

# **HRM PRACTICE IN THE FAST GROWING CHINESE SMEs**

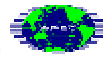
**Connie S. M. Zheng**

**Executive Assistant (Research & APEC Projects)**

**Asia Pacific Research Institute**

**Graduate School of Management**

**Macquarie University (Australia)**



## HRM PRACTICE IN THE FAST GROWING CHINESE SMEs

### ABSTRACT

China has undergone drastic changes from the planned to market-oriented economy. Economic structural change has caused the changes in the organisational behaviour in enterprises, especially in the small and medium sized enterprises (SMEs) which have gained much more management autonomy since the reform.

Research has shown that SMEs in China are growth-oriented and the sector is the engine to the national economic development. The paper attempts to examine internal management structure of the 74 interviewed SMEs and to compare the elements of effective enterprise performances shown in the fast growing SMEs.

Seven key human resource management (HRM) functions in the interviewed enterprises have been examined and compared. Cross-tabs analysis results in 4 hybrids of an intriguing Chinese HRM-SME Model. However, factor analysis on the HRM practices in the selected Chinese SMEs leads to three significant elements of HRM practices that have contributed to the fast-growing Chinese SMEs. These three elements are:

- *management autonomy* (ie. free selection of staff from market instead of state allocation of staff as was dominantly practiced by enterprises in the planned system);
- *retention of competent staff* via training and incentive given (ie. social security scheme);
- *motivation of staff* by linking payment with performance and promoting staff involvement in management decision making.

The paper concludes that a sustainable enterprise growth can be maintained by restructuring internal management system and building a sound and institutionalised HRM policies and practices especially for Chinese SMEs in the transformational period.

*Key words: human resource, management, enterprise, growth, factor analysis, China*



## INTRODUCTION

The transition from a centrally planned to a decentralised market economy has brought drastic economic restructuring in China. Management practices in small and medium sized enterprises (SMEs) have undergone a number of changes, whereby enterprise managers are finding greater autonomy in their activities and more responsibilities for decision-making.

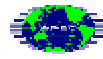
Research (Chen, 1995, Hall 1994) has shown that SMEs in China are growth-oriented and the sector is the engine to the national economic development. However, there is no clear indication that the growth is as a direct result of management autonomy and overall changes of management practice.

This paper attempts to find interrelationship between management practice and enterprise growth by examining human resource management (HRM) practices in a sample of 74 selected Chinese SMEs. The paper identifies key management factors to facilitate SME growth and applies both cross-tabs and factor analyses to pin down some elements of HRM practices that are correlated with Chinese enterprise performance.

Seven key HRM functions in the interviewed enterprises have been examined and compared. Cross-tabs analysis results in 4 hybrids of a Chinese HRM-SME Model. However, factor analysis on the HRM practices in the selected Chinese SMEs leads to three significant elements of HRM practices that have contributed to the fast-growing Chinese SMEs. These three elements are:

- *management autonomy* (ie. free selection of staff from market instead of state allocation of staff as was dominantly practiced by enterprises in the planned system);
- *retention of competent staff* via training and incentive given (ie. social security scheme); and
- *motivation of staff* by linking payment with performance and promoting staff involvement in management decision making.

The paper concludes that a sustainable enterprise growth can be maintained by restructuring internal management system and building a sound and institutionalised HRM policies and practices that promote management autonomy, emphasise retention strategy and implement performance management especially for Chinese SMEs in the transformational period. The rest of the paper is arranged as follows: Section two overviews management practices in the Chinese enterprises, Section three introduces the research methodology of this paper, Section four displays the key research findings and Section five provides a concluding remark with policy implications.



## OVERVIEW OF MANAGEMENT PRACTICES IN CHINESE ENTERPRISES

Chinese small and medium enterprises are operating under the transitional economy. Their human resource management functions have been shifted slowly from the previous modes under the planned system to the modes more related to a market-oriented system (Child, 1994; Ding et al 1997; Goodall & Warner 1997; Lam 1993; Lu and Bjorkman 1997; Luo, 1991; Tsang 1994; Wang 1988; Warner 1993, 1995, 1996a, 1996b, 1997a, 1997b; Zhao 1996; Zhu 1997). Nonetheless, compared with the West practice, most of the Chinese enterprise management practice has shown its normative trend, whereby a set of values were defined and put forth to implement organisational goals.

