan, 2005; 2006).

In my view, we should admit the ACFTU has made certain progress. However, even this progress does not give us an optimistic forecast for the ACFTU. Up to now, the role of the trade unions emphasized by the ACFTU is that, while safeguarding the

interests of the Chinese people as a whole, it will do a good job of representing and safeguarding the specific interests of the workers and staff members (ACFTU, 2002: 47). In general, the Chinese trade unions still serve as a ‘transmission belt’ between the Party and the workers rather than the representative of the workers.

Under the given Chinese political framework, although the Party would like to grant the ACFTU some right to autonomy and it supports their reform, it does not want to have independent and powerful unions. When the reformist leaders in the Party urged the union to take up workers’ interests, they did not intend that it should become a confrontational union as in other countries, challenging business owners and government (Howell, 2003:117). Their starting point was to require the trade unions to play a role in building harmonious labour relations in order to keep social stability. The official unions are expected only to play a role in building harmonious industrial relations and further contributing to a ‘harmonious society’ – the target of the CCP. The ACFTU has been required to play a dual role in the transformation economy. On the one hand, as a trade union, its role is to defend the rights and interests of employees. On the other hand, the ACFTU has a responsibility, assigned by the Party, to promote reform and to maintain social stability (Clarke *et al.*, 2002:241).

Hence, the effect of the unions in defending their members’ interests is limited. Relatively, unions are likely to provide support and assistance for an individual worker making an economic demand. However, they have refrained from standing up for workers when the latter make similar economic demands in the form of collective action – something the state sees as a threat to social stability (Chen, 2003a: 1026). A similar view can be found in Baek’s (2000) article: although unions may be able to

stand for workers in some particular cases of dispute, they cannot resist or challenge the state's labour and industrial policies that have adverse effects on workers. The Chinese trade unions are endowed with the role of mediating between labour and management rather than that of protecting the interests of workers.

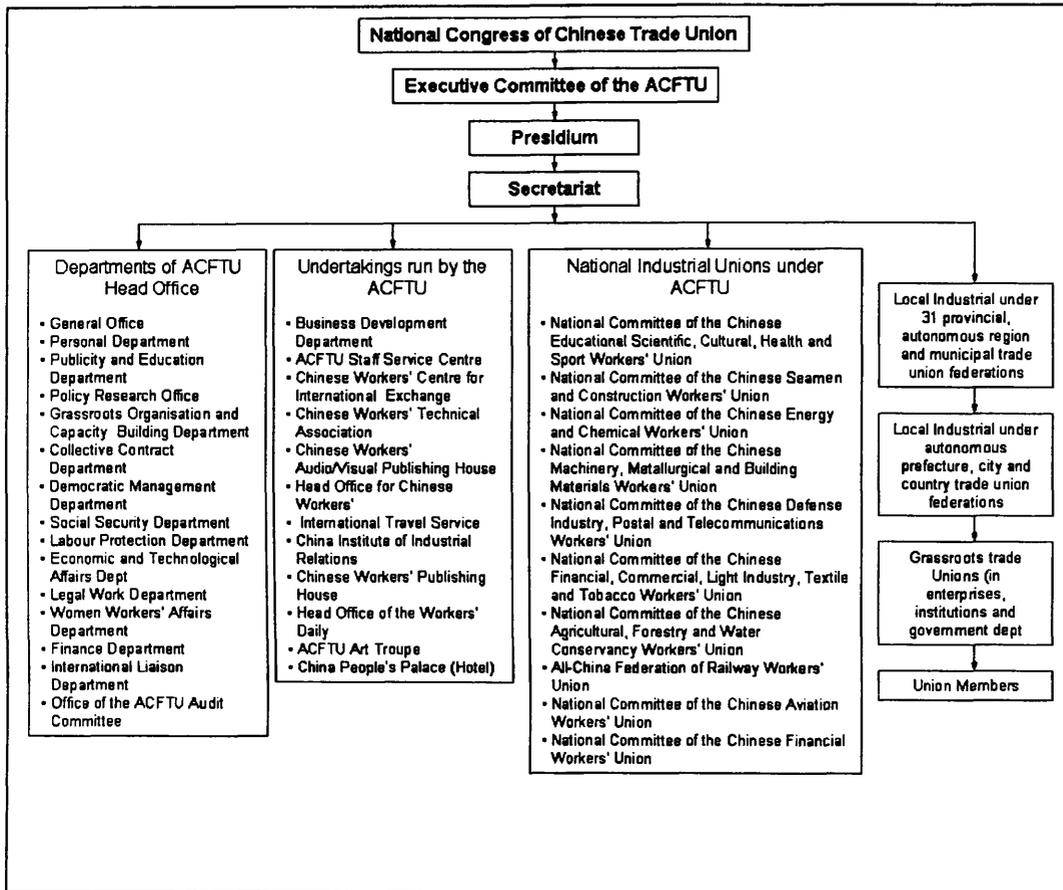
As a component part of the political system, which is controlled by the Communist Party, it is impossible for the ACFTU itself to carry out fundamental reform and become an independent trade union. It is anticipated that it will survive with the support of the Party and play an ambiguous and limited role in the forecast future.

In the next section, the organizational structure of the ACFTU will be outlined. The current structure further guarantees the control by the Party of the trade unions.

### **10.3 The Structures of the Chinese Trade Unions**

As noted above, many researchers have drawn attention to the relations of administrative subordination between the Party/state and the trade unions. But they have ignored the formation and influence of the inner organizational structure of the Chinese unions.

**Figure 10.1 Structure of the ACFTU**



As we can see in Figure 10.1, there are two main forms of organization in the ACFTU: local trade union federations are the main organizational form and industrial unions are the secondary form. At present, there are 31 trade union federations that are provincial, autonomous regional and municipal directly under the central government, and seven national industrial unions in the ACFTU. The local trade union federations include the following levels: under the provincial federation of trade unions, local general trade unions are organized in prefectures, cities, counties and districts. Under

this level, in some developed cities, associations of trade unions are organized at the level of streets, markets and office buildings.

Before 1949, industrial unions played a crucial role in assisting the Communist Party to seize state power. After the People's Republic of China was established, industrial unions were firstly re-formed. By 1950, 16 national and 73 provincial (including big cities) industrial unions had been organized (Gao, 1999: 15). Just one year later, the leader of the ACFTU decided to re-coordinate the role of the local and industrial unions. The local trade union federations became the principal forms and the power of industrial unions was diminished. The current structure of the Chinese trade union organization has not drastically changed since 1950. The Chinese trade union remains a parallel structure to that of the Party and government administrations.

According to Article 10 of the Chinese Trade Union Law, the industrial trade unions may be formed, when needed, at national or local levels for a single industry or several industries of a similar nature. Moreover, the role of the industrial trade unions has been reduced continuously. In 2003, 19 national industrial trade unions were merged to seven and their role was reduced further. For instance, the defence and the postal and telecommunications industrial unions were merged to become the National Committee of the Chinese Defence Industry, Postal and Telecommunications Workers' Union. Moreover, the National Committee of the Chinese Financial, Commercial, Light Industry, Textile and Tobacco Workers' Union covers five unrelated industries. At the national level, the industrial union only has the All-National Committee of Industrial Unions as a staff organization. At the local level, a

similar organization of industrial unions exists only in an advisory capacity. The grass-roots unions are set up according to a system of administrative units (enterprises, schools, institutions and so on).

Many researchers have drawn attention to the relations of administrative subordination between the Party/state and unions (Chen, 2003a; Taylor, 2000; Taylor *et al.*, 2003; Solidarity Centre, 2005). They believe that the trade unions merely function as an arm of the Party/state (Chan, 2000 b), but they have ignored the formation and influence of the inner organizational structure of the Chinese unions.

In reality, this kind of organizational structure - local federations of trade unions are the main organizational form and industrial unions are the secondary form, which has a distinctly Chinese character - was also arranged at the instruction of the Party. This organizational structure of the trade unions is the same as the structure of the Party committees and government at different levels. The organizational structure guarantees the unions at different levels are under the leadership of the Party committees (further discussion in next section).

This organizational structure has encountered a number of challenges since the reform. For instance, there is no industrial collective contract system. Contracts based at the local level do not reflect the characters of the various industries, especially with respect to various wage levels and working hours.

Some criticism has come from officials of trade unions and Chinese scholars (Fu, 2001; Chen, 2005). They have argued that the local form as the main structure impacts on the role of the trade union in different sectors and is not geared to the needs of economic reform. However, there is no indication to show that the ACFTU will change its current structure in the near future. The local unions will play a key role and the industrial unions have no hope to develop. The role of the local trade unions will be analysed in next section.

#### **10.4 The Role of Local Trade Union Federations**

The existing studies on China's trade unions have analysed the Chinese official trade unions in the given political structure from various viewpoints. Most of them have concentrated on the ACFTU and on case studies of certain enterprises. However, the role of local trade union federations has been ignored by the researchers.

As noted in Chapters 3 and 6, during the process of economic system reform, local government has been granted many rights by central government, and they are consequently required to promote the local economy. Attracting foreign and private capital is considered the best method to develop the economy by most officials of local governments. It is also thought that maintaining social stability and promoting development are in the interests of the people as a whole, whilst job security and wage increases are in the specific interests of the workers. The hypothesis is commonly publicized: if the interests of society as a whole are not looked after, neither will the specific interests of the workers. Sometimes it is accepted, the workers' interests

might be sacrificed temporarily (Shi, 2005). Under this circumstance, the role of the local unions is always ignored or restricted by the officials of local government.

In China, the local trade union federations must be established at or above the county level (Article 10, Chinese Trade Union Law, 2001) and a trade union organization at a higher level shall exercise leadership over a trade union at a lower level (Article 9). In terms of the Regulation of Chinese Trade Unions, local trade union federation is the leading body of local trade unions and local industrial unions (Article 10, Regulation of Chinese Trade Unions). However, the most important issue is that the Communist Party requires that the trade unions should accept the leadership of the Communist Party's committee at the same level and also that of higher-level trade unions, with the Communist Party's committees playing the major role (CCP Document No. 12, 1989). Under the system of dual leadership, in addition to the ambiguous roles of the ACFTU at national level, the role of the local trade unions is more confused. A vice chair of a municipal trade union made the following comments:

The relationship between the trade unions and the Party Committee is in reality based on the question of the independence of the trade unions. This is an unavoidable issue in the Chinese trade union movement. Certainly, it is my personal view. Under China's current political structure, it is very difficult for a trade union to keep complete independence. As a chair of a municipal trade union, I am under the command of the local Party Committee, the government and the provincial federation of trade unions. Keeping balance is a crucial issue for me. Sometimes, I have to give up some interests of the workers. It is a great pity. But I cannot ignore the instructions of the Party and government.

Source: (Jiangmen, 2003)

Currently, the big challenge for the local trade union federations is that they must try to balance attracting foreign or private capital with safeguarding the workers' interests. Since the early 1990s, development of the economy has been the most important duty for the local government officials at each level nationwide. To attain this goal, the local governments have provided many high-priority financial policies to attract foreign and private investment. The abundant supply of cheap labour is an important condition to attract foreign investment. In many cases, local authorities act as agents for FIEs (Zhu Y, 2004). Under this circumstance, protecting employees' interests does not sit happily with serving the government's liberalization programme. Neither do local governments generally support trade union activities, since they are primarily concerned with economic development, based on attracting foreign and private investment (Chen, 2003a).

Not only helping local governments to promote the economy and to attract investment, but also maintaining social stability is another duty of the local trade unions federation. This responsibility has resulted in it facing a difficult choice. A senior officer of a municipal trade union said:

The basic function of a trade union is to protect the workers' interests. That's beyond any doubt. In reality, protecting the workers' interests has to be predicated on the development of the economy and maintaining social security. Therefore, we are always in a dilemma. When the government is keen on attracting foreign investment to boost the local economy, we are required to take the interests of the whole into account, which means that the workers' interests are secondary. Once the workers protest or walk out, the trade unions are required immediately to be a fire brigade. To maintain social stability comes first at this time. In short, protecting the workers' interests is never the most

important function of trade unions in practice. You can imagine, with so many responsibilities, how could we effectively defend workers' rights?

In addition, the problems inherent in the trade union itself also contribute to the ineffectiveness of the local trade unions. As the ACFTU is relatively weak at the central level, it lacks the power to support the local trade unions, which leads to the local unions being more dependent on the government and being less effective. As a vice chair of Chuzhou trade unions federation commented:

I hope that the ACFTU will become more powerful and participate at source to formulate laws to protect the workers' interests. It is difficult for us to play a positive role in safeguarding the workers' interests. For instance, we did our best to publish some local rules or regulations, but these rules were always ignored or restricted by the owners of private and foreign companies, and even the managers of SOEs. When we asked them to obey the local rules, they refused and said that they would only obey the law.

Obviously, some officials of the local unions favour the reform of the trade unions. Their attitude is more radical than that of the ACFTU. For instance, some officials I have interviewed considered that Chinese unions should learn from the experiences of the Western unions. A vice chair of a city federation of trade unions stressed that it is time to give the workers the right to strike. Some officials have stated that if there are no strong industrial trade unions and no right to strike, it is useless to discuss the issue of protecting workers' interests and the role of the unions. However, the topics of striking and independence are still sensitive. All of the officials of the trade unions I interviewed explained that they were only stating their personal views.

