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Managing Human Resources in State-Owned Enterprises in Transitional Economies: A Case Study in the People's Republic of China

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Abstract

State-owned enterprises (SOEs) in China are at the centre of the government's economic reforms because of their poor performance and low return on capital. However, they still employ about two thirds of China's urban workforce and play a central role in the Chinese economy. In addition, many foreign companies have invested in China via international joint ventures with SOEs. Therefore, it is important to understand how employees are managed in SOEs and what impact the economic reform has had on human resource (HR) practices in SOEs. This paper examines HR practices through a case study conducted in a Chinese SOE. The study indicates that human resource activities were not conducted in a Western manner. Some Western HR activities were partially utilised, some existed in name only or with Chinese characteristics, while some were totally absent.

State-owned enterprises (SOEs) in the People's Republic of China (PRC) have attracted the attention of business people and researchers throughout the world since the implementation of economic reform for a number of reasons. First, many foreign business people have established close links with Chinese SOEs through foreign direct investment (FDI). Of all the FDI vehicles in China, the international joint venture (IJV) is the most favoured. Even though there has been an increasing preference for establishing wholly-owned foreign subsidiaries rather than joint ventures since the mid-1990s, total investment in IJV in 1995 was still approximately 49% of total foreign investment in China (Zhao & Zhu, 1998: 570). While FDI in China has tended to take the form of IJVs, many SOEs have been selected as local partners (Child, 1993; Perkins, 1996). Beamish (1993) has also noted that large foreign companies, especially multinational enterprises (MNEs), often have a stronger association with government partners such as SOEs in China than in other developing countries, and can be locked into maintaining management practices that are a legacy of the pre-reform days.

Second, SOEs are of interest to foreign companies because they play a central role in the Chinese economy. However, because of poor performance and low return on capital (e.g., Rawski, 1997; Yabuki, 1995), the reform of SOEs has now become an urgent issue facing China (Economist, May 3, 1997: 54). One of the key issues in SOE reform is to introduce radical changes in three systems: labour and personnel; wage and welfare; and social insurance. The traditional practices in these systems have been criticised for contributing to over-staffing, low efficiency, and making losses in many SOEs (Warner, 1995; Zhao 1995). Given that SOEs still employ about two-thirds of China's urban workforce and the government is reluctant to lay off millions of redundant employees, research on how human resources are managed in SOEs and the potential impact of reforms are of practical importance. It must be appreciated that Chinese human resource policies and practices are quite different from those used in developed and market-economy developing countries, and careful consideration of local idiosyncratic practices is required for foreign investors such as MNEs to operate successfully in China (e.g., Child, 1994; Ding et al., 1997; Gooda & Warner, 1997; Paik et al., 1996). Furthermore, current human resource practices in China still had a distinctive Chinese flavour, as they have been grafted on the old system (Warner, 1995). Therefore, knowledge of human resource practices prior to and during the reforms may help foreign companies to understand what changes have occurred and why it could be difficult for local managers to accept non-traditional or Western-style human resource management (HRM) practices. This is a prerequisite to formulating effective HRM strategies and activities in foreign invested enterprises (Child, 1993; Fung, 1995; Huo & Von Glinow, 1995).

This paper aims to illustrate human resource practices in SOEs through a case study conducted in China in late 1994 by the first author who was a native speaker of Mandarin. The case study had three main objectives. First, to examine briefly the pre-reform personnel and labour administration and to highlight current HRM practices in a SOE with respect to six major HRM activities (human resource planning, recruitment and selection, performance appraisal, compensation and welfare, training and development, and labour relations). Second, to describe and analyse probable paths of HRM development in the future as a result of reforms. The final objective was to explore the impact of ownership types on HRM practices. A brief review of SOEs in China is presented first with subsequent explanation of the data collection methods. The case study then begins with an overview of the selected enterprise - TeleCo (a disguised name for the sake of confidentiality) - including its history and ownership, size and structure, and business strategy as well as the emerging role of the human resource function in the enterprise. Following the background information is a description and analysis of human resource practices in TeleCo, with emphasis on the current HRM practices in terms of the six major activities. The findings from this case study are summarised and discussed at the end of the paper.

STATE-OWNED ENTERPRISES (SOES) IN CHINA

Soon after the founding of the PRC in 1949, private ownership of the means of production was transformed to public ownership, and “a hegemonic state-owned sector” emerged since the mid-1950s (Jackson, 1992: 55). This is mainly because “the fundamental economic basis of the traditional socialist political superstructure, of the monolithic and bureaucratic party state and party dictatorship, is precisely the system of state ownership, i.e., a state monopoly on the means of production” (Talas, 1991: 330). According to Yang (1992: 52), in 1980, SOEs possessed 90% of the nation’s total industrial fixed assets, employed 69% of the country’s total industrial population, and produced 76% of the national gross industrial output by value.

State-owned (guoyou) enterprises (SOEs), referred to officially as ‘enterprises owned by the whole people’, used to be called state-run or state-operated (guoying) enterprises during Maois regime, which reflected the true nature of this type of enterprises before the reforms as they were under direct management and administration of the state (Yang, 1992). Assets in SOEs are legally owned by the people of the nation, who in theory are represented by the state. Being the owner and administrator of state assets, the government maintained an administrative rather than economic relationship with SOEs under a command economy (Chen, 1995). This relationship was characterised by three “unified practices” conducted by the state, i.e. unified purchasing of materials and selling of products (tonggou ton gxiao); unified receipt of earnings and allocation of expenditures of enterprises (ton gshou ton gzhi); and unified allocation of human resources to enterprises (tongbao tongpei) (Xiao, 1994:53).

Because of these unified practices in a central planning system, Chinese SOEs demonstrated three distinct features as summarised by Walder (1986). First, SOEs’ “financial performance was directly affected by negotiations with state planning agencies over its prices, costs, supplies, capital investment, credit, and taxation” rather than by business operations (Walder, 1986: 28). In this situation, the enterprise was constrained by its resources rather than demand, because whatever it produced would be distributed by the state. Second, the enterprise was a mini-society. It administered for the state its labour insurance and social security provisions, and supplied a wide range of public goods and services to its employees. These welfare obligations ranged from housing, cultural and gymnastic facilities such as libraries, schools and gyms, to barber shops and bathhouses (Ishihara, 1993: 28). Third the enterprise was also a political institution which had to perform a variety of socio-political services for its employees, such as providing permission to travel or get married and handling residency permits.

This type of ownership gave the state “the legal authority to reallocate the control rights over and residual claims” from SOEs, even if the rights might be delegated to lower levels of government (Qian & Weingast, 1997: 258). Under the planned economic system, a SOE could be subordinated to the central government during a centralisation period and to a municipal or provincial government in a decentralisation period. However, the administrative relationship between the government and SOEs remained unchanged regardless of centralisation or decentralisation. While state ownership enabled the government to pursue its heavy-industry-oriented development strategy (Lin et al., 1996), SOEs, as the foundation of the planned economy, became the favoured recipient of government support, and were heavily subsidised and staunchly protected by the state (Warner, 1996). As a result, budget constraint for SOEs was soft, as has been observed by many researchers (e.g., Hay, et al., 1994; Kornai, 1980, 1986; Naughton, 1996; Walder, 1986). This level of protection also encouraged the development of related problems such as overstaffing and low efficiency (e.g., Lo, 1997; Wu, 1996; Zhu &Dowling, 1994).