In the past decade of reforms, change of the traditional manager responsibility in which managers were often selected by the state, and the contract management responsibility system introduced in 1987 as well as the asset management responsibility system introduced in the 1990s (Kong & Marks, 1999) as a way of building modern enterprise management system have indicated the government's effort to reform enterprise especially those state-owned to achieve profitability, efficiency and market competitiveness.

There are very few cases whereby enterprises start their HRM approach from pursuing internal set of ideal practices to improve internal management and achieve fitness for gaining market advantages. And strategic human resource management approaches are sought to respond to increasingly changing external environment to gain competitiveness.

Chinese enterprises (particularly state owned enterprises) have been highly relying on the state's intervention to keep their profitability and market competitiveness via price control (i.e. distorted price as mostly reflected as monopolised pricing policies) and restriction on market entry often set by the local governments. Internal management improvement is either not possible under the state control or largely ignored.

However, a patchy practice of HRM functions both in state-owned enterprises, and much more so in the growing private-owned enterprises (so called *minying qiye* - people-run enterprises which also cover those enterprises owned and/or funded by foreigners) and joint ventures (Tsang, 1994, Warner 1997 and Goodall & Warner 1997). For instance, labor contract has been introduced, so some are now free from the state allocation of staff and workers, and able to select, recruit and dismiss their general staff and workers according to the signed labor contracts (Warner 1997a). The 'iron rice bowl' which provides no incentive of wages and benefits has been abolished in most of the enterprises, replaced with various levels of payments and incentive reward system directly linked with performance (Ding *et al.*, 1997; Goodall and Warner, 1997; Lu & Bjorkman, 1997 and Tsang 1994). Training and development of competent and skilled workers on on-going basis to match job descriptions & requirements have also been introduced to prevent the overwhelming phenomena of *zhuang ye bu dui kou* - work in the area with no special skills under the previous system. In some enterprises,



management has also adopted an increasing level of transparency by exercising the institutionalised performance appraisal procedures. Previously, the assessment of staff promotion and rewards was largely built on superiors' personal opinions toward and relationship with subordinates as well as the length of services staff hold in firms.

Although management and staff communication has been largely dominated by the Party's authoritarian leadership over enterprise management, labor union and worker representatives have taken a new form in this age of the enterprise reform, especially with frequent occurrence of labor management conflicts in joint ventures, private-owned and collective enterprises.

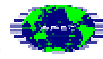
In comparison with western enterprises, Chinese enterprises management have not taken the same autonomy as pursued by enterprises under the free market system, they are still much more influenced by changing external environment such as government economic policies, the nature of market, legislation changes and industry sectorial characteristics. Firms' management (and HRM) strategies are set up to match government's requirements and the external changes focusing on achieving corporate objectives of profitability and market advantages.

## **RESEARCH METHODOLOGY**

The research intends to search for interrelationship between HRM practice and performance in Chinese SMEs in the sample. Given the circumstances in Chinese enterprises management, it is particularly focused on the following seven areas of HRM practices to see whether these practices have direct impacts on a better enterprise performance, hence, growth *per se* in the selected Chinese SMEs.

Seven areas of HRM practices were identified. Interviews were carried out to determine the extent to which the selected SMEs have been practicing:

- 1) **free market selection and recruitment of staff and workers (FMS)**
- 2) **payment linked with performance (PLP)** - provision of true incentive reward systems as against the standardised rigid wage system
- 3) **social security scheme (SSS)** - provision of the 'cradle to grave' social welfare as against giving incentive staff benefits for retention purpose
- 4) **training and development of competent and skilled workers on on-going basis to match job descriptions & requirements (T&D)**
- 5) **performance evaluation process (PEP)** to facilitate increasing level of transparency of promoting competent staff based essentially on merits instead of superiors' personal opinions toward and relationship with subordinates as well as the length of services staff serve in firms



- 6) **decision making process (DMP)** to promote overall flow of management communication to encourage staff participation in management instead of having only Party's authoritarian leadership over enterprise management
- 7) **labor management relationship (LMR)** clarified to exercise appropriate labor union's power to create cohesion and to truly protect staff (workers) interest.