The right to strike is an especially sensitive issue in the ACFTU. Some officials of provincial and municipal trade unions have become convinced of the importance of the right to strike. In the interviews, some officials complained that the trade unions were in a dilemma. The workers never or seldom took notice of the trade unions when they planned to protest or strike. Once a strike began, the trade unions were required to assist the government to calm down the protest. It is very common for the trade unions to be regarded as 'useless' by both government and workers.

As within the ACFTU, the problem of bureaucracy also affects the local trade unions. In terms of state regulations, the officials of the ACFTU at central and local (above county) level enjoy the same standards of salary and perquisites as civil servants. The recruitment and promotion of the officials of the trade unions is no different to that of government officials. Hence, the majority of government officials, as well as officials of trade unions, regard the trade unions to be parts of the administrative departments. Many trade union officials are satisfied with the similarity of their status to 'civil servants'.

In 1981, 'The Provisional Rule of the Congress of Workers and Staff members in State-owned Industrial Enterprises' was published by the State Council. It provided a policy of 'deputy position treatment' (meaning that the trade union chair should hold the same rank as the deputy director of the enterprise). It guarantees union Chairmen the same status as the Vice Secretary of the enterprise's Party Committee or the Deputy Director of the factory (Baek, 2000). This policy contributed to the isolation of the unions from the workers. Later, the 'same treatment' was introduced to the local unions. Although this policy has been ignored by the management in non-state

enterprises since 1990s, it has been still hold good in local government. The Chairs and Vice Chairs are especially keen to hold a post concurrently in the government.

In addition, the local unions have various statuses for geographical and historical reasons. Normally, in big cities with a history of workers movements before 1949 or with industries developed after 1949, the unions enjoy a relatively good status, such as the trade union federations in Shanghai and Liaoning. Moreover, the SOEs are fundamental to the federations of unions. The number of SOEs, especially the number of large-scale SOEs, is also a decisive factor in the status of a local union. Comparatively, Anhui province, including Chuzhou and Hefei city, do not have the above factors favourable to the status of the trade unions. The provincial and city governments are deeply interested in developing their local economy. Hence, the role of the trade union federations at provincial and municipal level is very limited.

## **10.5 The Role of Enterprise Trade Unions**

According to Article 10 of the Chinese Trade Union Law, a basic-level trade union committee shall be set up in an enterprise, an institution or a government department with a membership of 25 or more; where the membership is less than 25, a basic-level trade union committee may be separately set up; or a basic level trade union committee may be set up jointly by the members in two or more work units, or an organizer may be elected, to organize the members in various activities.

The enterprise trade unions can be classified into three types in terms of the forms of enterprises: the trade unions in SOEs, trade unions in newly formed non-SOEs, and

trade unions in enterprises that have undergone ownership transformation (from SOEs to FIEs or POEs). These three types of trade union have different characters.

Attention has been drawn by many researchers to the trade unions in SOEs in the context of the Chinese reform. Reform of SOEs has largely deprived the enterprise trade unions of their traditional functions and their authority. As many writers have claimed, the union officialdom has been overwhelmed by the power of local governments, capital and management (Chan 2000a; Chan and Zhu 2003 b; Ding *et al.*, 2002; Chen, 2003a; Howell, 2003; Taylor *et al.*, 2003; Clarke *et al.*, 2004). The union may have a large number of members in the enterprises, but this can be misleading: it does not necessarily mean they have commensurate leverage on the management these days, since the latter now have more autonomy in decision making (Naughton, 1995). In addition, the role of grassroots Chinese trade unions became weakened and they have become increasingly marginalized in enterprises in the post-reform era, even in SOEs (Ding *et al.*, 2002). Two factors have contributed to the weakening of the unions. First, the enterprise union no longer claims to collaborate with management as the representative of the interests of the working class as a whole, but as a subordinate branch of the management apparatus, further undermining its authority in the eyes of its members. Second, following the reform of the welfare system, the transition to a market economy was associated with the detachment of the social welfare system from the enterprise and its provision through social insurance and local authorities. Such legitimacy as the enterprise trade union enjoyed as the beneficent provider of social benefits has been undermined as it rations increasingly scarce social and welfare benefits, so appearing as a barrier to, rather than a means of, the realisation of workers' interests (Clarke, 2005).

With regard to the majority of trade unions in non-SOEs, it is without question that the role of the trade unions is weak. Two factors contribute to the weakness of the trade unions in non-SOEs. From the viewpoint of the workers, most workers in such enterprises are migrant workers. They have little consciousness of being a part of a working class, and little knowledge of the trade unions. From the viewpoint of the trade unions, the organizational work in non SOEs is a very bureaucratic process. Normally, the officials of local unions visit the employers of the enterprises and persuade them to agree to form a union. After the agreement of the employers is gained, trade unions can be formed. Therefore, workers often have no knowledge of the trade unions. Relatives of the employers (for instance, the employer's wife or brother) often take the post of the Chair of the union. The union becomes a branch of management. For this reason, Article 9 of the revised Trade Union Law was changed to 'no close relatives of the chief members of an enterprise may be candidates for members of the basic-level trade union committee of the enterprises.'

In addition, the method of collecting trade union funds is also open to criticism by commentators (Baek, 2000; Ding *et al.*, 2002; Chan, 2005). According to the Chinese Trade Union Law (Article 42, 2001), the sources of trade union funds may come from membership dues, contributions, incomes derived from enterprises run by unions, and subsidies provided by government and others. Concerning the contributions, all enterprises, including those that are private and foreign-owned, are supposed to contain an enterprise-level union branch, and the employer is supposed to pay an amount equal to 2 per cent of the factory payroll every month to the union to cover its expenses. Hence, the expenses of enterprise unions are very dependent on income provided by enterprises (Baek, 2000). In detail, 60 per cent of the contribution is used

by the enterprise union, 35 per cent is paid to local federations of unions and 5 per cent is paid to the ACFTU. Not only the grassroots unions, but also the local federations of the unions and the ACFTU therefore have to be very careful in their relations with the employers.

## **Summary**

The dependent, ambiguous role of the Chinese trade unions has been widely debated by researchers. Traditionally, the role of Chinese trade unions has been defined as assisting the Party/state and the managers. Any concept of unions as protectors of workers' rights and collective bargaining has barely been mentioned. When China transformed to the market economic system and was exposed to the world economy, industrial relations became a very serious social issue, and the ACFTU made some changes in the direction of acting on behalf of workers' interests. However, there have been no tangible changes in the relations between the Party/state and the organizational structure of ACFTU, which is still under the command of the Party.

The Chinese trade unions still play a role as a 'transmission belt' in the context of globalisation and privatisation and the dramatic change of the economic system has resulted in the unions being in a real dilemma since the reform. In spite of some changes having taken place, radical changes, especially the relations with the Party, are not possible in the foreseeable future.

The organizational structure of the Chinese trade unions has resisted the development of industrial unions. As the main structure of the Chinese trade unions, the position of

local trade union federations has weakened in recent years. In addition, they have had to maintain closer relations with local government. Hence, not only is the identity of the local unions situated between the state and the workers, but they also have a complicated status: they have to keep a balance between local government and their own governing organization – the ACFTU. The interests of the workers are not always put first.

With the weak industrial unions, local trade union federations play an important role in the Chinese trade union movement. But they face many ‘dilemmas’. They have to obey the directives of the local Party committees, the local governments and the ACFTU at national level, whereas they are also the high-level unions of the enterprise unions. As an official of a local trade union federation complained, ‘to deal with these complicated relations is my day-to-day work’.

This chapter has provided an initial understanding of the role of the trade union in the context of economy reform. In the next chapter, an examination will be made of what the trade unions of the two companies did during the period of ownership transition. One of trade unions is thought to be one of the best trade unions in FIEs in the province, and the other union has been received awards from the ACFTU several times.

## **Chapter Eleven**

### **The Trade Unions in the Two Companies**

In the previous chapters, we have examined changes in factory regime in the context of Chinese economic reform. When Burawoy distinguished various factory regimes, the role of the trade union was a crucial factor. For instance, he argued that hegemonic regimes established constraints on the deployment of capital, whether by tying wages to profits or by creating internal labour markets, collective bargaining or grievance machinery which hamstrung management's domination of the workplace (Burawoy, 1985:263).

However, when we examine the ambiguous role of the Chinese trade unions at national and local levels, it is evident that the Chinese trade unions are not successful in being a representative of workers' interests due to the given political framework. The following two sections will explore the role of the trade unions in the two enterprises in the last two decades. I want to explore why the trade unions in both enterprises have failed to perform adequately in the new factory regimes.

## **11.1 The Trade Union in ChinaCo1**

### **11.1.1 The Trade Union and its Structure after the SOE**

The trade union in the SOE period has been almost forgotten by ChinaCo1 workers. The majority of workers I interviewed could not remember the actual role of the trade union in that period. As an older worker put it:

We had a trade union at that time. However, what did they do? It was such a long time ago that I cannot remember. The trade unions of SOEs were all the same. The jobs they did mainly concerned workers' welfare and some entertainment activities. Also, there were some activities to promote production. That's all.

The change of ownership and the resultant disorganisation meant that the trade union ceased to exist for a period of about 10 months in 1997, though the city trade unions federation asked the company to form a union as soon as possible. A specific occurrence resulted in the immediate reforming of the trade union: a worker's death by a forklift truck crashing in the factory. A dispute occurred between the Chinese and German managers in dealing with the accident. The German manager considered that the worker had not obeyed the safety rules and had walked on a road especially reserved for use by trucks rather than on the pavement. The dead man had to bear the responsibility and company would not pay much compensation. The director of the Dept. of Safety argued that the dead man had to bear some responsibility, but the company should bear more responsibility and pay compensation damages for the death due to the existence of some hidden dangers. After negotiation, the German

manager finally agreed to the director's appeal and paid reasonable compensation for the death. The event led to attention being paid to the issue of workers' interests by both Chinese and German managers, and the workers were required to reinstate the trade union. With the help of the city federation of trade unions, the trade union was re-structured in October 1997.

The trade union election was in accordance with the Chinese Trade Union Law. The process was as follows: the representatives of the Trade Union Congress were elected by the workers and staff from 14 units (including the workshops and the management sections). The number of representatives was equivalent to 8-10 per cent of the total number of workers in each unit. The representatives were elected by workers directly. The representatives from each unit formed a group. Every group elected a candidate for membership of the trade union committee. There was a difference between the number of candidates and the number of members elected. The result was 10 candidates were elected as members of the trade union committee because more than half of the electors had voted for them. They formed the trade union committee. The Chair and Vice Chair were elected by members of the trade union committee. The Chair was the director of the Dept. of Safety. He obtained the workers' confidence due to his fair attitude and his ability in dealing with the accident. The Chairman was also the Secretary of the Communist Party in the factory (which is not unusual in FDI companies). The union still kept its earlier organisational structure. The Chair, a Vice Chair and one member of staff are full-time trade union staff members who are paid by the company. The Vice Chair had been a workshop director.

The Chair also takes a post of the secretary of the Party Committee. This is not unusual in foreign and domestic private companies. With the Party withdrawing from the direct control of SOEs and the dramatic growth of the non-state enterprises, the chairs of the trade unions are encouraged to take the post of the Secretary of the Party committee. The Party needs the unions if there should be a desire to counter the power of management in China's monophonic labour market (Metcalf *et al.*, 2005).

The unions in enterprises in China have usually been tame and normally under the control of management (Chan, 2005). This characteristic is significant in ChinaCo1. Take the change of company's organization structure as an example: although the German managers completely changed the original organizational structure of the company, the trade union, as an administrative department, remained directly under the General Manager in the company's organizational chart. The status and the treatment of the Chair were the same as other senior managers, such as the heads of the Departments of HRM or Finance. The Chair of the union was satisfied with his status. However, after 2004, the trade union was moved and is now under the Dept. of Human Resources Management, which means that the position and the rank of the trade union have decreased: the position of the Chair has decreased to that of a lower level manager. This change was not notified by the Chair in advance: when it happened, he requested a return to the original position, but there has since been no further change.

The Chair was pleased with the union's 100 per cent member density. In reality, this 100 per cent excluded all the temporary workers. The union in ChinaCo1 did not allow the temporary workers to join, although the ACFTU had raised the demand for

‘getting the largest possible numbers of the workers and staff members organized into the trade unions’ in 1998. Furthermore, the officials of the union did not want to talk to me about this issue.

### **11.1.2 The Role of the Trade Union in ChinaCol**

#### **11.1.2.1 The Redefinition of the Role of the Trade Union**

Early on, the trade union still focused on workers’ entertainment activities and welfare in the traditional way. As the Vice Chair of the trade union said:

I have no experience as a leader of a trade union in either SOEs or non-SOEs. I was a workshop director. When I was elected as the Vice Chair, I had no idea of how to work in a foreign invested company. Then, we had to begin our work concerning the workers’ entertainment activities and welfare.

As a matter of fact, these ideas were in accord with the workers’ initial expectations. The workers were used to this way of thinking in the SOE period. They hoped the trade union would help them to increase their welfare and organize some entertainment activities. However, the union’s work hit a snag at the outset.