When ownership reform started in the 1980s as one of the two major economic reforms, it had two aims (Dong, 1992). One was to reform the existing ownership structure and the other was to reform state ownership per se. The reform of the ownership structure resulted in an upsurge and flourishing of non-state enterprises with various types of ownership, which in turn created intense competition between state and non-state enterprises. Table 1 indicates the changes. From Table 1 it can be seen that enterprises with private and other types of ownership rose remarkably from 0.02% and 0.48% in 1980 to 11.51% and 13.55% in 1994 respectively. Meanwhile, SOEs declined steadily from 75.97% in 1980 to 34.07% in 1994 (the 1994 figure for SOEs could be 40.05% if the output share of Others where SOEs have majority shareholding was calculated – Lo, 1997: 4).

In 1984 the State Council promulgated the ‘Provisional Regulations on Further Extending the Decision-Making Power of the State Industrial enterprises’, offering SOEs more autonomy and due rights in their business operations. In 1992, the government decided to steer SOEs further into the market, holding them responsible for their own profits and losses, even in the face of bankruptcy (Beijing Review, 30 March 1992: 4). After the 14th Party Congress in 1992, the term “state-owned enterprises” formally replaced “state-run enterprises”, indicating the government’s intention to withdraw from enterprise management, and the terms were no longer used interchangeably (People’s Daily, 2 December 1992: 2; Wong, 1993: 35).

Table 1
Shares of gross value of industrial output by ownership sectors, 1980-94 (percentage)

	SOEs[a]	COEs[b]	POEs[c]	Others[d]
1980	75.97	23.54	0.02	0.48
1985	64.86	32.08	1.85	1.21
1988	56.80	36.15	4.34	2.72
1990	54.60	35.62	5.39	4.38
1991	52.94	35.70	5.70	5.66
1992	48.09	38.04	6.76	7.11
1993	43.13	38.36	8.35	10.16
1994	34.07	40.87	11.51	13.55

[a]SOEs = state-owned enterprises;
[b]COEs = collectively-owned enterprises;
[c]POEs = privately-owned enterprises;
[d]Others = enterprises of other ownership forms, including foreign ioint ventures and wholly foreign-owned ventures.

Sources : Adapted from Lo, 1997: 4. Also see Statistical Yearbook of China, 1990: 416 and 1995: 377.

In spite of the reform of SOEs, they still had burdensome social mandates and restrictions, required huge state subsidies and many remained inefficient (Jefferson & Singh, 1997; Perkins, 1995; Qian & Weingast, 1997). Yabuki (1995: 49) reported that in the early 1990s, the labour productivity of foreign-invested and private-owned enterprises was over three times that of SOEs. Perkins (1995:2) has also noted that in 1985 only 10% of SOEs were making losses, but this had increased to 32% by 1990 and approximately 50% in early 1994. The share of gross value of industrial production contributed by SOEs had fallen to 48% by the end of 1992 (Warner, 1995: 63). However, they received about 90% of total subsidies in 1992 as well as subsidies disguised as loans (Qian & Weingast, 1997: 259-60).

Although SOEs have been declining and the non-state sector has grown rapidly since the reforms, ownership reform in SOEs is regarded as critical because of the important role they play in the national economy (Dong 1992; Jefferson & Singh, 1997). In 1994, SOEs employed 75% of the urban industrial workforce, absorbed 57% of new investment and received 70% of bank loans (Mai & Perkins, 1997: 7). Apart from this economic role, public ownership (including state and collective) has always been emphasised by the Party and government as a dominant form of ownership and regarded as “the key characteristic distinguishing the socialist market economy” proposed in China (Liew 1997: 87). Therefore, SOE reform, aiming at marketising rather than privatising state enterprises, was listed as the central task of reform and development in the 1990s (Dernberger, 1997; Lo, 1997). The new SOEs’ reform initiatives introduced in 1994 focused on two major tasks: the introduction of a modem enterprise system through corporatisation and shareholding, and restructuring of SOEs (Cliai & Docwra, 1997). While the former aimed to transplant the Western public enterprise model into China so as to enhance its internal efficiency, SOEs were restructured in order to reduce their debt burden, shed their surplus labour, divest themselves of their community services provision obligations, and so enable the state to withdraw from ownership of many industrial enterprises.

The progressive reform of SOEs has profound implications for human resource practices in areas such as the centralised labour-allocation system, the practice of centrally fixed and egalitarianism-centred wage and welfare, and the unified training system. While Zhao (1994: 7) has noted that Chinese SOEs, especially large and medium-sized ones, “have the full stereotypical apparatus of Chinese labour-management relations with a consistent set of personnel practices”, Mai and Perkins (1997: 17) have observed that “one of the core problems of SOEs is their poor personnel management”. Child (1995) has also pointed out that the concept of Westem HRM is not found in Chinese enterprises, particularly SOEs. However, some researchers (e.g., Verma et al., 1995; Wamer, 1995) have observed that human resource practices in SOEs are gradually moving away from their traditional personnel and labour administration activities, even though current practices are still “more operational (wage, social welfare calculations) than strategic” (Benson et al., 1998: 13). The TeleCo case study is used to illustrate how employees are currently managed in a SOE.

DATA COLLECTION METHODS

The methodological triangulation that combines dissimilar techniques to study the same unit was adopted in this case study. The use of triangulation to bring more than one source of data to bear on a single phenomenon can enhance a study’s generalisability as the data can be used to corroborate, elaborate, or illuminate the research (Marshall & Rossman, 1989). In addition, it can also help overcome unique deficiencies of each method, as different methods may complement and supplement each other and thus enhance the validity and reliability of the study (e.g., Denzin, 1989; Merriam 1998; Silverman, 1997, Yin, 1994). Following the logic underlying triangulation, three data collection strategies were adopted: documentation, interviewing and direct observation. Documentation included TeleCo’s position descriptions for each department, internal newsletters and paperwork on the factory’s history. Direct observation was made during the one-week field study at TeleCo, where the first author was shown around the factory and was given free access to workshops to talk with managers and employees. She also attended one department meeting on the fulfilment of production plans.

The interviews were conducted entirely on the factory's premises, i.e. either in the manager's office or in the meeting room where privacy could be ensured. The average length of interview was about one hour with individuals and two hours with groups. Twenty-one people were interviewed as shown in Table 2, which also indicates where more than one interview was conducted or employees were interviewed in a group. As the terms 'factory' and 'director' are more commonly used in SOEs, they were used as equivalent of 'company' and 'general manager' respectively. The Director/Party Secretary of TeleCo had been appointed by the Municipal Post Bureau only 8 months prior to this case study being conducted, so he was only interviewed once. The Deputy Director in charge of the whole factory's administrative management joined TeleCo when it was just established and had worked there for 25 years. He was therefore interviewed three times, supplying and later assessing detailed information about TeleCo's past and current situation.

Table 2
Interviewees – TeleCo case study

- Director/Party Secretary
- Deputy Director (production)
- Deputy Director (administrative management) (3 interviews)
- Deputy Director and Chairman of the trade union of TeleCo (trade union)
- Manager of Party Committee Office (Party and personnel affairs) (2 interviews)
- Manager of Administration Office (labor and wage) (2 interviews)
- Manager (Quality Control Department)
- Manager (Research and Development Department)
- Manager (Production Department)
- Line Manager (Workshop 1)
- Line Manager (Workshop 2)
- Supervisors (4, interviewed in two groups, each of 2)
- Production workers (6, interviewed in two groups, each of 3)

CASE STUDY

TeleCo was chosen as a case study because research access was available and the enterprise had the attributes that were essential to the research, such as its location (in a well-industrialised city), industry (manufacturing), size (medium), and ownership. This section provides brief background information on this enterprise - TeleCo, which will facilitate our understanding of its human resource practices to be presented later.