Two hypotheses were laid down before the data collection and entry: It is assumed that firstly, Chinese SMEs that practice the above-mentioned 'best practices' of HRM show good HRM outcomes. Secondly, the better HRM outcomes shown in Chinese SMEs will determine good enterprise performance specifically in growth, market competitiveness and expansion tendency.

The interviewed SMEs profile according to enterprise structural ownership is tabled in Table 1. Nine wholly state-owned enterprises (SOEs), fifteen partially affiliated to SOEs (ASEs), another nine collectively owned enterprises (COEs), nine joint ventures (JVEs), twenty three domestically private owned enterprises (DPEs), six foreign owned private enterprises and three town and village enterprises were interviewed.

**Table 1: Interview Samples - Enterprise Ownership**

<b>Enterprise Ownership</b>	<b>Number</b>	<b>Percentage %</b>
Wholly State-Owned Enterprise (SOE)	9	12
Partly Affiliated to SOE Enterprises (ASE)	15	20
Collectively Owned Enterprises (COE)	9	12
Joint Venture with Foreign Firms Enterprises (JVE)	9	12
Domestically Private Owned Enterprises (DPE)	23	31
Foreign Private Owned Enterprises (FPE)	6	8
Town & Village Enterprises (TVE)	3	5
Total	74	100

Interviews were used to assess the above areas of HRM practice, plus firms' performance in the past years (maximum 5 years) and/or since their establishment, market competitiveness and expansion plan. Firms' overall HRM outcome in terms of congruence (CGR), commitment (CMT), competence (CPT) and cost-effectiveness as expressed in staff annual turnover rate less than 10% ( $0 < r < 0.1$ , RLESS), according to Beer, et, al. (1984)'s map of HRM territory, were also examined. Information collected was descriptive, variables were treated as dummy variables (0, 1).

The initial intention for a cross-tabs analysis was to identify whether there were any significant differences in practicing the identified elements of HRM between state-owned enterprises and newly developed private owned enterprises and joint venture verses solely foreign owned companies. The results shown in Table 4, 5, and 6 confirm such an exploratory thinking. An interesting so-called Chinese HRM-SME Model in the



transitional time was developed to explain distorted indicators often otherwise non-explainable. A detailed analysis on this model will be found in the next section.

The cross-tabs analysis is interesting, yet it does not totally satisfy. For the key issue is to pin down some crucial factors that affect enterprise growth. Hence, factor analysis as another statistical technique was pursued to draw out main driving forces for the growing SMEs in China.

According to Malhotra et al (1996), factor analysis is an interdependence technique or multivariate statistical techniques in which an entire set of interdependent relationships can be examined. It is applied in this research based on three main reasons. First is that there are overtly too many variables, secondly, by data reduction, it is easier to identify key factors that link directly with enterprise performance; thirdly, mathematically, it is similar to multiple regression analysis, in that each variable can be expressed as a linear combination of underlying factors.

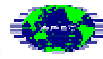
From Table 2, it is clearly found that there is a matrix of correlations between the seven variables, whereby there are relatively high correlations among PEP, T&D and DMP. These variables are expected to correlate with the same set of factors. Likewise, there are relatively high correlations among SSS, LMR but highly reversed correlated with FMS, and relatively high correlation between DMP and PLP.

The results of factor analysis are given in Table 3. The null hypothesis, that the population correlation matrix is an identity matrix, is rejected by the Bartlett's test of sphericity (248.61350, significance = 0.00000). The value of KMO statistic (0.73907) is also large (0.5). Hence factor analysis can be considered as an appropriate technique for analysing the correlation matrix of Table 2.