In early 1998, the workers asked for a year-end bonus and an annual vacation. The officials of the union relayed these requests to the general manager and discussed the issue with him time and again, but the manager refused the workers’ requests. As far as the workers’ entertainment activities were concerned, the union’s work was also

not successful. Some young workers asked the trade union to set up a table tennis or basketball team for them. This was a traditional job of the union in SOEs. Nevertheless, the German managers again refused the request. The failure led to dissatisfaction among the workers. The workers' discontent with the trade union subsequently reached a pinnacle. As described in Chapter 6, in 1999, during the May Day celebrations, in order to protest about the German managers cutting the workforce, the angry workers blocked the company's main and back gates with bikes and motorbikes, which resulted in production stopping for three days (Zhu, 1999). The Chair of the union did not know about the workers' protest in advance. The event gave him a shock and forced him to think seriously about the function of the trade union in a company with foreign investment. The Chair said:

The event made it clear to me that the workers in a joint-venture company and foreign investment company were no longer the 'masters', and that only the trade union could reflect and safeguard their interests. The workers' expectation is not as the same as that in SOE period. They hope the union not only could organize some entertainment activities, but also could help them to get better payment, welfare and job security. I began to understand them and to do my best to work for the workers.

The Chair redefined his role, firstly to reflect and protect the workers' interests and secondly to maintain stability and promote the development of the enterprise. His view is that the second role also protects the workers' interests: to keep their jobs and their relatively high salary is the best protection of their interests, he explained. In reality, his view is the same as the general guideline of the ACFTU.

According to the organizational structure of the ACFTU, the trade union of ChinaCo1 is under the leadership of the local federation of the unions. It has no relations with industrial unions. Concerning the role of the local unions' federation, the Chair said:

It is unfair to say the local union is helpless. But they never have ways to help me to sort out difficulties. For instance, after the position and the rank of the trade union were decreased, I asked the local union to help me to argue with the foreign managers. But they did not do it. I understand their plight.

#### **11.1.2.2 Reflecting and Protecting Workers' Interests**

Despite the redefinition of the role of the union, the current significant achievements of the trade union still mainly concern the workers' welfare and entertainment activities. Following representations made to it by the trade union chairman, the company announced that from 2002, every regular worker would have five days paid holiday, a benefit that is rarely found in other local foreign and private firms. Apart from this, the company was also persuaded in 2002 to pay social insurance (for unemployment, retirement pension and medical insurance) for temporary workers as well as for regular workers. Other benefits that came about because of the union's involvement include a \$0.60 per day lunch subsidy and a decision by the company to pay \$3600 per year so that workers can rent a venue to play sport. From 2003, all the members of the trade union have a chance to go on a visit to another province every 3 years. The trade union covers the 500-yuan cost of this.

In issues connected with the workers' vital interests, such as job security, working time and overtime payments, the trade union seems somewhat passive. It is clear that the trade union has no power to help the workers to keep their jobs. What they can do is try to help the workers to get reasonable treatment when they are sacked or subcontracted to another company. In 2004, in order to reduce production costs, the company decided to subcontract a workshop, including 30 workers, to a private factory. The workers were worried about their future contracts and welfare. The trade union helped the workers to negotiate with the management. Finally, the company agreed to sign two-year contracts with the workers and assure them that they would enjoy the same level of salary and welfare as the workers in ChinaCo1 for the next three years. Relatively speaking, though, the union prefers to help individual workers to deal with their problems rather than to work on collective problems.

The union has almost no ability to deal with working hours and overtime payments. As discussed in Chapter 6, the flexible working hours and annualised hours system are the biggest areas of complaint by the workers. The trade union has relayed the workers' complaints to the managers several times, but there have been no improvements. As far as the continuous increase in the pace of production is concerned, the Chair of the trade union explained that he knew about the workers' complaint, but it would be impossible for an individual Chair to control the pace of production in different production lines in the refrigerator sector. This work should be done by the relevant industrial union or the labour bureau.

In addition, the union has little influence on the implementation of modern management methods. As described in Chapter 5, the introduction of new management methods has led to more intensive work and more work-related stress. However, there is little evidence of the union resisting these changes. Both the management and the officials of the union agree that the union has no relations with the management with respect to the production process. It is almost impossible for the union to co-determine important decisions, including production and financial issues related to the workers. When I put this query to the head of the production department, he answered:

We always keep contact with the officials of the union during the process of making decisions relating to the workers. We consider their suggestions and opinions. But the right to make the decision is in the managers' hands.

During the period of the research, I interviewed the Vice Chair several times, both in formal and informal ways. In 2001, the Vice Chair said:

In my view, it is necessary to support the management in the introduction of the modern management methods. It is said that making profits greatly protects workers' interests.

In 2004, when we talked about this issue on an informal occasion, she expressed her helplessness:

The union has no right to influence management's decision. To be honest, even though we have the chance to participate in management, I am not confident that I have enough ability. I am not familiar with the management theories.

The above is clearly no recipe for militancy. Indeed, there is no collective bargaining. The trade union has asked for collective bargaining rights since 2000 but the General Manager has claimed that decisions about this cannot be made at his level and the trade union chairman is in any case aware of another difficulty, for as he sees it, the Chinese Labour Law is ambiguous, stating that a collective contract 'shall be' concluded by the trade union on behalf of the staff and workers with the enterprise, not that it 'must' be concluded.

The Chair complained that the management is able get expert advice on how to deal with the trade union and how to interpret the law from a number of sources, including the German parent company and its membership of a federation of foreign businessmen in China. It cultivates its relations to local government and can usually rely on it for support. By contrast, the union officials are largely isolated and can get little help from the city's trade union federation, which thus far has little experience of dealing with labour relations in foreign enterprises. The chair of the city federation of trade unions commented:

Concerning the system of collective contracts, I do not care about the form very much. As you know, many concluded collective contracts only wrote down the minimum standards for individual labour contracts. Moreover, in most cases this minimum corresponds to the legal minimum. In other words, they are just for show or to meet the requirements of higher-level trade union bodies.

From my personal view, ChinaCo1's achievements came from informal bargaining, which is better than those contracts that are just for show. You should understand the meaning of 'Chinese characteristics'. The ACFTU uses the words 'equal consultation' rather than 'collective bargaining'. Theoretically, the premise of collective bargaining is that there are two independent sides representing the interests of employer and employees. Like all the full-time staff of the unions, I don't think the Chair of ChinaCo1 is independent. He is paid by the company and he has to think about his own job. In addition, both he and I have no right to organize a strike. Moreover, the municipal and industrial trade unions play a very limited role. In the given circumstances, is there any real meaning to setting up a system of collective contracts?

The channel to reflect workers' opinions is informal, though it is called the 'system of regular meetings between the Chair and the General Manager'. The Chair meets the German manager one or two times per month to relay the workers' opinions that the union has collected. Since 2001, a new system, the so-called 'emergent consultation system', has been set up, which means that besides the regular meetings, if there is an important or urgent situation connected with the workers, the chair has the right to meet the general manager directly without appointment.

Some conclusions might be drawn from the above description. Firstly, the role of the union is a reflector of the workers' requirements rather than the representative of the workers' interests. The characteristic of 'transmission belt' is in this context significant. Without the right to strike and a collective bargaining system, the union has no powerful weapon to use against the employers. More importantly, the foreign managers have never been regarded as the workers' opponents by the union. The union is also, of course, a transmission belt for the Party.

Secondly, the Chair's individual personality and ability is a vital factor. As the Chairman said:

I am very confident of my ability. I am a Party member and I know some laws. I was the Director of a workshop and the head of a management department. Most importantly, I am 57 years old and I will retire soon. I do not care about the attitude of the managers. Therefore, I have the courage to reflect the workers' interests. I am not sure if my successor will have the same courage as me. I have to say the Chair's ability and courage are very important.

The trade union's Chair emphasised that ChinaCo1 is a private company in which workers cannot communicate readily with managers, and that only the trade union can do this and represent their interests. The effectiveness of the union basically comes down to the individual diligence and abilities of its officials, especially the Chairman, who knows that things are no longer as they were under the SOE:

Relatively speaking, it is much easier to participate in the management in state-owned enterprises. Here, management make decisions by themselves. We get to know about things after they have been decided. Sometimes, we haven't known a decision has been made until a problem arises or workers have come to tell us. Then it's difficult to deal with. We are in a passive position.

Relying on individual influence, without collective bargaining, the role of the union is limited to merely relaying the workers' requests. The result is entirely decided by the management.

In short, in spite of some achievements, the union simply feels helpless facing the challenge of the new factory regime. In the next section, we will discuss the views of the workers and managers on the unions.

### **11.1.3 The Assessment of the Trade Union**

Notwithstanding the above mentioned issues, the trade union is highly rated by the city's trade union federation and its recognition as an advanced unit has been marked by a 'Multi-Love and Double-Rank' award. Difficult to translate, this award signifies, in the first part of the couple, 'Multi-Love', that the employees love the enterprise and that the enterprise loves the employees; the second part, 'Double-Rank', means something like 'Praise be to the good employees who love the enterprise'; and 'Praise be to the good employers who love the employees'.

The Chair of the trade union is very pleased with his achievements. In a workers' congress in 2004, when a worker complained that the trade union did not have the ability to protect the workers' interests, the Chair sharply refuted this "I am sure the work of the union in the company makes it one of the best trade unions in the city, even in the province."

The management's assessment of the union, and especially the view of the foreign managers, is positive. One of the German managers told me that he had initially been doubtful about reinstating the trade union but he had come to appreciate it:

At first, I wasn't convinced. I knew the power of trade unions in Europe. They always fight for workers' interests. But I was told the main function of the Chinese trade union is so-called 'twin protection', that is, to promote the development of the enterprises and to protect the workers' interests. The union's staff keep in touch with workers in the workshop and let me know what they are thinking on a regular basis. I meet the Chairman once a month. So I can understand workers' opinions and deal with them. The trade union gives the company a great deal of help. Compared with a German trade union, I like Chinese trade unions very much.

The assessment coming from the Chinese managers is also positive, even though they do not think the union is very important. The director of the Dept. of Production and some supervisors of workshops claimed that the trade union has always helped the managers to persuade the workers to work hard and obey the regulations in order to keep their jobs.

The director of the Dept. of HRM clearly sees the role of the trade union as to collect the workers' opinions and relay them to the management. He claimed that "As a branch of a famous multinational company, the management always pays serious attention to the issues of the workers' interests. The management has the ability to make effective and fair policies in the framework of Chinese laws and no policies have broken the relevant laws. Only some details, such as the workers' lunch and light shift subsidies, might be ignored. The trade union would remind them to deal with these issues. That's the role of the union", he concluded.

The data collected in 2001 showed that the majority of workers, 77 per cent, said that if they had a grievance, they would take it to management, not to the union, as the union has no impact on the key issues that concern workers. One of them summed up the situation: 'the union staff members are nice. I would like to chat with them. But if I have a grievance, I have to take it the manager. It is almost useless to take it to the union'.

The Chair of the union, on the one hand, claimed that one of the important roles of the union is to serve as 'belt' between the managers and workers; on the other hand, he complained that it is not easy to participate in management in FDIIs. The following two tables present the workers' views on the union's support for employee participation.

**Table 11.1 Workers' Views on Union's Support for Employee Participation**

	very good	good	neither good nor bad	poor	very poor	don't know
Keeping everyone up to date about proposed changes	12	18	47	6	2	14
Providing everyone with the chance to comment on proposed changes	10	23	33	19	4	10
Responding to suggestions from employees	14	29	31	12	2	12
Total N=50						

**Table 11.2 Workers' Views on Managers' Support for Employee Participation**

	very good	good	neither good nor bad	poor	very poor	don't know
Keeping everyone up to date about proposed changes	24	34	40	0	0	2
Providing everyone with the chance to comment on proposed changes	18	44	26	6	2	4
Responding to suggestions from employees	20	48	18	8	2	4
Total N=50						

Looking at the above three issues, more than 30 per cent of workers still rate the union as 'very good' or 'good' but most rate the company's managers much higher on various criteria.

In addition, the diversification and stratification of China's workers has created a fundamental problem of representation for the ACFTU (Howell, 2003:104). At the enterprise level, this issue has resulted in different evaluations of the trade union. Comparatively, the contract workers are more satisfied with the union than the temporary workers. The majority of the dissatisfaction of the temporary workers is due to them having no right to join the union and hence having no right to enjoy the special welfare provided by the trade union. As a temporary worker complained:

All of us (contract and temporary) are workers. Why do I not have the right to join the union? I learnt the Chinese Labour Law. It is said all the workers have the right to join the trade union. Each May Day and National Day, the trade union will provide the members with fruit, rice, vegetable, and oil. Some members have the chance to enjoy a free tour to Beijing or Shanghai. The temporary workers haven't. I am very jealous of them: I feel it is unfair. Currently, we workers are at the bottom of society already. The trade union is a workers' organization. Why does it look down upon our temporary workers?

## **11.2 The Trade Union in ChinaCo2**

The trade union of ChinaCo2 has been given awards by the provincial federation of the unions and ACFTU. In 1991, the ACFTU awarded ChinaCo2's union a 'May Day Labour' certificate of merit, which is the highest award given by the ACFTU. In 1994, the Chair of ChinaCo2 was awarded a 'Good Chair' certificate of merit by the provincial federation of the trade unions. However, when the union in ChinaCo2 was researched in depth, it was found the two-decade history of the union is not a short

story. Compared with the union of ChinaCo1, the union of ChinaCo2 seems more powerless and ineffective. The union was ignored by both managers and workers.

### **11.2.1 The Structure and the Density of the Union**

During the SOE period (before 2003), the organizational structure of the ChinaCo2's trade union was in accordance with China's Trade Union Law and its activities were in terms of the directives of the 'high-level trade unions', such as the city trade unions federation, provincial unions federation and the ACFTU. The trade union had more than ten full-time staff. The former Chair of the trade union held the post from 1984. During his tenure in office, he also held the post of the vice secretary of the Party Committee and the secretary of the Party's commission for inspecting discipline. The latter two were very important positions in the SOE period. He enjoyed treatment under the 'deputy position', which means his wage and welfare level were the same as those of a Vice General Manager.