ENTERPRISE HISTORY AND OWNERSHIP

In late 1969 as the result of the Cultural Revolution, the Municipal Post and Telecommunication Bureau (hereafter referred to the Post Bureau) merged its three small factories to form TeleCo. During that turbulent period, Mao advocated that cadres should participate in manual labour and workers in management was re-emphasised with thousands of cadres and intellectuals sent to factories or communes to undertake manual work. This practice was reinforced by Maoís speech on May 7, 1969, that cadres should take manual work regularly to better serve the people. To follow Maoís teaching (called 'May 7 instruction', wuqi zhishi), many 'May 7' cadre schools (wuqi ganxiao, mainly in the country) and 'May 7' factories (wuqi gongchang, mainly in the city) were set up in China for cadres, including intellectuals, to participate in manual work. The Post Bureau was no exception. It established TeleCo as a 'May 7' factory for its cadres, including managerial and technical staff (the majority of employees of the Post Bureau were either technicians or engineers, who were categorised as cadres).

TeleCo was the Post Bureau's only manufacturing subsidiary. When the factory was set up, politically unreliable cadres and some workers from the Post Bureau were transferred there and some relatives of the Bureau staff were employed as TeleCo's permanent employees. In early 1970, the Municipal government allocated 60 demobilised soldiers and about 40 middle school students to the factory (since the late 1960s, millions of young people were sent to rural areas, while some were assigned to factories to be 're-educated' by farmers and workers). At that time the factory had about 200 permanent employees as well as cadres from the Post Bureau doing regular production work. The factory manufactured cables and other equipment and devices for telecommunications.

Before the economic reforms, TeleCo was a typical SOE that followed the state's plans strictly without worrying about inputs and outputs so long as production quotas were fulfilled. However, during the transition period of the economic system, TeleCo found it hard to compete in the market because of various problems. First, the factory was constrained by its financial resources. The factory was not only owned but also operated by the Post Bureau, and the profits it had made were all submitted to the Bureau. TeleCo's total fixed assets in 1993 were only 10,000 yuan per employee on average, and this value was probably an overestimate as the depreciation rate was fixed at a very low level by the state. Although equipment was 15 to 20 years out of date, the factory could not afford to purchase new equipment because the Post Bureau was concerned about the poor return on investment. Second, there were excessive numbers of non-production employees and low quality human resources, especially workers. The ratio of production to non-production employees should normally be 100:14-17, but it was 1:1 in TeleCo. To aggravate the problem, many workers allocated in the 1970s had not received a proper education because of the Cultural Revolution. In addition, the factoiy had never conducted regular training programs to update the knowledge of its employees.

Third, (and the most important issue in the eyes of the Director), SOEs could not compete equally with non-state enterprises because many state-imposed restrictions led to heavy burdens and rigid structures. For example, the factory operated as a small society by supplying various welfare services to its current and retired employees, such as housing, health care and pensions. In 1993 the factory paid out more than half a million yuan in medical expenses for over 100 of its retired employees. In addition, firing of employees was not permitted unless criminal offences had been committed. The factory was also not allowed to offer commissions to the purchasing agents of its products to facilitate sales, which was practised commonly by non-state enterprises. Finally, the factory had suffered from frequent changes of directors. During one three-year period (1991-93), four directors had been appointed. One was demoted because of embezzlement, one was transferred to another organisation because of his poor perforthance at TeleCo, one died, and the most recent one was appointed at the end of 1993.

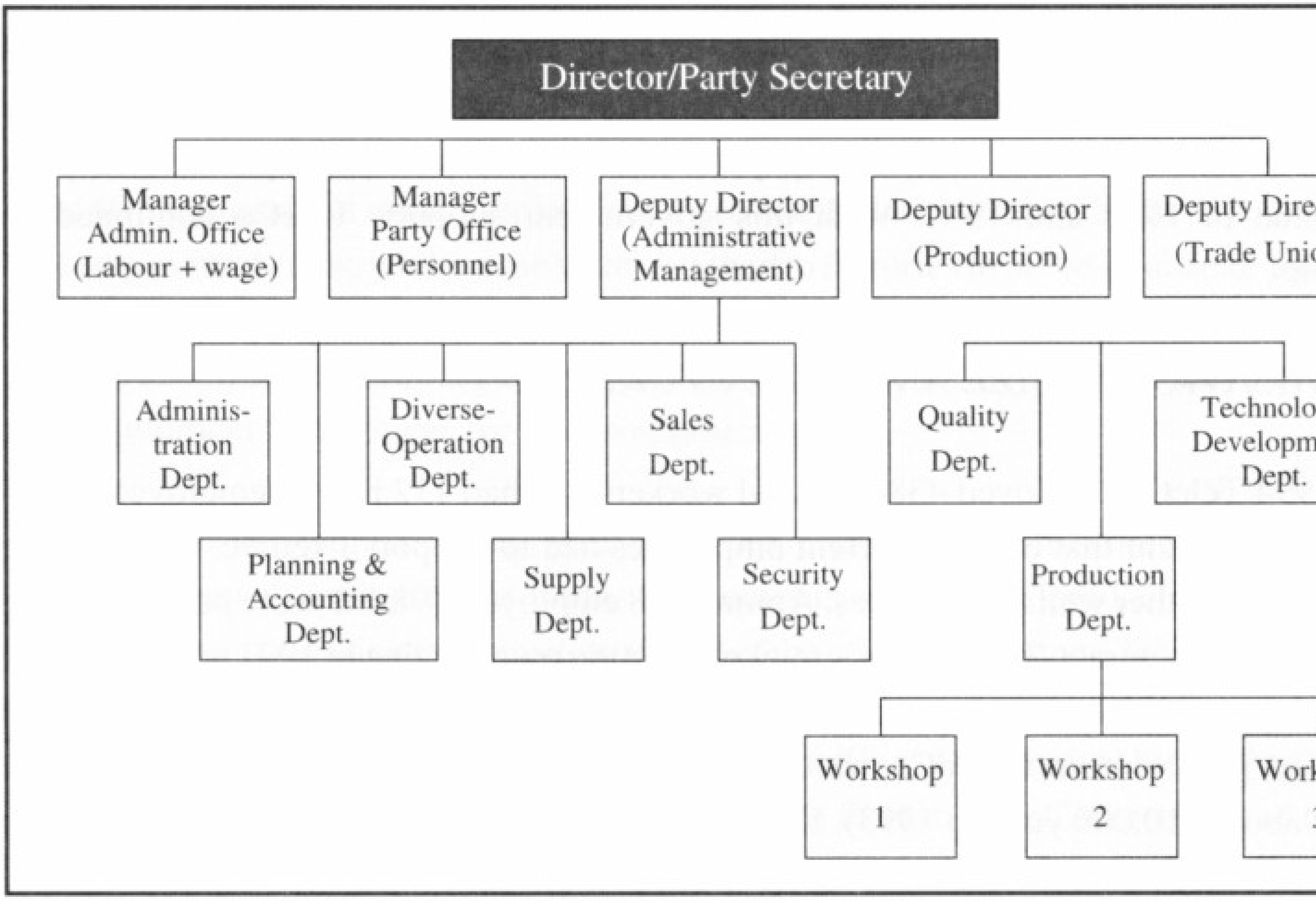
Due to these difficulties, the factory operated at a loss continuously from 1990 to 1993. The loss in 1993 was 6.5 million yuan, while the accumulated debts by the end of 1993 were 12 million-yuan. As the factory's total fixed assets accounted for only 4 million yuan, it was theoretically bankrupt. However, with the Post Bureau's protection, TeleCo was given a 'policy loan' (a loan without interest) to pay its employees, and was exempted from any tax on revenue in 1993 and 1994. With this government support, TeleCo continued its operations.