After the ownership transformation in 2002, as a crucial step in the downsizing of management departments and saving management costs, some departments with no direct relation to production and marketing were simplified and merged. The separate political departments, such as the Party Committee, the Youth League Branch and the trade union, were merged to form one department, namely the Party and Masses Work Department (*dang qun gong zuo bu*). In order to further reduce management costs, the department of HRM re-defined various positions. Accordingly, some full-time staff in non-production departments were replaced by part-time staff. The basic principle of

downsizing is that one person holds concurrent posts. Concerning the staff of the trade union, there are now only a part-time Chair and one full-time staff member. The other full-time staff members were moved to other positions.

The current Chair of the trade union holds at least three positions: the director of the CEO's office (in terms of the job description defined by the HRM Department, this is a crucial position in the company, with responsibilities including: supervising the implementation of the CEO's decisions; managing all the documents; collecting suggestions and relaying them to the CEO; and helping the CEO to draft all kinds of reports); the Chair of the trade union, and the secretary of the Party's commission for inspecting discipline. He complained:

To be honest, I don't know if I could answer your questions about the trade unions. I only took the position several months ago. I have no idea of the work of a trade union. I have to deal with trivial matters for the CEO's office day to day. It is impossible for me to do work for the union. In addition, I am not the formal chair. I am only the temporary head of the union because I was not elected by the workers. If I were the formal chair, it would have been decided by the General Manager.

Concerning the union's formal, democratic election procedure in 2006, the Chair promised that the procedure would certainly take place, but the final decision would be based on the General Manager's opinion, not the workers' votes.

Currently, only one 55-year-old full-time staff member works for the trade union. His position is defined as being of low rank. This staff member told me:

I have worked for the trade union for fifteen years. Before the ownership shifted, I was the Vice Chair of the union. My official rank was the same as middle level managers. Currently, my official rank has decreased to the degree of ordinary staff. In terms of wage level, I am paid even less than the personal driver for the CEO. I always feel very sad when I sit in the trade union office alone. How come such a big trade union vanished in one night?

All the positions of the Chairs of the union branches within ChinaCo2 are taken by the directors of the workshops and the heads of management departments. They concentrate on production and management and have no time to work for the trade union. Moreover, a head of a workshop told me frankly that he is not interested in the union.

As at ChinaCo1, the Chair claims that the union's density has reached 100 per cent, but this does not include agency workers. With regard to the agency workers not joining the trade union, an explanation came from the head of the department of HRM: The agency workers have no employment relations with ChinaCo2. Thus, they have no right to join the trade union in ChinaCo2. If they want to join a union, they need to contact the labour agent company. As noted in Chapter 9, the agency workers conclude the labour contracts with the labour agent companies. Accordingly, the relations between the workers and enterprises are defined as labour supply relations (*lao wu shu chu*) rather than labour relations. With respect to the attitude of the union, the Chair and the full-time staff member have not made positive efforts to attract the agency workers to join the union. The staff member explained:

I know the ACFTU and the provincial trade unions federation have issued several circulars to encourage the migrant workers to join the union. But I have

no idea how to attract them. We have no activities, no power to safeguard their interests.

Of course, the managers of ChinaCo2 do not want the agency workers to join the union. This is a loophole in the law. The problem should be dealt by the ACFTU.

However, Professor Feng from the Chinese Institute of Industrial Relations explained this situation from another viewpoint:

In some large SOEs, especially the enterprises with good performance, the unions always had abundant funds. They don't want the migrant workers to share this part of their property. That is one of the reasons why some officials of trade unions in large-scale SOEs are not positive in attracting migrant workers to join the union.

In addition, it is also worth doubting the 100 per cent density: many contract workers I interviewed stated that some workers have refused to pay the membership fees in the past two years. According to the law, if a worker does not pay the membership fee, he is not a member of the union. Despite the exact number not being available, a decrease in the membership rate is not in doubt.

### **11.2.2 The Activities of the Trade Union**

The activities of the union in the SOE period could be stated as follows: the first and most important function was to organize entertainment activities for the employees' spare time. The company invested a great deal of money to set up a workers gong and drum team. By 1995, the membership of the team expanded to more than one hundred.

The company provided free clothing for the players. The trade union had its own library, which provided the workers with free loans of novels, CDs and VCDs. Sporting activities were another function of the trade union. Table tennis, badminton and basketball teams were welcomed by the young workers. The union provided not only a free location for sports, but also free instructors for the workers.

Assisting the management to promote production was another crucial function: organizing the workers and staff to take an active part in making rationalization suggestions and emulation drives were the two traditional activities. Each month, the union asked the workers to fill in suggestion forms. The union staff collected the forms and selected good suggestions to present to the technical department. If a suggestion was accepted, the union would reward the worker who made it. At the end of the 1980s, a complete network to collect rationalization suggestions was set up. The Chair held the post of the head of the rationalization suggestions leading group. The emulation drive, as a major activity of ChinaCo2' union, has been carried out for more than ten years. The Chair of the union was in charge of the organization of this function. In order to promote production, the emulation drive was required by the management to focus attention on technological creation and innovation. The trade union organized a 'workers' skill competition' each year when workers with good skills would be rewarded.

During the 1990s, the good performance of ChinaCo2 resulted in good welfare. The union participated in distributing the welfare, such as housing, bonuses and free food. Besides the above, helping the workers to deal with individual or household problems was also part of the union's day-to-day business. When individual workers had a

grievance, they sometimes asked the trade union to help them: with an important position in the company, the chair sometimes had the ability to sort out the problems. However, the 'good time' of the trade union came to an end. Privatisation seriously impacted the trade union. The union had only one full time staff. Almost all the unions' activities have been suspended. The union has little influence in any decisions of the company.

There is no collective contract system in ChinaCo2. Indeed, this system was not set up in the SOE period. The reason for there being no system of collective bargaining in such a large-sized SOE is a sensitive issue in ChinaCo2. I could not get an answer to this question. The current chair talked about the topic in a relaxed way:

I am not quite clear of the reason why there was no collective contract in the SOE period. Is it an important issue? In terms of the status of the union, it has not enough ability to bargain with the managers. I am not interested in it. I consider the role of the union of ChinaCo2 to be to educate the workers to work hard for the enterprise and keep their jobs.

The Chair admitted that he had no time to think about the trade union's work seriously, 'anyway, to let the workers to work hard for our new boss might be one of our tasks', he commented.

It is unfair to conclude that the union is entirety idle. The one full-time official tries to keep the union going on as usual, but it is not easy to do this. According to the new 'position statement', the full-time union official's responsibility also includes the issue of retired workers and staff. He has to visit workers who are in hospital and to help to make arrangements for dead workers' funerals. 'The hospital and crematorium

are my second office', he told me: 'the union's real work that I conduct is limited'. In 2004, he undertook three functions. The first was collecting the membership dues. Originally, the membership dues were collected by the union groups in the workshops and departments and turned over to the union. It was therefore easy to complete this work. As there are no longer entertainment activities, no free tour and no free food during festivals provided by the trade union, some workers refuse to pay the dues. The official has to persuade the workers one by one. The second job was to organize the workers and staff congress, which was held according to the procedure but in which no decisions were made. In spite of the new trade union committee being elected, it is only a list of names and is useless. The third job was to organize a game of 'tug-of-war': 240 workers joined in and it was the only union activity widely known by the workers.

The staff stated his situation has as following:

You asked me if the workers asked the union's help if they had a grievance. My answer is 'No'. Including the part-time Chair and me, there are only two officials. I don't think the workers trust the Chair. He is regarded as a manager rather than the Chair of the union. If the workers bring their grievance to me, I have to honestly say that I have no way to help them and ask them to take it back to the managers.

In sum, the so-called 'good union' was based on the SOE structure and personal relations with no support of the workers. Once the external factors changed, the status of the union declined.

### **11.2.3 An Analysis of the Decline of the Trade Union**

Before we analyse the decline of the union after privatisation, it is worth recollecting the actual role of the union in the SOE period. As noted above, the formal Chair of the union held two important positions besides the Chair. In reality, his power came from the positions in the Party Committee rather than the Chair of the union. Moreover, he played a key role in helping the director of the factory to renew the business in the mid-1980s. Hence, he kept very close personal relations with the director. The formal positions outside the union and the informal personal relations resulted in the 'good status' of the union during the SOE period.

In addition, the role of 'welfare provider' increased the union's status. The enterprise did not radically reform the welfare system until the mid-1990s. The union played a crucial role in planning the distribution of the housing and bonuses. Hence, the enterprise union enjoyed the status of a beneficent provider for a certain period. Along with the deepening reform within the enterprise and the setting up of the social security system, the welfare based within the enterprise has been shifted to social insurance under the control of the local authority since the mid-1990s. The union has thus lost an important function.

Entertainment and sports activities, as the main activities of the union, have been impacted by the application of flexible working time and the speeding up of production. The full-time official complained:

We had enough space and good facilities for mass sports activities. However, these facilities were idle for a long time. Since the late 1990s, it has been very difficult to organize mass sports activities. On the one hand, the workers are not interested in these activities, as they feel very tired after long day's work. On the other hand, the managers do not want us to organize such activities. Relatively, the latter is more important.

In reality, the symptoms of the decline of the union were noticed by some officials of the union after 2000. They reminded the former Chair to pay attention to this problem. The Chair enjoyed being the 'transmission belt' and an assistant of the management. After the mid-1990s, assisting the management to promote production became the central function of the union of ChinaCo2.

More than ten full-time officials and staff were paid by the company in the SOE period. However, all the part-time Chairs of the union branches in the workplace and the heads of the union teams were held by the directors of the workshops and the production teams.

It is evident that the union lacked the active support of its members in the SOE period. The reason for the decline of the union was not only the ownership transformation, but also a problem within the union itself. Because apart from the above mentioned factors, division amongst the workers have also weakened the union.

In ChinaCo2, the older workers had worked in SOEs for a long time. They were familiar with the union as an organization of 'mass sports and entertainment' instead of an organization of the working class. A worker said:

We were satisfied with the former union. They provided us with welfare and organized us to join in with entertainment activities.

However, I am not satisfied with the current union. At present, the company belongs to the capitalists and it is very necessary to have a strong trade union. The fact is that the trade union has no ability to protect its own staff. You know, a full-time union staff member had to shift his position to the workshop. He worked side by side with me on the production line. Therefore, we now have no confidence that the union has any ability to protect the workers' interests. During the events of the National Day, no one thinks about the role of the union. If you had not mentioned the words of trade union, I would not have thought of it for a long time.

In contrast to the older workers, many young contract workers are not familiar with the role of trade unions. The majority of them were recruited from senior technical schools and their average age is less than 25 years old. With the advantages of age and skill, they are not interested in relying on the union to protect their interests. The high turnover of the young workers proves that they would like to 'choose with their feet'. The agency workers do not have the right to join the enterprise trade union and they also know little of the trade unions.

The municipal and provincial trade unions have had various roles in the different periods. In the 1990s, the provincial and municipal federation of trade unions gave awards to the union of ChinaCo2 many times and kept close relations with the top manager of ChinaCo2. During the process of ownership transformation, they helped the enterprise union to persuade the workers to support privatisation in order to prevent protests by the workers and to maintain social stability. However, after the union was downsized and the staff members were reduced to a lower rank, the

officials said that they could not help them. The head of the grass-roots organization department of the provincial federation of trade unions said:

What we can do is to help the formation of trade unions in non-state enterprises. The existing trade unions are not the key point of our work. I know what has happened with the trade union of ChinaCo2. The Vice Chair of the provincial federation of unions met the new private owner and asked him to pay attention to the trade union. He promised he would cooperate with the union. But the situation has not taken a turn for the better.

To sum up, it seems that privatisation resulted in the decline of the trade union. In reality, the weakened trade union is itself the real one. In addition, although role of the Party committee within declined also in the process of marketization, the trade union is controlled by local trade unions federation and further it is controlled by the Party/state. Under this circumstance, it is impossible for ChinaCo2's union to make big improvements in the near future.

## **Summary**

In order to be successful in the market, labour control is becoming a crucial factor. No significant difference exists between the two companies in the form of management: both resort to strict management methods, although, as a branch of a world-leading company, the management in ChinaCo1 seems closer to European and American forms.

Trade unions in both companies have had to face the same challenge of a change of factory regime. Although the union officials in ChinaCo1 do their best to protect the workers interests, and although they may be right that they do better than most, the effects of their efforts seem limited. The union has little influence on the implementation of modern management methods, nor on the contract and material issue that affect the workers' interests. Moreover, they can do nothing without the agreement of the management.

Concerning the trade union of ChinaCo2, despite the radical changes in the aspect of factory regime that have taken place in the company over last two decades, the union has not made changes and has kept its traditional role. It seems that the new management methods, especially privatisation, resulted in the collapse of the trade union. In reality, without any fundamental changes of the trade unions themselves is the main reason. Some common characters of the trade unions in the above companies might be summarised as follows:

The unions' role in the two companies reflects their identity as a 'transmission belt' between the management and the workers, rather than as representatives of the workers.

Without strong support from the trade unions at the national, local and industrial level, the personal abilities of the Chairs of the trade unions play a crucial role at the enterprise level, while the attitude of the management to the union is another important factor. In ChinaCo1, the role of a good Chair is to relay the workers' opinions. However, he can do nothing without the agreement of management.