ORGANISATIONAL SIZE AND STRUCTURE

In 1994 TeleCo employed 438 staff and workers and had 112 retired employees on its payroll. This meant that every 4 current employees had to support 1 retiree, covering the pension and all other welfare expenses. Among 438 employees, 98.6% were permanent and the rest were on contract. The factory's total production output value in 1993 was 10 million yuan, or just over 22,000 yuan per head annually (in comparison, the output value per head in a foreign joint venture, CableCo, which was in the same industry and located in the same city was about 410,000 yuan in 1993). However, the figure for the output value per head in 1993 should only be used for reference. This is because up to 1994, the contract management responsibility system (CMRS) was still in existence and contracts used in the CMRS were negotiated individually between the enterprise and its supervisory agency. The system encouraged enterprises to negotiate lower output quotas and tax rates to ease their budget position (see Chai & Docwa, 1997; Fan, 1994; Wong, Heady & Woo, 1995). SOEs could gain extra profits by obtaining input materials at the state-fixed low price and selling their output above the quotas negotiated with the state at the market price (this extra profit was called institutional rent, see Lin et al., 1996: 203-8).

The factory had 2 offices, 9 departments and 3 workshops as shown in Figure 1. The Administration (abbreviated as Admin. in Figure 1) Office, also called Director's Office, was responsible for two major tasks. One was to assist the Director and Deputy Directors in their administration work, and the other was to manage labour and wages, including annual human resource planning, worker's transfer or employment, wage reform and training. It was also in charge of the workers' personal files (dang'an). If a worker wanted to transfer to another enterprise (except for foreign-invested enterprises, which could recruit employees without their personal files), he/she had to obtain permission from the factory to have the personal file transferred as well. The Party Committee Office (abbreviated as Party Office) reported to the factory Party Committee and was in charge of the administration of cadres, both technical and managerial, Party and non-Party. This office was responsible for each cadre's appointment, transfer, assessment and training. It also kept all cadres' personal files. Each Office had a manager who reported directly to the Director and Party Secretary of the factory. Before the 1990s, the factory director and Party secretary were two separate positions, but now one person held both positions.

Figure 1
TeleCo Organisation Chart



A Deputy Director (administrative management) was in charge of six departments as indicated in Figure 1. The Administration Department (abbreviated as Dept.) looked after logistical affairs such as the development of the factory's infrastructure and facilities. The Planning and Accounting Department had responsibility for accounting and finance, and determined the allocation of funds to each department. The Diverse-Operation Department focused on the development of diversified businesses, mainly in the service industry, so as to create more jobs for redundant employees of the factory and to increase TeleCo s total revenue. The Supply Department was in charge of obtaining all the material inputs for production, while the Sales Department served the role of marketing of the enterprise products. The Security Department had a range of responsibilities, such as factory security, production safety devices and rules, and vehicle maintenance.

Another Deputy Director (production) was responsible for all production-related work, including production, quality control and technology development. There were 3 workshops in the Production Department with 150 production workers. Each workshop was led by a Line Manager and an Assistant Manager. In each workshop there were several production lines or working groups, each of which had a supervisor. The third Deputy Director was the chairman of TeleCo's trade union, and was responsible for all union work. By state regulation, the head of the trade union in this type of enterprise is automatically a deputy director.

BUSINESS STRATEGY AND THE EMERGING ROLE OF THE HR FUNCTION IN THE ENTERPRISE

TeleCo's mission was 'to be guided by the market and to seek survival by producing quality products'. Its business strategy since early 1994 was 'to face the market, adopt marketing techniques, reinforce management, and change the loss-making status'. The Director and Party Secretary explained the strategy. First, the factory had to ascertain the market demand and organise its production accordingly. The factory's main product was telecommunication cable, for which the market was very competitive, with over 3000 cable manufacturers in China in 1994. The establishment of a joint venture between the Post Bureau and an Australian company to manufacture the same products in the local area further intensified such competition (this joint venture, called CableCo, absorbed 70 managers and workers fromTeleCo when it was established in 1991). In order to survive, the factory needed to develop new products and also diversify its service industry business whenever opportunities emerged.

Second, it had to use direct marketing techniques to increase its sales rather than waiting passively for product to be distributed by the Post Bureau. Before 1990, all the cable produced by TeleCo was purchased by the local telephone company that was also a subsidiary of the Post Bureau. The Telephone Company purchased the cable regardless of its price and quality on instruction from the parent company (the Post Bureau). TeleCo therefore had had no need to market its products or curb its high manufacturing costs. However, with the reforms, the Telephone

Company became financially independent, and began to select products with better quality and a lower price. TeleCo was forced to compete with other cable manufacturers and search for a suitable market, and the adoption of marketing skills and techniques became crucial. The Director stressed that personal connections and networking was also important in marketing (he had brought a lot of customers to TeleCo since his appointment) and he encouraged employees to develop a similar network for TeleCo's products.

Finally, TeleCo had to reinforce its management by adopting management by objectives, linking bonuses more closely to each employee's performance, and creating competition within the factory. The factory would draw up detailed production objectives to be completed by every department, production line and work team. Bonuses would then be distributed according to the objectives achieved. As there were an excessive number of non-production employees, the factory was planning to abolish redundant positions and let employees compete for the remaining positions. Only the most competent employees would keep their positions, while the rest would have to be relocated.

To implement the strategy, the factory tried to foster its own enterprise culture that was expressed in a four-phrase slogan – 'to work hard together, to be innovative and enterprising, to feel happiness at TeleCo's prosperity, and to feel shame at TeleCo's decline'. The factory's senior managers pointed out that the acceptance of this culture by employees depended on the effective management of human resources. During Maoís regime, the personnel and labour administration was heavily dependent on ideological education and egalitarian distribution, which was no longer appropriate in a reform environment. In order to survive in a market-oriented economy, the factory needed not only a market and new products, but also quality products at low cost. Cable products had to be of high quality and manufacturing consumed a large quantity of materials. Any wastage resulted in high costs and low quality. The task of raising employee motivation to work hard and efficiently, and align their interests with the enterprise had become a challenging issue for managers, especially those in the human resource area. Managers interviewed for this study all believed that traditional human resource practices had to be changed to offer employees better incentives and to help nurture the enterprise culture. Although the wage system was under reform, it could not effectively differentiate high and low performers, and hence undermined the incentives offered.

While managers admitted that TeleCo needed better human resource practices, the factory did not have an independent department to manage its human resources. From 1983 to 1992, all human resources (cadres and workers) were managed by the Administration Office in addition to its miscellaneous administrative duties. In 1993, the factory's 120 cadres, including technical cadres (e.g., engineers) and managerial cadres (e.g., line managers and above), were placed under the control of the Party Committee's Office. The aim of separating the administration of cadres from workers was to achieve better control of the quota for cadres as well as their appointment, promotion and performance appraisal. The terminology of human resource management did exist in TeleCo, and the extent to which HRM activities played a role in the factory's business operations will be discussed in the following section.

HRM ACTIVITIES AT TELECO

As TeleCo had been in operation for 10 years before the reform, it had experienced centralised control of its human resource like many other SOEs. It also had had 15 years operations during the post-Mao reforms when this case study was conducted. There were thus a number of issues to be considered. First, are SOE employees managed in a way that is totally different from the old practices because of reforms? Second, does state ownership still have great impact on human resource practices? Third, what is future development in HRM likely to be? This section aims to addresses these issues by describing and analysing practices in TeleCo both before and during the reforms with respect to six HRM activities, i.e., human resource planning, recruitment and selection, performance compensation, training and development, and labour relations.