Moreover, ChinaCo2's union has accomplished nothing at all. It is perfectly clear that the trade union has become an 'outsider' of the labour process.

The division of the workers has further weakened the trade unions. From different reasons, neither union allows temporary and agency workers to join the union: these workers account for roughly one-third of the total workforce. Many young workers are not familiar with and are not interested in the unions. In general, workers correctly regard the unions as weak.

## Conclusion

It has been nearly three decades since China embarked on marketized economic reform in the late 1970s. This thesis has considered changes that are underway in China's white goods industry. In particular, it examines the impact of the factory regime on workers in two refrigerator enterprises from the starting point of a historic review of the development process of China's white goods industry and also from the standpoint of individuals on the shop floor. Several conclusions have been reached. These, together with some more general remarks, are as follows.

1. Market relations rather than ownership transformation played a crucial role in the change of factory regime.

In terms of most studies on work in China, ownership transformation from the public sector (including SOEs and COEs) to private (FIEs and POEs) is a key point in the change of labour relations and further in the decline of the status of workers. However, my investigation reaches a different conclusion in this particular sector. It raises the question of the role of market relations, as distinct from formal ownership, in affecting employment relations and explains this role. The white goods industry in China provides interesting cases in this respect, since it contains examples both of companies that have changed formal economic ownership and of others that have not.

As demonstrated throughout this thesis, as one of the first industries in China to open to market competition, in contrast with other 'pillar' or 'basic' industries, the market has played a crucial role in developing both the industry and further, the factory

regime, and this character has become obvious since this sector joined the worldwide market competition.

Burawoy and Lukacs (1985) distinguished between the viability of capitalist and state socialist enterprises: the viability of a capitalist enterprise depends on its profitability, whereas the viability of a state socialist enterprise depends on its success, as defined through bargaining between it and the state. They mentioned that the hierarchical relations of the state with the enterprise in state socialism, and the market relations among enterprises in advanced capitalism, are the most important determinants of the character of these two types of society.

Burawoy and Lukacs's analysis generally matches the experience of Chinese enterprises under the planned economy. However, the Chinese white goods industry emerged in the period when China began shifting towards a market economy. The state's intervention in this sector was therefore never very serious. The viability of the majority of successful domestic enterprises was linked to profitability. Moreover, the hierarchical relations of the state to the enterprises have been replaced by market relations among enterprises (including state-owned ones). Following the comparative research between enterprises of a similar scale in Anhui Province, with similar technological levels, products and development history, but with different ownership forms, I argue that market relations rather than ownership forms have played a crucial role in reshaping factory regimes in China.

Chapter 4 and 7 review the twenty years history of the two factories. They share similar development processes: starting from small-scale SOEs; changing the line of

production to refrigerators in order to ensure a good future in the market; paying a great deal of attention to market share. From this time, profitability became the only theme for both factories, although ChinaCo1 became a joint venture with foreign capital in the early 1990s and ChinaCo2 remained in SOE form until 2002. In order to pursue profits, the purpose of production by the enterprise has been altered. Capturing market share or raising sales have become the most important targets of various types of enterprises. ‘No market, no meat for you’, the well-known director of ChinaCo2 warned his workers.

Nichols *et al.*, (2004) distinguished three aspects of factory regime – labour control and management methods; contract; and material support. In respect of the three issues concerning factory regimes, many similarities were also easily found. The two case studies in this thesis reveal that no fundamental distinction was found in the patterns of factory regime in these enterprises with two types of ownership.

With regards to the issues of labour control, under pressure from fierce domestic and world market competition, the management of both the SOE and FIE have become enthusiastic advocates of tighten labour control, in the shape of the application of modern management technologies. Similar patterns of management and of labour control in production have been undertaken. As seen in Chapter 5 and Chapter 8, in the production process, increasing productivity, improving the quality of the products and reducing costs have been deemed vital. For this purpose, TQM, 5S etc. were commonly used in both ChinaCo1 and ChinaCo2. Moreover, other management methods, some from ChinaCo1’s German parent company, and some created by ChinaCo2’s director, which originated in foreign management theories, were also

applied. In particular, great efforts have been made in building control systems to reduce defective products, for instance, a customer service system in ChinaCo1 and a '3- D' system in ChinaCo2, which in reality are similar methods. In addition, speed-up, extending the working hours and other forms of labour control have been also adopted. 'Facing the big challenge of the market, we have no other choice. The workers have to bear such pressure' was a view shared by many managers I interviewed.

With regard to contract, based on the labour contract system promoted by China's government, the managers in these two companies have kept trying to adopt a much more flexible contract system. As demonstrated in Chapter 6 and Chapter 8, the managers in ChinaCo1 were unsatisfied with the open-ended contracts. Since 2002, they have no longer renewed the open-ended contract with each of the workers who have the right to apply. Worse, in ChinaCo2, open-ended contracts have been refused by the management since 1997. Only one-year contracts are concluded with all workers. The ChinaCo2's managers claimed they plan to shorten the agency workers' contracts from one year to half a year. Most workers find this system brings only stress and uncertainty to their jobs. In contrast, from management's standpoint, the labour contract system is regarded as a useful tool with which to control workers.

With regard to material support, like the implementation of the labour contract system, the reform of the wage and welfare system in China took place in the early 1990s. Similar payment systems, the so-called 'post and skill wage system', were introduced by both companies in the early 1990s when they were both SOEs. After ChinaCo1 shifted to become a joint venture company, the German managers carried the link to

performance further. The workers' wages comprise three parts: 40 per cent is the basic wage; there is an element of 30 per cent for team achievement and another 30 per cent which relates to individual performance. In ChinaCo2, based on the 'post and skill system', a 'self-created' wage system was fixed in 1997 after having been revised several times: like the structure in ChinaCo1, seniority no longer existed; the basic wage accounted for 40 per cent and 60 per cent of the wage was linked with the workers' performance and determined by the management. The detailed regulations were produced by the management in both companies. The non-wage material benefits have decreased. According to the laws and relevant regulations in China, both companies set up social insurance systems for employees. Comparatively, ChinaCo1 still retained a few welfare benefits for its workers. During the three Chinese traditional festivals, a total of 500 yuan is paid to each employee, whilst there are no benefits in kind in ChinaCo2. The complaints of the workers about this decrease were criticized by managers as being based on 'traditional concepts'.

It seemed at first, when we look at ChinaCo1, that the above patterns of factory regimes had been shaped by the ownership transformation. When we examined it carefully and in more depth, we found the form of ownership was not the most important factor. In ChinaCo1, the modern management methods, labour contracts, and the 'post-skill' wage structure were adopted in the SOE period, although they did not achieve good results. The role of the German managers is to carry them out systematically and effectively. In ChinaCo2, the reshaping of the new factory regime was finished in the SOE period. As seen in Chapters 7 to 9, there were no big changes in the POE period. Therefore, Burawoy's distinction between the viability of enterprises in state socialism and advanced capitalism does not work in the Chinese

'socialist market economy'. It does not work because, in China, the viability of state-owned enterprise does not necessarily depend on bargaining between it and state but upon market relations between enterprises. Market relations have been the most important factor in promoting the reshaping of the factory regime.

2. The role of local government plays a certain role in reshaping the factory regime.

Some other factors have played a certain role in reshaping the factory regime. Amongst them, the role of local government should not be ignored. Although economic reform has decentralized economic decision making powers to the enterprises and also weakened state interventions, subsequent to the power granted to the local government, a flourishing local economy became the prime target of local government. Therefore, 'state intervention' has been taken on another, local form. Under the market economy, promoting local economy and maintaining social stability are the two most important responsibilities of local government.

Concerning white goods industry in Anhui Province, on the one hand, this industry was one of the first industries to open to market forces; on the other hand, it has been regarded as 'pillar' industry in promoting local economy by Anhui provincial government. After the two companies grew to be successful and became top refrigerator makers, the local government took an interest in them. The local governments' 'intervention' presented itself in two ways: firstly, for the purpose of promoting local economy, the local government actively encouraged the two SOEs to go private when they got into difficulty. To a certain degree, the support of local government has therefore advanced the course of marketization and privatisation, and

the further reshaping the factory regime. Secondly, for the purpose of keeping social stability, the intervention of local government only presented when there were workers' collective actions and impacts on social stability. Apart from this, the workers' interests have been generally ignored. For instance, in 1984, ChinaCo2's workers complained to local labour bureau about the managers' right to sack workers, but to no avail. At the same time, government officials asked the management of ChinaCo2 not to be too harsh with the workers in order to prevent workers' protest. During the privatisation process of ChinaCo2, the private owner was asked not to dismiss workers for the purpose of keeping political stability. Also for the same reason, the Chuzhou city government agreed to pay more than 600,000 Yuan to the redundant workers of ChinaCo1 to end the dispute.

3. The workers' situation in white goods sector has close relations with the development of the industry. In addition, it is not always true that the workers benefit from the good performance of the enterprises under the market economy with Chinese characteristics.

As addressed in Chapter 3, China's white goods industry has made dramatic progress since the mid-1980s. Taking the refrigerator sector as an example, Haier now has the biggest refrigerator sales and China is the biggest manufacturer of small-sized refrigerators in the world. Moreover, as a part of the 'world's workshop', almost all the world's leading white goods companies have entered China. While we see such good performances, however, we find it is not always true that the workers benefit from the industry's good performance.

Cowie (1999: 8) summarised the unique character of the customer electronic industry as follows:

This sector suffers most acutely from one of the most enduring problems of free enterprise: overproduction. The constant revolution in materials and manufacturing has produced more goods ever more efficiently with fewer inputs, and this phenomenon has continued to lower prices and undermine the rate on investment for firms willing to enter this fiercest of industries.

Since the mid-1990s, this characteristic has been realized in the Chinese white goods industry. Before the mid-1990s, due to the huge market demand and high price of products imported into China, the China's white goods industry unexpectedly became a 'high profit' sector. A great number of workers were recruited into home appliances enterprises and the workers generally enjoyed relatively high incomes. Following the end of this 'golden age', on the one hand, the Chinese white goods industry has continued developing and become one of the most important manufacturers in the world; on the other hand, the marketization process has continued. All types of enterprises faced the same fiercer competition. As a consequence of the pressure of the market, the workers in this sector no longer enjoy a relatively high income relative to other sectors and they have been suffering under intense labour control. Reviewing China's white goods industry, from this standpoint of workers in this sector, two observations are in order:

First, the dramatic increase in outputs and expansion of the scale of production has not directly resulted in an increase in employment. As described in this thesis, the number of workers increased significantly in the emerging period in both ChinaCo1 and ChinaCo2. By the middle of the 1990s, the number of employees in these two

enterprises increased from approximately 300 to nearly 3,000. However, the number of workers has not risen in line with the subsequent continuous increases in outputs. In ChinaCo1, more than 1,000 employees were required to stay in the SOE and approximately 1,000 employees shifted to the JVC. In 1999, 200 workers were sacked, leaving only 800 workers. Although some new labourers were recruited, this number has not much changed since 2000. The General Manager claimed that they had no plans to recruit more workers. In contrast, outsourcing and subcontracting is under way. A certain number of workers will shift to other companies. Similarly, as ChinaCo2, with approximately 1,800 contract workers, the number of workers has not obviously changed since 1999. Meanwhile, production has expanded significantly. These two companies are not isolated cases among white goods manufacturers. Although the total number of employees in China's white goods industry could not be found, the same results were identified in data collected from several leading companies.

Provincial government and several municipal governments in Anhui expected the flourishing of this sector would increase tax revenue and employment and promote the local economy. Increasing employment is one of the important factors when local officials prioritise industries for favourite treatment, in particular in provinces with huge populations. Therefore, the household appliances and car industries, along with other manufacturing industries, were chosen as 'pillar' industries which enjoyed many privileges. However, such innovative, mature, and standardized industries (Silver, 2003) can only provide limited employment opportunities. Their development and productivity improvement rely on technological progress and labour control. Furthermore, the appliances industry's mature production lines resulted in the

possibility of more and more unskilled migrant workers undertaking low-paid work on the production lines, whereas the percentage of contract as opposite to agency workers is continuously decreasing.

Second, the sustained development of the white goods industry has not resulted in the continuous increase of the workers' income. In particular, with China's integration into the world market economy, cheap labour cost has been one of the important keys to win in the market. In the first half of the 1990s, the income of the workers in the white goods industry saw a sustained increase. Since the late 1990s, when the Chinese white goods industry began suffering from 'overproduction' and became a fiercely competitive industry, the workers' income has remained constant for nearly ten years. Facing the challenges of over-supply in the domestic market and increasing exports in the form of OEM, raising productivity and cutting costs are the main methods used by companies in order to win in the market competition. Moreover, the workers' income in several white goods enterprises in Anhui tended to be the same, no matter what forms of ownership these companies have: the average total wage per month of contract (regular) workers is approximately 1,000 yuan, and the wage of temporary (or agency) workers is 200 yuan lower than that of contract workers. Meanwhile, the workers have to suffer the continuously increasing intensification of labour.

The workers in both companies were generally satisfied with their income, although a few workers complained that their income has no relation with the companies' performance. Noticeably, the Chinese workers are used to comparing their income with other local factories. For instance, their satisfaction often comes from a comparison with laid off workers or workers from SOEs in difficulty. Clearly, the

dissatisfaction of workers has increased in recent years. However, facing the choice of job loss or decreasing wages, they have to tolerate the payment system.