HUMAN RESOURCE PLANNING

Under the command economy, the government at different levels conducted human resource planning and then allocated labour to enterprises. TeleCo itself therefore had not handled this function before the reforms. However, when this case study was conducted in 1994, i.e., 15 years after the commencement of reforms, TeleCo still did not have formal human resource planning. Instead, it had a list of quotas for its employees specified by the Post Bureau. The factory was allowed no more than 120 cadres, including 5 senior managers (e.g., director and Party secretary, and deputy directors), 5 senior engineers, and 25 engineers. The rest were managerial and technical staff. Those graduates with tertiary education all belonged to the category of cadres; technical school graduates (equivalent to Year 12 graduates) could be cadres or workers, depending on their job position and the availability of cadre quotas. That is, if there was no available quota for a cadre, the technical school graduate could take a cadre's job without the usual wage scales and benefits for cadres. While the quota for cadres was strictly controlled by the Post Bureau, the total number of workers was also under the state's control because the total wage bill had been fixed by the Municipal Labour Bureau since 1986. The factory could alter its number of employees as long as the total wage bill was not compromised. Only when the governing authority assigned new employees to the factory could the total wage bill be increased.

Within the limits of these quotas, the factory had its own annual plans for retirement and replacement. The state regulations specified that cadres should retire at 55 for women and 60 for men, while workers retire at 50 for women and 55 for men. New recruits had to be selected to replace the retirees and also as other workers left. As the factory was not running profitably, bonuses offered were limited, which led to some experienced and skilled employees either to resign to join other companies or to transfer to the Post Bureau's foreign invested enterprise, CableCo for better pay. For example, in 1991, 70 managers and workers were transferred to CableCo.

While TeleCo was suffering from overstaffing, it lacked specialised technical people in the area of cable manufacturing. This scarcity was caused by several factors. First, the factory had no tong-term business strategy due to its frequent change of directors, and consequently there was no long-term human resource planning. Second, the current annual human resource planning placed more emphasis on the replacement of retired or resigned employees than selection of new recruits to meet its production development needs. Third, the factory had no power to fire surplus workers and recruit those that it really needed. Instead, the factory had to submit an application specifying the type of technical people to be recruited to the Post Bureau one year in advance for approval. The factory's needs could not always be satisfied because of the constraints on quotas. Since 1994, with the arrival of a new director, the factory has placed more emphasis on its business strategy and recruitment of competent employees. Both the Administration Office and Party Committee Office were required to formulate a three-year human resource plan by the end of 1994 to clarify the type and number of employees to be taken on, kept on and relocated based on the factory's business plan and job analysis details.

As part of its human resource planning, personnel and labour managers, production engineers and managers at TeleCo were to jointly conduct a job analysis project in late 1994 to specify the duties, responsibilities and workload involved for each job position and the employees required. The factory only had brief job descriptions for each department as a whole, and a description for some production positions. The absence of such job descriptions for many individual positions, especially non-production positions, has partly contributed to the problem of overstaffing and low efficiency. Based on the analysis details, the factory could identify and abolish redundant positions, and introduce internal competition for each job position (neibu jingzheng shanggang). The senior managers expected that this competition could keep the best employees at their positions and thus increase productivity. Meanwhile, the factory encouraged surplus employees to set up their own businesses, offering them aid. Assistance from the factory included helping them obtain business registration, paying basic wages before their own business started up, allowing them to keep welfare packages, and even investing small amounts of money to help them get started. In return, these self-employed workers or staff had to pay 1% of their sales revenue to the factory as sort of compensation. In 1994, more than 60 employees were engaged in their own businesses, earning an average income that was 20% more than TeleCo's average wage. For those who could neither keep their positions nor develop their own business, they would remain on the factory's payroll, but only received the basic pay without any bonuses. It was factory's responsibility to deploy rather than sacking them.

RECRUITMENT AND SELECTION

Like human resource planning, the function of recruitment and selection did not exist before the reform process. In fact, the factory itself had never recruited anyone from external sources before 1985. New employees were usually recruited via two routes. The first was allocation by government authorities such as the Post Bureau and the Municipal Personnel and Labour Bureau. The second was 'occupational inheritance' (dingti) by close relatives (usually sons and daughters) of those who had retired. From 1970 to 1975, four groups of demobilised soldiers, high school leavers and graduates were assigned to the factory by government authorities. In 1978, a group of sons and daughters of retired employees was recruited to 'inherit' the jobs of their parents (usually they would be assigned by the factory according to production needs rather than taking on the same position as their parents).

Before 1985, it was the Post Bureau that recruited labourers allocated by higher authority (municipal, provincial or central government), and then assigned them to lower level organisations, such as TeleCo, according to quotas. Since mid-1985, after the government loosened its control over labour allocation, the Post Bureau decentralised its staffing policy by granting autonomy to the factory to select its own employees from local school leavers and job-seekers recommended by the Labour Bureau. However, the number of new recruits was still controlled by the Post Bureau. If the factory wanted to recruit an employee from another city, it had to be handled by the Post Bureau. Nevertheless, it was the first time that the factory had conducted recruitment and selection by itself. The factory first incorporated written tests into the selection process in 1986.

Since 1990 the factory has been given more freedom to recruit university graduates according to need rather than merely taking graduates allocated by the governing authority. However, recruitment was still restricted by the quotas set by the Post Bureau. If, however, a university graduate was the child of a TeleCo employee, and held a degree relevant to telecommunications, permission to recruit that person could always be obtained from the Bureau. The reason for this special treatment of the children of TeleCo's employees was because this was the only way for a son or daughter to come back and live in the same city. Normally, when recruiting university graduates, the factory's personnel manager would visit universities to find candidates who had completed subjects relevant to TeleCo's requirements. The personnel manager would check the academic records of potential candidates and conduct interviews. A decision regarding employment was usually made after the interview. For each graduate recruited, the factory had to pay the university 4,000 yuan as an education fee (this was the 1993 price to SOEs). The manager in charge of personnel complained that 'centralised labour allocation was free of charge but enterprises did not have the right to select; now enterprises could select but had to pay'.

TeleCo used to have more graduates from technical schools than from universities for several reasons. First, unlike university graduates, these students could be employed without paying an education fee. Second, the equipment used in TeleCo was relatively old and technical school graduates were able to operate the older equipment. Third, technical school graduates were not restricted by the cadre quota, as they could be classified as either cadres or workers. Usually they were assigned to production lines and became workers. They could apply for promotion to technician (with similar status as engineers), but needed 15 years of working experience before they were eligible to apply. In contrast, university graduates were automatically classified as cadres by state regulation and would normally be promoted to engineer after working for 5 years. The factory normally had to have or obtain quotas for both cadres and engineers in order to recruit and promote university graduates.

However, since 1993 the control of quotas for cadres had started to loosen in a number of ways. First, the cadre quota no longer applied to new university graduates. This meant TeleCo could recruit university graduates while maintaining its current number of cadres (120 in 1994). Second, cadres were no longer guaranteed tenured cadre positions and would become workers if there was no cadre position available or if they were judged to be not competent to undertake a cadre's job. Cadre numbers thus became more flexible, and the factory had more freedom to take on university graduates according to the production needs.

As for the selection of managerial cadres (including line managers and managers above this level), three scenarios applied for the factory director, senior managers (i.e., deputy directors) and middle-level managers (i.e., those at department and workshop levels). The factory director was appointed directly by the Post Bureau; senior managers were recommended jointly by the director and the Party Committee Office and approved by the Post Bureau; middle level managers were selected by the Party Committee Office and appointed by the director. The selection criteria for managerial cadres, according to the manager of the Party Committee Office, focused on political reliability, technical competence, previous working performance and education qualifications.

PERFORMANCE APPRAISAL

During Maoís regime, TeleCo's performance appraisal was conducted annually only for cadres (both managerial and technical cadres). There were no specific criteria for appraisal. Each cadre was required to submit a self-evaluation of the previous year's work, usually including one's political attitude (e.g., followed Mao and the Party's instruction and took part in political activities), and work results (e.g., achievements and rewards). Each individual's narrative would be commented on by his/her direct superior and then the head of department. The main purpose of this appraisal was for promotion or transfer. Since the post-Mao reforms, performance appraisal has been emphasised and conducted universally. However, different approaches have been taken to assess different groups of employees - senior managers, middle-level managers, technical cadres, managerial staff and workers.

The performance of senior managers (including directors and deputy directors) was assessed annually by an appraisal group composed of a manager from the Post Bureau, the personnel manager from the factory's Party Committee Office, and representatives from TeleCo's Workers' Representative Congress. The appraisal criteria used consisted of four items: political attitude and practice (de), competence at work (neng), working attitude and effort (qing), and performance record (jie). The performance record was based mainly on the completion of tasks specified in the individual contract. Between 1988 and 1992 while the contract management responsibility system was in practice, each senior manager signed an individual contract once a year with the Post Bureau. The contract specified the tasks that were to be completed in that year, thus specifying some measurable assessment criteria.

The appraisal process started with a senior manager's self-report on his/her past year's work with respect to these four areas. The appraisal group would then make comments on this report and give feedback to the relevant manager. The purpose of assessment was to decide whether the managerial position should be retained by the individual. If the manager performed badly because of incompetence and had poor interpersonal relationships with employees, he/she would probably be transferred to another position at the same or lower level in another organisation of the Post Bureau. Dismissal of a senior manager could only take place if the incumbent had committed a crime.

The performance of middle-level managers was assessed annually by the Party Committee Office. Each manager was also required to compile a self-report on the past year's work, focusing on work attitude, ability, achievement and potential area for further improvement. This report would be sent to senior managers for their comments, which would often be returned to the appraisee. The purpose of appraisal was similar to that for senior managers, i.e., to decide on the continuation of appointment. However, middle-level managers would either retain or lose their positions rather than being transferred to other places.

Technical cadres (including assistant engineers, engineers, senior engineers and technicians - some of them were also managerial cadres) were assessed every three years. The factory had a Technical Assessment Committee in charge of this appraisal. The Committee had assessment criteria and a standardised sheet with marks allocated to each criterion. The criteria focused on research conducted, the application of research results in production, improvements made in production or productivity, and research papers published. The first step in appraisal also required an individual to report on his/her work over the previous three years. Each appraisee had to detail work completed within this period, problems identified in the work, and a plan for the future. Based on individual reports and the Committee members' knowledge of appraisees' performance, the Committee would then assess each person's performance and give marks accordingly. At the end of 1993, 113 cadres were assessed, with 4 achieving the result of 'excellent', 105 'good' and 4 'average'.

This assessment served two purposes. The first was for appointment. Since 1993 there had been no quotas for technical titles, but appointment was still limited by the overall quota. This meant that a technical cadre could have the title of engineer without being appointed to an engineer's position. In this situation, the technical cadre would receive the same 'skill wage' as someone in an engineer's position, but a different 'position wage' (see next section for skill-and-position wages). The second purpose was for promotion. In 1994 the factory was allowed to have only 5 senior engineers and 25 engineers. If a replacement was needed because of retirement or resignation, or the Post Bureau decided to increase the quota, then assessment results would be used for determining promotions.

Staff working in the non-production departments, including technical and managerial employees, were assessed by the head of their department on a monthly basis. As there were no job descriptions for individual positions in the departments except for a brief descriptions for each department as a whole, the appraisal criteria were quite vague, with an emphasis on work attitude, co-operation with colleagues, and ability to complete the task. Usually the staff wrote a monthly work summary and gave it to the department manager for appraisal. If the staff member had completed the assigned task for that month, there would be no negative comments and his/her monthly bonus would not be affected. As few objective standards were used and the appraisal was conducted in an informal way, there was little feedback for appraisees except for the occasional chat with the department manager should problems occur in the work done. The appraisal became a routine practice and was used only for the purpose of distribution of bonuses.

The assessment of Workers' performance, unlike that of departmental staff members, was based solely on their production quantity and quality, and performance results were openly posted in the workshop. Employees working in the production department said they had 'hard' assessment criteria (i.e., quantifiable and measurable), while staff members only had 'soft' criteria (i.e., subjective and non-measurable). This was the major reason for differentiation of bonuses between production and non-production employees (see next section). Performance appraisal for workers was conducted by their supervisor, who would then send a copy of the assessment to the line manager for recording purposes. The major purpose for the monthly performance assessment was to link monthly bonuses to individual performance.

COMPENSATION AND WELFARE

Before the reforms began, wage scales were fixed by the central government for cadres and workers. This centrally fixed wage system was used in TeleCo until 1993 when a number of revisions were made. First, wage increases were linked to each enterprise's total performance and economic results rather than having national wage increases. If an enterprise was performing well, its wage increase would be tied to its profits. The higher the profit, the greater the percentage increase could be. For loss-making enterprises, wages were only increased according to the increase in inflation. Second, local government agencies such as the Post Bureau had more autonomy in deciding the time and conditions of wage increases. There were two types of wage increases. One was wage adjustment, which was to keep up with the inflation rate and was universal, i.e. all wages were increased by the same amount. The other was wage promotion, which was usually limited by conditions specified by the Post Bureau, such as the quotas for promotion and length of service.

The amount of basic wage before 1993 depended heavily upon one's wage level and seniority, which was similar to the situation before the reform. For example, under the 8-level wage scales, workers who were grouped at the same level received the same pay regardless of their job position or skills. For wage promotion, seniority was always a more important criterion than performance results. Wages were increased so long as the employees had worked for the prerequisite time period, and had not seriously violated the factory's rules and regulations (e.g., frequent absence from work or causing a severe accident).

In mid-1993, TeleCo began to use the position-and-skill wage system. Under this system, each person's wage was split into two parts, position wage and skill wage. The former was linked to the responsibility assumed aud the latter to skills required. Based on the four aspects of each job (i.e. the knowledge and skills required, work loads involved, labour intensity and working conditions), the Ministry of Post and Telecommunications broadly classified job positions in the telecommunications industry and specified different levels within each position The wage ranges for each position (i.e., position wage) and different levels within each position (i.e., skill wage) were stipulated by the Ministry and recommended as guidelines to its enterprises. Using these guidelines, TeleCo determined the wage package for each position and its related levels within the factory. For example, Workers' jobs were categorised under 8 broad positions, with 4 levels within each position, which were determined on the basis of knowledge, skills and responsibilities involved. Employees with the same qualification and similar experience but different work positions received the same skill wage but a different position wage. Similarly, people working in the same position but with different qualifications and experience received the same position wage but a different skill wage.

Under this wage system, workers were required to sit a technical skill test to determine their skill levels. Technical staff who wanted to apply for technical titles as engineer or senior engineer had to sit a test prepared by the Post Bureau. Employees applying for technical titles as assistant engineer or technician were tested by TeleCo's own senior technical staff. The tests were offered once a year. If an employee passed a higher-level skill test, the factory had the autonomy to increase his/her skill wage while maintaining the same job position. Some conditions applied for increasing an employee's position wage. First, the factory Director could exercise autonomy to offer special promotion to 2% of total employees annually. Employees who were promoted in this way could have their wages increased (including both position-and-skill wages). Second, some positions, such as engineers and senior engineers, had quotas controlled by the Post Bureau. The factory could only promote someone to a higher position within the limits of this quota.

The new wage system offered incentives to employees who held higher positions with more responsibilities, and also encouraged people to gain more skills. However, two major issues undermined the effectiveness of the new wage system. First, there was only a small differentiation between wage levels. For example, for engineers, the difference between junior, middle and senior levels was only 2-3% or 15-20 yuan per month between levels for an average wage of 600 yuan for engineers. Second, as the factory had not conducted job analysis and lacked job descriptions, the classification of positions and levels was vague.