4. In the context of the market economy, China's trade unions have retained their traditional concept. Their fundamental change is ultimately dependent on reform within the Party.

The role of the Chinese trade unions in the new environment is discussed in the last two chapters. As reviewed in Chapter 10, the character of Chinese unions is widely debated. The comment of Metcalf *et al.*, (2005) is representative: Chinese trade unions have many members but are virtually impotent when it comes to representing workers; Chinese unions are subservient to the Party/ state.

At a national level, as a part of the Party/state, the ACFTU has been defined as a 'transmission belt' for more than half a century: even after the transformation of the Chinese economic system to a market economy finished, this definition did not radically change. In other words, the ACFTU has to represent the workers' interests on behalf of the Party/state rather than act for the workers' themselves. Therefore, they have to play an ambiguous role in the market economy, which finally resulted in the current weakness of the unions.

At a local level, the ambiguous role of provincial and city trade union federations is significant. On one hand, they have to complete the work required by the ACFTU, such as forming unions in non-state enterprises and collecting membership fees. On the other hand, they have to help local government to promote the local economy and

maintain social stability. Although there is a slight difference in various areas, in general, the local trade union federations are so impotent that they cannot offer any support to the enterprise unions. Furthermore, the power of industrial unions was diminished and the organizations downsized by the Party in the 1950s, in order to remain a parallel structure to that of the government administrations.

At the enterprise level, for the majority of non-state-owned enterprises, the management's attitude and the Chair's personal ability play a crucial role in determining whether the unions can be formed and in furthering the status of the unions. In China, it is generally believed that the obstacles to the setting up of unions are less in European or American investment enterprises. Relatively harmonious labour relations commonly exist in such enterprises. Comparatively, the employers of domestic private enterprises and Hong Kong and Taiwan invested enterprises always refuse to form trade unions in their enterprise and large numbers of labour disputes and conflicts exist in them. Ironically, therefore, the unions formation and the 'harmonious relations' are a consequence of the attitude of foreign capitalists, bearing almost no relation to the actions of the Chinese trade union themselves.

As seen in Chapter 11, there is considerable evidence concerning the role of management in the unions. In ChinaCo1, the trade union was re-established after the German General Manager realized that Chinese unions are different from German unions. In contrast, after ChinaCo2 was taken over by the private owner, as a step towards reducing management cost, the union was downsized immediately and the current Chair was appointed by the management.

In the period of a planned economy, China's enterprise trade unions were called 'assistant' or 'subsidiary' departments of management (Taylor *et al.*, 2003). Currently, they are normally run by management with worthy – but modest – tasks such as monitoring working conditions, organising feasts at the time of the Spring Festival and visiting the sick (Metcalf *et al.*, 2005). When we examine the trade unions of both companies, it is evident that the role of an 'assistant' of management has gradually diminished after the introduction of modern management methods. The main activities of trade unions in participating in the production process, such as making rationalization suggestions and emulation drives, were replaced by a management-directed agenda of teamwork, flexible working etc. These former activities are believed to be 'out of fashion' in the market economy. The trade union thus became an 'outsider' in the production process. Furthermore, the HRM Department controls all the decisions referring to the workers' interests. The role of the trade union has been totally ignored by management.

The enterprise unions have no power to safeguard the workers' collective interests. As a good Chair, the role of the Chair of ChinaCo1 is only relaying the workers' complaints to the management. The unions have no right to organize strikes, and there is no collective contract system. The workers in general view the role of the union as weak and they do not believe the unions are able to help them. Some workers in ChinaCo2 have refused to pay the membership fees. Even when workers organize collective action, they are unlikely to take notice of the trade union. Some researchers have argued that the trade unions at different levels are now placing more emphasis on helping individual employees (Metcalf *et al.*, 2005; Chen, 2003a). But this is all they can do.

As far as the future of the Chinese official trade union is concerned, I share Howell's (2006) perspective: fundamental change is ultimately dependent on reform within the Party. This is the precondition also to any right to join independent trade unions. During the 'waiting' period, the ACFTU will remain nugatory and weakened, and play an ambiguous role in current China's political economy.

5. The division of labour with Chinese characteristics makes for additional difficulty in the formation of China's working class.

The division of labour amongst workers in the white goods industry has several causes: the unique '*hukou*' system has directly resulted in a characteristically Chinese division of labour. Based on whether one has *hukou*, workers working side by side might be divided into two identities: regular workers or immigrant workers. In addition, in terms of posts, nearly 20 per cent of workers are regarded as skilled workers. Then, again, agency workers are conveniently claimed by management only to have 'labour-service' relations with companies.

The division of labour influences the trade union movement. Lau (1997: 46) argued that as a result of reforms, the working class has become much more heterogeneous than before.

In contrast to the 'traditional working class' in Western countries, the Chinese 'traditional working class' was formed in the planned economy in public-owned enterprises. They were the 'masters of enterprises and the state'. Currently, the

average age of this part of the workforce is more than 40 years old. The socialist ideology still remains in their mind to a certain degree. Privatisation is perhaps more challenging to this than other reform measures (Chen F, 2006). For these workers, they were lucky to keep their jobs (a huge number of the workers of the same age lost their jobs in the process of SOE reform); on the other hand, they have to get used to 'living with capitalism' (Nichols and Beynon, 1977). Facing extremely fierce employment pressure, the fear of job loss has reduced the fighting spirit of these workers. Despite being dissatisfied with the trade unions, they believe the current unions are the representatives of the workers.

With regard to the young contract /regular workers, who are regarded as 'skilled and core' workers, some are looked after by management. They enjoy extra training opportunities and have some opportunities for promotion. Some are disappointed with their status: they prefer to hunt for a new job in coastal and developed cities depending on their individual ability. They are in general not interested in the unions and think the trade unions are 'out of fashion'.

Concerning the migrant workers, most of them entered the enterprise less than five years ago and they regularly shift work places. Following the reform of the '*hukou*' system and the pursuit of cheaper labour costs, the number of migrant workers will be likely to increase. Normally, many of them would be satisfied with the opportunity to work in such a large-scale enterprise. Their satisfaction generally comes from a comparison with their experience in the countryside. They have little understanding of trade unions, as well as having little consciousness of the working class (Howell, 2006). It will take a certain time to finish the transition from being peasants to

becoming a part of the working class. But in any case, although the ACFTU required all **the** migrant workers join the trade union, a large part of the workers have been kept **outside** of the unions, at least in the case of ChinaCo1 and ChinaCo2.

It **seems** that the division of labour impacts already **on** the unity of workers and leads to **difficulties** in the organization of unions. However, in a history review of labour in **America**, Europe, Brazil, Korea and Mexico, Silver (2003) argues, that as capital **moves** it does what it has always done: it creates a working class in its new location, **exploits** it to the hilt, and almost invariably faces resistance from the new class. In **China**, with not only the entrance of foreign capital, but also the dramatic processes of **marketization** and privatisation, a 'new working class', which is certainly not the 'master of the state', is forming. How and whether the capital and the state will face **effective** resistance from this class remains to be seen. However, given the power of the **Party/** state, it would be unwise to hold our breath.

## **Appendix A: Research Methodology**

This appendix is intended to describe the methodology utilised for this research, including the case studies and interviews used to examine the research objectives.

### **1. General**

This thesis explores the change of factory regimes in the Chinese white goods industry in the transition towards a market economy and in the process of joining world market competition; in particular, it examines the impacts of these changes on workers and trade unions. As indicated in Chapter 2, Burawoy's notion of factory regime has provided many social scientists with the broad parameters of their understanding of what happened to factory labour following the increased dominance of capital over the last quarter of a century (Nichols *et al.*, 2004:664). The existing studies are mainly in North American and European settings. However, there is a lack of research on factory regimes in China. This research tries to fill the gap by providing many first-hand stories concerning the building of new factory regimes in the white goods industry and revealing the responses of the workers and trade unions.

For the purpose of this research, fieldwork is very important to understand the factory regime in a particular industry in China, since both the development of the Chinese white goods industry and the characteristics of the labour process are different from those of Western, developed countries. Therefore, it would not be possible to complete this research only depending on the assumptions that come from Western scholars and literature. Moreover, the relevant academic literature in this field is very limited.

This thesis utilises qualitative and quantitative research methods, but mainly uses qualitative methods. Case studies were conducted in two companies in Anhui Province. Four fieldwork trips took place between August 2001 and December 2004. Eighty-three semi-structured interviews with workers, managers, trade union officials and scholars were completed (40 interviews conducted in ChinaCo1; 35 in ChinaCo2 and 8 interviews with officials of trade unions at different levels). In addition, structured interviews were conducted with 50 workers, and 50 managers responded to a questionnaire survey in ChinaCo1. Apart from above, secondary data referring to the Chinese white goods industry were mainly collected from statistical information published by government agencies and business bodies both in Chinese and English.

Besides above, some other interviews that I collected in China for other research projects that I had participated was been accordingly used in this thesis: for instance, the research project 'The changes of labour relations in different forms of ownership', which was funded by Hong Kong University of Science and Technology in 1998; and the research project 'The entrance of WHO and the impact on China's labour relations', which was funded by IDS, Sussex University from 2003 to 2005.

This thesis has its origin in an earlier study, 'Labour in a Global World: Case Studies from the White Goods Industry in Africa, South America, East Asia and Europe' (Nichols and Cam, 2005). As one of the research collaborators, I wanted to build a research based on the achievements of this study.

The reason why Anhui was chosen as the fieldwork site is that it is one of the most important home appliances production bases in China: the products from Anhui

account for one third of the Chinese home appliances industry. Compared with other coastal provinces, such as Guangdong, it is generally believed that Anhui is not the 'pioneer' of carrying out reforms and opening the door of the province. In the mid-1980s, the provincial government decided to provide policy incentives in the hope of vigorously developing the home appliances industry. With the promoted of local government, many foreign and domestic companies entered Anhui to set up new factories or merged with existing companies. Some well-known previously public owned companies were taken over by foreign and domestic private owners. There was therefore a mix of ownership types in which any changes in labour relations could be observed.

The analysis offered in this thesis is drawn in large part from the interviews that I conducted with the workers, managers, and officials of trade unions at different levels. The interviews were in-depth and ethnographic in nature. Four fieldwork trips to China, which lasted five months in total, were completed.

## **2. Beginning the Research Project**

In contrast with most other PhD students' research, this research project was launched before I began to study for a doctoral degree. As noted above, funded by the ESRC, Prof. Theo Nichols and his colleagues launched a research project in 2001 – 'International White Goods Sector Comparison of Management Strategy and Employee Relations' – to embark on a comparison between developed and developing economies with particular reference to the white goods sector. As the biggest developing country playing an increasingly important role in the worldwide

white goods industry, China was chosen as a subject for comparative research. At that time, I was a teacher at the Chinese Institute of Industrial Relations, which is a training college for trade union officials, funded by the ACFTU. My colleague, Professor Feng Tongqing and I joined this research project. For the purpose of comparative research, a refrigerator manufacturer with European investment, with more than 500 workers and playing a significant part in China's white goods industry was chosen for the case study: this company is ChinaCo1. Later, it became one of the subjects of the case studies in this thesis.

The fieldwork in ChinaCo1 was conducted by two colleagues and me in July and August 2001. As a part of the standard research methodology, structured interviews were undertaken with fifty workers. Semi-structured interviews were conducted with German and Chinese managers from different departments, including the General Manager, the head of the quality management department, the director of production department, the director of HRM department, and the Chair and Vice Chair of the trade union. A questionnaire was completed by fifty managers and other members of staff. Basic information concerning ChinaCo1, such as the history of the company, production organization, workers' structure, HRM strategies and trade unionism, was gathered. Based on this investigation, a draft research report was written, which was presented to Cardiff University. This report focused on the implementation of modern management methods and its impact on the workers.

In December 2002, Professor Theo Nichols, Dr. Surhan Cam and I visited the company. The target of this trip was to continue to investigate the implementation of the modern management methods in ChinaCo1. In-depth interviews were conducted

with the General Manager and Vice-General Manager from Germany, a director and a staff member of production department, the director of HRM department and the Chair of the union. In particular, the degree to which certain management methods were being used was examined. The recent changes to the employment system, and the payment and welfare systems were also investigated. In addition, we listened to the opinions of the Chair of the trade union concerning the change of the workers' status.

After these two fieldwork trips, having discussed and exchanged ideas with other international collaborators, some issues attracted me to undertake further research. A review of Chinese literature referring to industrial relations in recent years indicated that little research has been conducted on the changes of workers' status from the viewpoint of a particular industry. More widely, there are few economic sociology studies in Mainland China. Based on these factors, I wrote a proposal for a PhD degree at Cardiff University. In terms of my previous research, the starting point of my thesis was the impact of ownership transformation on workers, with reference to cases from the Chinese white goods industry.

### **3. Case Studies**

When I set out on this research project, I decided to maintain the focus on the Chinese white goods industry. On the one hand, existing empirical references provided with me a good base for further research. On the other hand, the major appliances industry is becoming increasingly global in character (Segal-Horn, 1998:108). There is clear evidence in the Chinese case, in particular concerning the entrance of foreign capital. One strategy that is in evidence worldwide is to re-vamp production (Nichols and

Cam, 2005:10), which makes it interesting to consider what has happened in the Chinese white goods industry and the impacts on workers as well as on trade unions in the context of globalisation.

Case studies and interviews were adopted as the main research methods to go forward from the structure interviews already carried out with 50 workers and a survey of 50 managers at ChinaCo1. The reasons are as follows. First, I intend to explore the process of the change of factory regime in the last two decades or more. Case studies tend to emphasize the detailed workings of relationships and social processes rather than to restrict attention to the outcomes of these. The real value of a case study is that it offers the opportunity to explain why certain outcomes might happen, more than just find out what those outcomes are (Denscombe, 1998:31). This process enables the in-depth understanding of the problem that a case study aims to address and the generation of a meaningful theory. It enables the researcher to develop a better insight into a complex and relatively unexplored phenomenon. Second, some previous experiences caused me to be very careful when using questionnaire surveys. When I was in China, I accomplished several questionnaire surveys in different types of enterprises. I found it was never easy to understand the individuals' true ideas through the results of the analysis of a questionnaire for different research projects. The workers and staff in the workshops were invariably worried that the questionnaire forms they filled in would be checked by their heads, no matter how many times they were promised that they would be kept secret. They normally did not make any comments and simply put ticks or crosses on the questionnaires. By contrast, interviews between interviewers and individuals on a one-on-one basis are good ways to gain an understanding of their motives and behaviour. The workers would like the

freedom to expand their ideas. In addition, interviews allow researchers to ask individuals to provide further explanations and examples. Third, due to the majority of the research subjects being workers on assembly lines, it is almost impossible to gather the workers together to tell them how to answer the questions. The heads of workshops always distribute the questionnaires to the workers and ask them to complete them after work. The valid response rate is therefore not always good. On contrast, interview with the interviewees one by one is relatively easy to arrange by the heads of workshops.

I believed that talking to workers face to face is a good choice. In this way, supplement by other source of interviews, I have been able to provide detailed understanding of factory regimes in the Chinese white goods industry and the changes to enterprise unions that have occurred during the past twenty years. Of course, I also made use of various accordingly sources, including industrial report, Party documents and company recorder and history, some of these are referred to later.

### **3.1 The First period of Fieldwork: Case study in ChinaCo1 and Pilot Study in ChinaCo2**

#### **3.1.1 Case Study in ChinaCo1**

After reading some literature and analysing the data collected in the previous fieldwork trips for the ‘International White goods Sector Comparison of Management Strategy and Employee Relations’ project, I began to prepare the first research trip for this thesis. ChinaCo1 was chosen to be the one of the case studies. It is a distinctive

example of the changes in the development of the Chinese white goods industry, including ownership transformation. The aim of this research trip was to examine the change in the status of workers along with the transformation of ownership. This fieldwork was focused upon the views of the workers rather than of the managers. Semi-structured interviews were planned to be conducted. The interview structure was revised in Cardiff. This period of fieldwork took place in April 2004.

The gaining of access to investigate Chinese enterprises by persons studying abroad is not always easy. However, I am lucky in that I have two separate identities in China and in the U.K.: a teacher from the Chinese Institute of Industrial Relations, ACFTU, and a PhD student in the U.K. In ChinaCo1, a PhD student from the U.K. was more welcome than a teacher from the ACFTU. Professor Nichols e-mailed the German General Manager and asked him to allow me to revisit ChinaCo1. A response came back quickly and the General Manager answered that I was welcome. He had already notified the Chair of the trade union that he should help me to arrange the interviews. I then contacted the Chair directly and e-mailed him the list of interviewees, which included three managers, one member of staff and seven workers (including three open-ended contract workers who entered the company in the 1980s; one young contract worker; one production team leader, and two temporary workers). After he received the list, he replied that it would not be easy to arrange the interviews with the workers, as they have to work for nearly 12 hours in two shifts. I insisted on a certain number of production line workers and that the interviews would last for at least one hour. Finally, he agreed and promised that he would arrange the interviews in terms of my request. I was very fortunate to be provided with a separate office in which to conduct the interviews. Seven in-depth interviews with workers were conducted. The

workers who attended the interviews were not systematically selected: they were chosen on the one hand because they 'meet your requirement', but on the other hand, only 'because they are not busy at the moment and therefore can afford the time to talk with you', as I was told by the Chair of the union. Each interview lasted one hour and was voice-recorded.

The interviews with managers seemed easier to arrange. This was the third time that I had met the General Manager, the Chair of the union and the director of HRM department. When they met me, they always smiled and said 'Welcome back'. The interviews all lasted nearly two hours and the interviewees wished to probe some issues with me.

In accordance with the different positions had by the interviewees, the questions were varied but all concerned the following questions: what changes have taken place to the workers during the period of ownership change? Compared to the SOE period, how do workers think and feel about their situation in a wholly German-invested company? What are the workers' views on the changes to their income and job security? These interviews provided detailed information that was used to sharpen the structure of the second interview stage.

### **3.1.2 Pilot Study in ChinaCo2**

The aim of choosing ChinaCo2 for the second case study was to enable comparative research in enterprises with different types of ownership. ChinaCo2 was a well-known

domestic white goods manufacturer with over five decades of history as an SOE, and which shifted to being a POE for two years.

However, gaining access to interview managers and workers in ChinaCo2 was not as easy as I had expected. Normally, the identity of being a teacher from the ACFTU was a useful 'passport' to gain support in SOEs. At the beginning, I was confident in gaining access to ChinaCo2. Hence, after I had confirmed the interview timetable at ChinaCo1, I began to contact ChinaCo2. I asked my colleague in Anhui to contact ChinaCo2 via its trade union (I reminded him not to mention that I am studying abroad currently; I suggested him just tell the official of ChinaCo2 that I am a teacher from the ACFTU and wanted to gain some empirical references of labour relations). This colleague is the head of a training school of provincial trade union federations who keeps strong links with many officials of enterprise unions. He answered that he would have a try. After two weeks, I was told that I was rejected. The Chair of ChinaCo2's trade union did not reveal the real reasons and he merely said they were busy with the ownership transformation and could not allow time for such research. Later, my colleague asked a Vice Chair of the provincial trade union federation to help me to ask for access, which the Vice Chair promised to do. When he visited ChinaCo2, he requested permission for my investigation. Unexpectedly, the request was refused immediately by the Chair of the company's union. He explained that such research referring to work relations might not be welcomed by the top managers during this 'sensitive period'. My colleague apologized for this failure and told me it seemed impossible to gain access via the trade union.

I was very disappointed. One of my colleagues in Beijing suggested that I should change tack and try to contact the top manager of the company directly. In line with his suggestion, I found the e-mail address of the well-known private owner from a website and sent a letter to him. To be honest, I had already lost all confidence in obtaining access to ChinaCo2 and had begun to contact other enterprises. Unexpectedly, I received a reply from the private owner's secretary only one week later. I was told that access would be granted. A member of staff of HRM department had already been notified that they should help me to arrange the interviews.

The pilot study was undertaken in May 2004. After I finished the fieldwork in ChinaCo1, I took a coach to Hefei. During the whole investigation process, I was introduced as a teacher at the Chinese Institute of Industrial Relations rather than a PhD student abroad. It was fortunate that support was obtained from a full-time member of staff of the trade union in ChinaCo2: he remembered that he had attended one of my lectures three years ago.

Initially, one senior manager, three middle and junior managers in both workshop and management departments, the Chair of the trade union and two workers were interviewed. Each interview lasted 60 to 90 minutes and all the interviews were voice-recorded.

The interviews were mainly concerned with the reasons for and the process of the ownership transformation. I investigated the relations between ownership transformation and the changes of management methods, employment, and payment and welfare systems. Changes to the trade unions were also included.

Besides the interviews, various documents and written materials were collected; in particular, the staff of the union provided me with some valuable documents from the SOE period. I photocopied all these materials. These interviews and historical material provide the background that was used to sharpen the structure of the subsequent investigation.

### **3.2 The Second Period of Fieldwork**

The aims of the second fieldwork trips to both ChinaCo1 and ChinaCo2 were the same. After examining all the interview transcriptions and documents in April and May 2004, I adjusted the structure of the interviews. It seemed that ownership transformation was not the only reason that had resulted in the change of the factory regimes and the role of the trade unions. Other reasons, for instance, the role of marketization, needed to be examined. In addition, the issue of the division of the workers was added.

#### **3.2.1 Case Study in ChinaCo1**

In November 2004, I visited ChinaCo1 for the fourth time, four years since my first visit. In-depth interviews were conducted with three contract workers, one head of a production team and two temporary workers. Semi-structured interviews were conducted with the German manager (this was the third time I met him), a member of staff of HRM department (the head of the department had gone to another city on business) and the new director of the production department (the previous one had left

the company). Each interview took one hour. In order to understand the changes that had taken place in recent years, I asked the Chair of the trade union to help me to contact the workers that I had interviewed before. However, only two of these workers had time to talk with me. The most valuable interview was with the Chair of the trade union, which lasted three hours. This was the fourth time I had interviewed him. He told me he had ambivalent feelings about his working with 'foreign capitalists' for nearly 10 years.

The interviews were still related to the impact on the workers of management methods used to control them. In order to take a historic view of workers in ChinaCo1, some questions were addressed: Compared with the SOE period, did the workers have to work harder than before? Compared with the workers in other FIEs, are you happy with your wage and job security? Please tell me your view on contract workers or temporary workers? Has any change occurred in the role of the trade union?

The fieldwork captured the changes over a certain period of time. These changes included that the workers were no longer benefiting from the company's good performance. Instead of a relative high income, the workers only enjoyed longer working hours and a heavier workload. Compared to 2001, the more flexible contract and stricter management control have worsened the situation of the workers in the production process. Moreover, the role of the trade union remained limited.

The background of the fifty workers with whom structured interviews were conducted in 2001 and that of those who had participated in semi-structured interviews is shown in Table A.1 and Table A.2 respectively.

**Table A.1 The Composition of Workers Interviewed in ChinaCo1 in 2001**

Sex		Age			Education levels		
Male	Female	25 and under	26 to 35	Over 35	Junior high school	Senior high school	Two year college
31	19	7	27	16	14	32	4

N=50

**Table A.2 The Interviewees in ChinaCo1 between 2001 and 2004**

First stage interviews (July to August, 2001)		Second stage interviews (December 2002)	
Identity of interviewees	Post	Identity of interviewees	Post
General Manager		General Manager	
Vice General Manager	Quality Management Department	Vice General Manager	Production and HRM
Manager	Production Department	Manager	Production Department
Manager	HRM Department	Staff	Production Department
Chair	Trade Union	Manager	HRM Department
Vice Chair	Trade Union	Chair	Trade Union
Contract worker	Production line		
Contract worker	Production line		
Contract worker	Inspection		
N=9		N=6	
Third stage interviews (April to May, 2004)		Fourth stage interviews (November to December 2004)	
Identity of interviewees	Post	Identity of interviewees	Post
German General Manager		German General Manager	
Manager	Production Department	Manager	Production Dept.
Manager	HRM Department	Staff	HRM Department
Chair	Trade Union	Director	Workshop
Vice Chair	Trade Union	Chair	Trade Union
Director	Workshop	Vice Chair	Trade Union
Staff	Production Department	Worker (head)	Production team
Contract worker	Production line	Contract worker	Production line
Contract worker	Production line	Contract worker	Production line
Contract worker	Production line	Temporary worker	Production line
Contract worker	Production line	Temporary worker	Production line
Contract worker	Maintenance		
Temporary worker	Production line		
Temporary worker	Production line		
N=14		N=11	

### 3.2.2 Case study in ChinaCo2

Originally, I had planned to undertake a questionnaire survey in ChinaCo2 to gather general information. When I read all the documents that I had collected in the pilot study, I changed my mind. These documents, including the 'The Developing History of ChinaCo2' (Zhang J, 1997), the trade union's annual work report, and a dissertation written by a member of staff of the HRM department analysing the problems of ChinaCo2's human resource management, provided me with abundant basic information. Again, the failure of previous questionnaire surveys that I had undertaken in China also resulted in my final decision – only to undertake semi-structured interviews in ChinaCo2 in order to accomplish the comparative research.

Based on the pilot study, I revised the interview structure before I went back China. This fieldwork focused on the decline of the status of workers during the transition towards a market economy since the mid-1980s rather than only focusing on the influence of the changes in ownership. In addition, the technical and organizational changes, the impact of marketing and the division of the workers were addressed.

Due to only two workers being interviewed in the pilot study, I intended to increase the number of workers interviewed. It is important to understand their feelings and to compare the perspectives of both managers and workers.

The investigation was arranged by the same member of staff of HRM department who had helped me before. I phoned him more than five times to discuss how to arrange the interviews. A problem occurred concerning the number of production workers as interviewees. He asked me to reduce the number of production workers and instead

interview maintenance workers. However, I insisted that at least ten production workers were needed. He finally agreed to my requests. In addition, he made some good suggestions, for instance, that young trainees should be added to the interview list, as they might become core, skilled workers and an important part of the workforce. The composition of the interviewees can be seen in Table A.3 and Table A.4.

**Table A.3 The Interviewees in ChinaCo2**

Polite (May, 2004)		Case study (December 2004)	
Identity	Post	Identity	Post
CEO's Assistant		Vice General Manager	
Manager	HRM Department	Manager	HRM Department
Manager	Dept. of Manufacture	Manager	Dept. of Manufacture
Manager	Section of Manufacture	Manager	Dept. of Marketing
Director	Workshop	Researcher	Research Department
Chair	Trade Union	Director (2)	Workshop
Contract worker	Production line	Staff (2)	HRM Department
Contract worker	Production line	Chair	Trade Union
		Staff	Trade Union
		Contract workers (6)	Production line
		Contract workers (2)	Maintenance
		Contract workers (2)	Trainee
		Agency workers (4)	Production line
		Agency workers (2)	Maintenance
N=8		N=27	

**Table A.4 The Composition of Workers Interviewed in ChinaCo2**

Sex		Age			Education levels		
Male	Female	25 and under	26 to 35	Over 35	Junior high school	Senior high school	Two year college
13	3	4	8	4	4	12	0
N=16							

With the help of the member of staff of the trade union, a meeting room was used for the interviews for two weeks. However, before the investigation began, a top manager met me and asked me to promise that I would not ask workers 'sensitive questions'. 'It is still a sensitive period in ChinaCo2. Maintaining social stability is our common duty', he stressed. I realized that a particular event (see later) must have happened recently.