Before trying different wage packages, a bonus system was restored. Prior to the Cultural Revolution, the factory had operated a bonus system. The bonus was, on average, about 10 yuan per month and its distribution was based mainly on the quantity and quality of the work completed. This system was abolished during the ten-year chaos and restored in the late 1970s with the intention of offering employees some incentives. However, bonuses were distributed equally among employees until 1983 and failed to serve as a motivational tool. In 1984 the factory adopted a 'two-level bonus distribution' method, aimed at linking bonuses to the performance of the department, workshop and employees. The two levels were the department and the employee. Each month the factory would determine the amount of bonus offered to each department based on the objectives it had achieved. The department would then distribute bonuses to the lower level. In the Production Department, bonuses were distributed to each workshop according to the quality and quantity of tasks completed, and then the bonuses would be similarly allocated from the workshop to each production line or work group. Usually employees working in the same production line or group received the same amount of bonus, with the exception of those with a very poor work record. If the workers were dissatisfied with their bonus, they could talk with the trade union to help solve the problem.

In TeleCo, the ratio of bonuses distributed to the production and non-production departments was 10: 6-6.5. The distinction existed to encourage employees to work in production lines and to acknowledge workers' efforts, as they all had 'hard' assessment criteria for their work. The way bonuses were distributed and the differentiation made did offer more incentives to production workers, but not as much to other groups of employees, especially technical staff and managers. In TeleCo, bonuses accounted for 30% of the employee wage package. Although technical staff earned higher position wages than workers, the smaller bonus they received minimised the difference between themselves and the workers. In addition, bonuses were almost equally distributed among technical staff without discriminating between high and low performers. Technical staff could only receive an extra bonus from the Post Bureau when they accomplished significant results that could lead to a patent. Managers were also dissatisfied with their payment. For example, the factory Director complained of having the most responsibilities, limited autonomy and yet the least benefits, because his monthly bonus was lower than what production workers received.

While the position-and-skill wage system focused on distinguishing between more and less responsibilities as well as high and low skills rather than the titles of cadres and workers, some welfare benefits offered still differed dramatically between cadres and workers. For example, cadres at the senior level could receive 100% of their wages as a pension upon retirement, while retired workers were paid only 75% of their previous wages. However, cadres and workers enjoyed many similar welfare items, including housing, health care, and pensions. The money that the factory spent each year on collective welfare benefits, such as building dormitories and paying medical expenses, represented 11% of its total payroll.

TRAINING AND DEVELOPMENT

Before 1975, training was mainly offered to newly recruited workers with the apprenticeship system being the major approach. Apprenticeship involved a three-year training period, during which the apprentice worked closely with his/her supervisor to learn all the necessary skills required for the job. At the end of the period, the apprentice could become a permanent worker at grade-one level if he/she passed a written exam and practical test. This system was abolished in 1975, and the factory had to organise training courses for new workers who were school leavers and were totally unskilled. This was because vocational education was not popular until the early 1980s, and students from high school only had general secondary education. The training programs offered focused on production skills, such as mechanical processing skills and equipment maintenance know-how and procedures. In the 1980s, training programs also covered areas such as mathematics and physics as the high school education of many young workers had been severely disrupted by the Cultural Revolution. This kind of training was greatly reduced from the late 1980s when more vocational and technical school graduates were assigned to the factory.

All new employees (including workers and university graduates) were offered one week of orientation and induction. This training helped new employees to become familiar with TeleCo's history, factory rules and regulations, business operations, the working environment and tasks to be performed. After induction, they were assigned to different departments to work with a supervisor. After a one-year probationary period, university graduates could work independently while workers were required to take written and practical tests. The written test focused on the understanding of knowledge and skills required, while the practical test assessed their ability to operate machines. Once they passed these tests, they were assigned to work positions with little supervision.

Before 1993, training offered to workers was mainly on the job as required by new machines or new technology. A few off-the-job-training programs were also conducted for workers to help them reduce wastage of raw materials and rejected products, and to prevent workplace accidents. If the Post Bureau required employees to undergo specific training during their working time, the factory complied. For example, training for total quality control was conducted off-the-job as a short course for every employee as requested by the Post Bureau.

Once the factory adopted the position-and-skill wage system in mid 1993, it was required by the Post Bureau to offer regular training to its employees, particularly workers, so as to advance their skills to match job demand. The Post Bureau advised quotas for TeleCo, specifying the number of workers who should reach an education level of grade 12 each year. The Post Bureau also conducted annual assessments of the effectiveness of training offered in its subsidiaries, which formed part of the appraisal criteria for the head of each subsidiary. This exerted pressure on the director of the factory to budget money and time for training.

As a result of these changes and demands, the factory began to place more emphasis on training for workers. It encouraged its employees to undertake part-time study at a university or a correspondence technical school. The factory would give workers 1 to 2 working days per month off work for their study and reimburse their tuition fees under certain conditions. First, they had to pass all the examinations. Second, 66% of tuition fees could be reimbursed for university degrees and 100% of fees for technical school degrees. For workers who could not enrol in technical schools or universities, the factory arranged for them to attend a one-day training course every month. The training was conducted by factory technical staff with a focus on the knowledge and skills required for the job.

Technical and managerial staff had more training opportunities than workers as the Post Bureau offered programs for them, such as new technology training for technical employees and managerial training for supervisors and line managers. It was usually compulsory for the factory to send relevant people on training programs offered by the Post Bureau. These programs would be conducted in the evening or take up a half-day per week for several weeks. A frequently used method to train managerial employees was to organise them to watch management training programs on TV (video cassette recorder was unavailable at that time).

TeleCo had formulated a training plan for technical staff to update their knowledge in the early 1990s but this plan had been suspended because of the factory's financial losses. The personnel manager expected to reactivate this plan when the factory was in a better financial position. The factory Director pointed out that training was particularly important for TeleCo because of the need to improve performance and update equipment. TeleCo also had to develop more new products for the market to increase its market share. These objectives would not be achieved without proper training. Although the Director noted that political education (e.g., building the socialist market economy and eliminating bourgeois liberalism) should be part of employee training, other managers interviewed all considered that training should focus on current production needs and future development.

LABOUR RELATIONS

TeleCo was unionised, and everyone was a union member. The function of the trade union was abolished during the Cultural Revolution and then restored in the early 1980s. In addition to the trade union, the factory had a Workers' Representative Congress (also called the enterprise staff-and-worker-council, hereafter referred to the Congress) that was re established in 1984. According to union regulations, in a factory with fewer than 500 people, 15% of employees could be elected to the Congress. TeleCo' s Congress had 60 members, proportionately representing technical and managerial staff, and production workers. The Congress was the major channel for employees to participate in enterprise management, because Congress members were involved in the factory's decision-making. The Congress usually held meetings twice a year to examine the factory Director's work report and the factory's production and business development plans. Only when the plan was approved by the Congress could it be implemented. The Congress also had several specific groups, including the wage and bonus group, welfare group, and assessment group, which helped to monitor the implementation of relevant policies and decisions in the factory's plan.

The routine work of the Congress was carried out by the trade union. The chairman of the trade union held the position of Deputy Director of the factory (and thus was a cadre) and was only engaged in union work. Candidates for the position were nominated by employees and then all the Congress members voted to determine the chairman. Each department and workshop had an elected union head within that unit. The union head at this level might be a cadre or a worker depending on his/her own job position. They were not given release time for union work, so it was an additional task.

The current union at TeleCo served four functions. First, the union assisted management to fulfil the tasks proposed by the Director. In order to do this, the union and the Administration Office had a verbal agreement to jointly assist the director in his work. The union helped to organise labour emulation activities (loodong jingsai) whenever necessary to speed up the completion of certain tasks. It helped to collect employee suggestions or recommendations for production improvement and to implement the production safety rules. Second, the union was responsible for employee welfare, such as allocating housing, visiting retired and sick employees, offering financial help to employees who had temporary family problems, and organising leisure activities for employees.

Third, being the employees' representative, the union helped to channel employee complaints or grievances to relevant managers. For example, if a worker's bonus was reduced by a line manager without justification, the worker could ask the union to talk with this manager. If the manager had justifiable reasons, the union would assist the manager to consult with this worker. If the manager was in error, the union would help to correct the decision (according to the Chairman of the union, that had never occurred). If the factory wanted to dismiss an employee, the Congress had to approve the decision. Finally, the union organised training programs for union members such as workshops on machine maintenance, technical innovation, and quality control.

The trade union atTeleCo still played the role of 'transmission belt' between management and employees. It was a management assistant as well as an advocate for employees. The union helped to reduce and even avoid conflict between managers and employees, although it had never been in the position of negotiating with managers on behalf of employees. Simply put, the major task of the union was to look after employee welfare.

SUMMARY AND DISCUSSION

This paper has highlighted human resource practices in a SOE, TeleCo, in terms of six major HRM activities as summarised in Table 3. It focuses on current practices, with a brief comparison with the management of human resources during Maoís regime. Table 3 indicates that before the reforms, these activities were rarely or only partially in existence because of a centrally planned economy and a monopoly of state control over SOEs. At that time, the state undertook human resource planning, allocated human resources, and fixed wage scales for enterprises, especially SOEs. Performance appraisal was utilised mainly for cadres and training was generally provided in the form of apprenticeships for new workers.

Table 3
HRM activities at TeleCo

HRM activities	Purposes	Features	Issues
HR planning	- no such function before the reforms - for replacement to hire university graduates	- constrained by quotas - short-term oriented - no planning for retrenchment	- no job analysis - lack of long-term business strategy - over-staffing but lack of specialised technical people
Recruitment & selection	- not in existence before the reform - to meet replacement needs - to build a workforce based on the factory's needs	- need to select within given quotas - no standardised procedures - written tests for selecting workers - qualification-oriented for technical staff	- lack of job description - heavy reliance on the individual judgement of personnel manager - the nomenclature system for senior managers
Performance appraisal	- only for cadres before the reforms for promotion and transfer - for reappointment - for promotion - for bonus distribution	- self-report oriented - no formal assessment sheet 'soft' and 'hard' appraisal criteria	- only for administration purpose - no objective measurement for non-production work
Compensation & welfare	- centrally fixed wage scales before the reforms - to link wages to responsibilities and skills - to link bonuses to performance	- position-and-skill wages since 1993 - some position wages were constrained by quotas - bonus consisted of 30% of wage package - higher bonus for workers	- validity of classification of position-and-skill wages in the absence of job analysis - no substantial gap between high and low performers - not performance-linked bonus for non-production employees
Training & development	- to prepare new employees - to improve employees' skill levels as required by the Post Bureau	- often universal and sporadic - mainly on-the-job training - reactive to solve emergent production problems	- lack of funding - no systematic training - no training for career development
Labour relations (Trade Union)	- management assistant and employees' caretaker - a bridge between management and employees	- unionised - focus on employees' welfare - assistant to management	- To what extent does the trade union represent workers' interests in terms of their rights and power?

When this case study was conducted in 1994, TeleCo had experienced a series of changes in its management after 15 years of economic reform, though it was still in transition from 'state-run' to enterprise-managed human resource practices. Although TeleCo started to exercise autonomy in its own human resource practices, such as the selection of employees and establishment of wage packages, HRM activities were not conducted in a way as defined in the West. In fact, some of these activities were still only partially utilised, some existed in name only or with typical Chinese characteristics, and some were totally absent.

First, some HRM activities were only partially in existence. For example, performance appraisal was emphasised and applied to everyone at the factory. However, it was used only for the purpose of administration rather than for performance improvement. Furthermore, with both 'hard' and 'soft' assessment criteria in existence, the reliability and validity of performance appraisal was questionable. Similarly, compensation was beginning to link wages to individual job positions and skills, and bonuses to performance. The current practice had moved away from the traditional iron wage system and offered some incentives to employees. However, lack of job analysis and objective assessment criteria meant that the links between positions and wages were weak, and the differentiation of bonuses between production and non-production employees was driven by ideology.

Second, although the terminology describing various HRM activities was used at TeleCo, the actual human resource practice sometimes existed only nominally or with typical Chinese characteristics. Human resource planning, for example, was used mainly for replacing employees who left, and was rarely linked to the factory's strategy as would be the case in Western HRM. Recruitment and selection were conducted without formal selection criteria and procedures, and were limited by quotas. In addition, this activity was seldom applied to senior managers, because, as Tausky (1991) observed, the appointment and promotion of senior managers has remained in the hands of the state. These problems could partly be attributed to the context or environment in which these activities were conducted. Practices were significantly influenced by typical Chinese characteristics – such as the constraint of the quotas specified by the governing authority, state-imposed restrictions on retrenchment, the legacy inherited from the command economy (e.g., overstaffing), and the nomenclature system used for senior managers. Furthermore, the absence of job analysis, unstable leadership, a short history of the factory having its own business strategy, and managerial inertia also contributed to the fact that HRM existed mainly in name only.

Finally, some HRM activities, such as career development or collective bargaining were totally absent from TeleCo. The absence of career development could be the result of lack of funding, human resource planning and regular training. In addition, as the factory was under pressure to keep all its redundant employees and relocate them, managers were laden with routine work instead of dealing with long-term issues. The absence of collective bargaining was common in Chinese SOEs, as the trade union was expected to be 'the transmission belt' between the state and employees, and could be regarded as an extension of management. Although the union chairman's rank was raised to deputy director, the trade union and the Workers' Representative Congress had little impact on the operations of the factory, let alone negotiating on behalf of workers with the state and management. This situation has also been reported by other researchers (O'Leary, 1994; Unger & Chan, 1996). Some researchers (White, Howell & Shang, 1996) believed that as long as the pre-reform urban danwei system stayed basically intact, the union was irrelevant. This is an accurate description of TeleCo's situation in the mid-1990s: employees were still guaranteed employment and permanent jobs, with few employees on contract.

Although TeleCo' s current management of human resources was far from ideal, some HRM activities were being recognised as useful and placed on the agenda. For example, TeleCo planned to conduct job analysis to identify its human resource needs and define job positions for the purposes of performance assessment and compensation. This plan was welcomed by the non-production employees, as they wanted to have 'hard' appraisal criteria and more rationally distributed bonuses rather than accepting much lower bonuses than production workers. The factory also realised the necessity to have a long-term (at least three years) human resource plan based on its business strategy so as to identify the type of people to be recruited and retained. Furthermore, systematic training of technical staff to update their knowledge and skills needed to start soon, as TeleCo had to compete in the market with new high-quality products. The factory also planned to offer regular training to its workers to improve their skills and prepare for upgrading of equipment. The business plans that TeleCo was going to implement indicated a clear trend in the factory's human resource practices, namely, to develop human resource planning according to its own business needs, to link compensation more closely to employee performance and to offer substantial training to employees.

From this case study, significant impact of state ownership on TeleCo's human resource practices before and during the reforms can be observed. The state was able to control the 'state-owned' factory through the use of quotas, the nomenclature system to appoint senior managers, and 'iron-rice-bowl' system to keep surplus employees on the payroll. Although this type of ownership offered TeleCo protection from bankruptcy, the introduction of the modern enterprise system meant that the state's protection would be reduced, as would its control of the factory's management. As a result, the factory would face more market competition. Effective management of human resources was expected to nurture TeleCo's culture and to help the factory achieve its objectives. TeleCo had started to move away from its traditional personnel and labour administration but still had a long way to go before it would have a robust HRM system.

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