A total of 27 interviews were accomplished during these two weeks. Both semi-structured interviews and open-ended discussions were conducted on an individual basis. The workers generally talked freely and related their feelings, including their complaints, whilst a few workers were too sensitive to explain their feelings. The workers' own words are very valuable and some of them are quoted in the chapters.

The interviews with workers normally lasted one hour. The workers on production lines were required to return to work as soon as possible. One of the interviewees had to run back to his workshop due to the interview overrunning by ten minutes. The interviews with the managers all lasted two hours. Sometimes, the managers would like to discuss questions with me. For instance, the director of the production department asked me to have dinner with him and to continue the discussion then. The questions were generally the same as in ChinaCo1.

I was interested in the 'sensitive problem' and guessed there must be a story to uncover, but I did not want to break my promises. However, on the second day of the interviews, a young worker perhaps talked too much and gave things away. He told me about the events of the workers' walk-out on National Day. I realized immediately

this was the 'sensitive topic'. In the following interviews, this topic was always mentioned, and many interviewees were surprised that I knew this 'company secret'. A worker told me they were warned not to talk about this strike to 'outsiders'. From this key point, I probed for more information, such as about the strict labour discipline, overtime working, and flexible working time.

In both companies, I had lunch or dinner with managers and trade union officials and gained information about many things beyond the interview outlines. I tried to contact workers via informal ways, such as having lunch with them or visiting their families. However, these ideas were strongly discouraged by the managers and trade union officials: 'Please do not make trouble' they reminded me.

After finishing all the interviews, I went back to the Vice General Manager and reported briefly about my work. He was surprised that the workers wanted to tell me their true feelings. He asked me to write a research report for him focusing on the situation of the workers and the role of the trade union. I wrote a brief research report (in Chinese) and posted it to him.

The fieldwork was very hard work. The process of contacting people was very arduous and sometimes made me very disappointed. I had to abide by a timetable that was convenient for the two companies. During the fieldwork period, sometimes I had to begin the interviews at 7:00 am or 7:00 pm when the shifts started. Sometimes, I had to sit in the meeting room alone for 3 hours because no one had time to talk with me. Sometimes, I had to interview the workers and staff one by one with no time to go to the toilet. Each night, I listened to the voice recordings and transcribed some of

the interviews, and prepared different interview questions for the next day's interviews.

#### **4. Interviews with Trade Union Officials at Different Levels**

To examine how the workers and trade unions responded to the changes in factory regime, it is necessary to understand the recent situation of the Chinese trade unions.

Gaining access to the officials of the trade unions at different levels was relatively easy for me. The Chinese Institute of Industrial Relations keeps close links with provincial and city trade union federations. Hence, I was welcome to visit the unions and the officials of the trade unions were happy to provide information and discuss some issues with me. The Chair of the Chuzhou Trade Union Federation was interviewed twice, the two interviews lasting a total of five hours. Unlike many other trade union officials, this Chair wanted to express his own ideas, and his opinions on industrial unions and the relations between the Party/state and unions are quoted in this thesis.

I visited Anhui Provincial Trade Union Federation in Hefei after I completed the fieldwork in ChinaCo2. I asked an official of the ACFTU to phone the Vice Chair of the Provincial Trade Union Federation to ask for his help. Unfortunately, this phone call interrupted my original schedule. I was welcomed as an official of the ACFTU by the Provincial Trade Union Federation and they held a formal workshop for me. The workshop was hosted by a Vice Chair and the heads of different departments of the provincial federation reported their recent work one by one. Despite much basic information being obtained from this workshop, I still intended to interview the union

officials individually. Therefore, the head of the department of organization and the head of democratic management were interviewed in an informal way. These two interviews were valuable: the officials talked freely and exchanged their ideas about the future of the local trade unions with me.

Besides the above, two officials of the ACFTU and two scholars from the Chinese Institute of Industrial Relations were interviewed in Beijing in order to exchange ideas and gain information of the latest changes in the ACFTU. Their ideas are helpful to understand the change of the Chinese trade unions in a big background.

**Table A.5 The Interviewees in the Anhui Provincial Trade Union Federation, Chuzhou Trade Union Federation and ACFTU**

Interviewees	Unit
Mr. Zhang	Head of Department Organization, Anhui Provincial Trade Union Federation
Mr. Wang	Head of Department of Democratic Management, Anhui Provincial Trade Union Federation
Mr. Han (2001 and 2004)	Chair, Chuzhou Trade Union Federation
Mr. Liu	Head of Department of Grassroots Organization, ACFTU
Mrs. Wang	Head of Section of Democratic Management, ACFTU
Professor Feng, TQ	Chinese Institute of Industrial Relations
Professor Zheng, Q	Chinese Institute of Industrial Relations

This successful fieldwork and abundant secondary data built a foundation for the in-depth research. The results of the case studies are used in Part 1 to Part 3. The structures of the interviews are presented in Appendices B, C and D.

## **Appendix B: Outline of Workers Interviews**

### **1. Workers' background**

- Age
- Your place of birth: Rural or urban area
- Parent's occupation
- Single or married
- How many children do you have?
- Education level

### **2. Job in the factory**

- How did you get the job?
- How long have you held your present job?
- Please tell me your post. Which workshop do you work in?
- Is this your first job? If not, Please tell me your work experiences.
- Have you ever been unemployed? If so, what is the longest period for which you have been unemployed?
- Did you work in other forms of enterprises? If yes, how many years?
- Your contract type
- Please tell me your view on contract workers or temporary workers?

### **3. Training**

- Have you attended any job training in the last 12 months?
- If yes, how long?
- Which courses did you attend?
- How useful were the courses that you attended?

#### 4. Job satisfaction

- Do you think this is a good job?
- About your job in general, how satisfied have you been with the following?

---

	satisfied	dissatisfied	very dissatisfied
Your usual take home pay			
Your work prospects			
The people you work with			
Physical working conditions			
The way your section is run			
The way your abilities are used			

---

- Are you satisfied with your income?
- How would you describe your company from your own experience?

#### 5. Modern management methods

- Do you know the following modern management methods: TQM, 5S, TOP, QCs, teamwork and JIT?
- How do you rate these methods for use in you company?
- Compared with in the period of SOE, are there any difference in the implementation of management methods?

## 6. Workload

- Do you agree or disagree with the following statements about your job?

---

	agree	neither agree nor disagree	disagree
My job requires that I work very hard			
I never seem to have enough time to get my job done			
I feel my job is secure in this workplace			
I worry a lot about my work outside working hours			

---

- Is it easy for you to get time off to attend to personal needs such a doctor's appointment or an ill child?
- Could you work at the pace of your current job until you are 60?
- Compared with the workers in other FIEs/ POEs, are you happy with your wage and job security?
- Compared to the SOEs (or 5 years ago), how have things changed for you in the following respects?

---

	better	worse	same
Right to make decisions			
Workload			
Pay			
Stress			
Satisfaction			
Job security			

---

## 7. Relations with managers

- In general, how would you describe relations between managers and employees?
- How do you get along with your team leader?
- Is everyone scared of the German manager? Is everyone scared of the head of workshop?
- How good would you say managers here are at:

---

	good	neither good nor bad	poor
Providing everyone with the chance to comment on proposed changes			
Responding to suggestions from employees			
Dealing with work problems you or others may have			
Treating employees fairly			

---

## 8. Trade unions

- Are you a TU member? If not, why? Do you want to join the trade union?
- If you had a grievance at work, would you take it to trade union? If not, who would you go to in order to try and do something about it?
- What is your view on the trade union in the factory?
- What should trade union be like?
- Has any change occurred in the role of the trade union?
- What do you think about the union?

## **Appendix C: Outline of Managers Interviews**

### **1. General manager or Vice general managers in ChinaCo1**

- Please show me your company's organizational chart.
- Please brief describe your company history, including product and market.
- The relationship to the German parent company or the group company. Re. products, processes, technology, R &D, management, markets.
- How do you describe this company?
- How do you rate the following management methods for use in your company? Teamwork, Just in time, six sigma, TQM, TOP, 5S and etc.
- As a foreign General Manager, how do you manage your company in China?
- Please tell me the basic information of the marketing: sales approach, market locations, the expanding to overseas market, etc.
- Please tell me the future of the company.
- What are the key problems of the company currently?
- Do you think that the trade union is necessary?

### **2. Director (or senior staff ) of Department of Human Resource Management**

- Please introduce the basic structure of the managers and workers in your company.
  - Direct /indirect production; skill structure in production;
  - Subgroups; hierarchy of factory positions; temporary/permanent/contract workers in production; gender, age and educational structure for workers in production

- Please introduce the recruitment policies for managers, contract workers and temporary (agency) workers.
- When did the company adopt labour contract system? Do you think it is a useful tool to control workers?
- Please introduce the payment structure of your company.
- Some workers complained that they could not get the overtime working payment due to the 'system of annualized hours'. How do you explain this?
- How do you motivate workers?
- Please introduce the social security system in your company. Are there any difference between contract workers and temporary (agency) workers?
- How do you define the 'core' workers in your company? Are there special motivation policies to this part of workers?
- Please introduce the existing types of human resources management. For instance, job rotation, job enrichment, teamwork.
- The situation of turnover rate (voluntary and total); productivity; injury rate of production workers
- How do you evaluate the role of the trade union?

### **3. Director of Production Department**

- Basic information:
  - Product – types, brands, models, basic understanding of functions and technology of product; output per product (per day and year).
  - Production process - written/pictorial image of production process; degree of automation; detailed view of key technologies used and their location in process; origin of /arrangements with - key technology suppliers
- Please introduce the implementation of modern management methods in the production process. How do you rate these methods for use in the shop floor?
- Why do some workers know little about the management strategies?

- Do you think it is necessary to ask all the workers to familiar with all those management methods?
- During the interview with the workers, I noticed that ‘TOP’ and ‘5S’ are well known by the workers. Please introduce TOP and 5S in your company: meaning, role in the production, and the problems during the implementation (ChinaCo1).
- Some workers complained the implement of 5S has resulted in their workload increasing. What’s your comment?
- Compared with the SOE, how have things changed for you and workers in the following respects: workload, stress and satisfaction?
- How do you describe relations between foreign and Chinese managers, and the relations between managers and workers?
- What has caused you the most problems in management?
- How do you evaluate the role of trade union?

#### **4. Basic information about the managers**

- Where were you born? Urban area or rural area
- How old are you?
- What are your parent’s jobs?
- Please tell me your education level? What qualifications do you have?
- Are you married? If yes, what does your spouse do?
- When did you start to work?
- Is this your first job? If not, how many firms have you been worked?
- How long have you been engaged in management?
- Have you taken any material training? If yes, what were they?

## **Appendix D: Outline of the Trade Union Officials Interview**

### **1. Interview with the Chair /Vice Chair of trade unions in ChinaCo1 and ChinaCo2**

- **Structural Information:**
  - The relations with local or industrial trade unions
  - How officials elected/appointed
  - Density of trade union
  
- **Worker Relations**
  - Key problems establishing better relations
  - Union density, average wage levels, unemployment/tenure of employment
  - Strikes/walk-out
  
- **Management and New Management Techniques:**
  - Have workers changed their views of (interest in) union due to application of new management methods?
  - How does management see union / has this changed with application of new management techniques?
  - Have unions changed (form, focus, approach) between 1990s and now?
  
- How do you define the role of the trade union in your company?
- Please tell me your daily work.
- What activities did the trade union development in last 12 months?
- How do you know the workers' grievances?
- Did the workers take their grievances to the union? Do you think you are able to help them? Please take an example.
- Without the collective contract system, how did the trade union bargain with the management?

- Do you have opportunities to participate in making decisions with respect to the workers' interests?
- Why did the union not allow the temporary workers to join the trade union?
- I know you will retire soon. Do you think your successor will be a good Chair like you (ChinaCo1)?
- In terms of the Trade Union Law, a new Chair will be elected by workers. Do you think he (she) will have a good performance? (ChinaCo2)
- What is the real impact of the changes to the trade unions from the ownership transformation?
- What should trade union be like?
- What do you think about the union?
- How could you reform this union?

## **2. Interview with the officials of local trade unions federations and the ACFTU**

- Structural Information:
  - The structure of the trade unions
  - How officials elected/appointed
  - Density of trade union
- Worker Relations
  - Key problems establishing better relations with government, enterprises and the Party
  - Union density, average wage levels, unemployment/tenure of employment
  - Labour disputes /Strikes
- How has the role changed since the economic reform?
- What is the real impact of the changes to the trade unions from the enterprise reform, in particular the privatisation?
- In general, how would you describe relations between the Party and trade unions, or the local government with the trade union?
- How did you organize the migrant workers to join in the trade unions?

- How did you organize trade unions in FIEs and POEs.
- As an official of trade union, what is the biggest difficulty which you are facing?
- What should trade union be like?
- What do you think about the union?

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