Using SPSS, the eigenvalue was set at 0.5, three factors were extracted, and they explain 81.7% of the total variance. Rotated Factor Matrix identifies that SSS (provision of social security scheme) & LMR (labor management relations represented by labor union & worker representatives) are highly correlated with factor 1. In the same matrix, it is found that FMS (free market selection) is highly uncorrelated with factor 1. PEP (performance evaluation process) and T&D (training and development) are highly correlated with factor 2. And DMP (decision-making process involved in staff participation) and PLP (performance linked with payment) are highly correlated with factor 3.

**Table 2: HRM Elements Correlation Matrix:**

	PEP	SSS	T&D	LMR	DMP	FMS	PLP
PEP	1.00000						
SSS	.06875	1.00000					
T&D	.79155	.10196	1.00000				
LMR	-.31386	.52446	-.15340	1.00000			
DMP	.61871	-.07022	.41493	-.33325	1.00000		
FMS	.43481	-.50380	.30634	-.65838	.49867	1.00000	
PLP	.43038	-.30316	.30151	-.38713	.54996	.54329	1.00000



### Table 3: Results of Principal Components Analysis

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .73907

Bartlett Test of Sphericity = 248.61350, significance = 0.00000

Initial Statistics:

Variable	Communality	Factor	Eigenvalue	Pct of Var	Cum Pct
PEP	1.00000	1	3.39231	48.5	48.5
SSS	1.00000	2	1.66294	23.8	72.2
T&D	1.00000	3	.66249	9.5	81.7
LMR	1.00000	4	.47948	6.8	88.5
DMP	1.00000	5	.35860	5.1	93.7
FMS	1.00000	6	.29330	4.2	97.8
PLP	1.00000	7	.15088	2.2	100

Factor Matrix:

	Factor 1	Factor 2	Factor 3
PEP	.77562	.52565	-.15530
SSS	-.38953	.78743	.12558
T&D	.61385	.60132	-.39389
LMR	-.67808	.48429	.27444
DMP	.75586	.23615	.39322
FMS	.81641	-.33238	-.07561
PLP	.75137	-.06500	.48145

Rotated Factor Matrix

	Factor 1	Factor 2	Factor 3
PEP	-.08829	.85107	.41217
SSS	.85395	.23106	-.07027
T&D	-.02560	.93548	.13330
LMR	.83775	-.20304	-.16306
DMP	-.10243	.36563	.79846
FMS	-.72985	.27436	.41805
PLP	-.29595	.12136	.83562

As provision of social security scheme (SSS) often goes along with strong labor union (LMR)'s influence, factor 1 is defined as 'Social Benefits' factor. Development of staff through training (T&D) and performance evaluation (PEP) is defined as 'Staff Development' factor 2. Factor 3 is defined as 'Performance Management' factor which emphasises giving incentive on payment based on staff performance (PLP), and improving performance through staff involvement in quality control, innovation and other management decision making (DMP).

With the explanation of the basic research methodologies and techniques of statistical applications, let's now turn to examine the HRM-SME model in the context of Chinese enterprise management and check how the above-defined factors will affect HRM outcomes and enterprise growth in the selected Chinese enterprises.





## ANALYSIS OF THE RESULTS

### Results from Cross-tabs Analysis

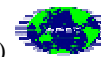
The model (Figure 1) is derived from Table 4, 5 and 6 which indicate different management practice, HRM outcomes and enterprise performance among four different categories of company structures, namely SOE, ASE, DPE and/or FPE and JVE.

**FIGURE 1: HRM Practice and Enterprise Performance  
- Chinese SME-HRM-Model**

		Enterprise Performance	
		Good	Bad
<b>HRM Practices</b>	No	<b>HYBRID I</b> i.e. Tyrant SOE	<b>HYBRID III</b> i.e. Messy ASE
	Yes	<b>HYBRID II</b> i.e. Baby DPE/FPE	<b>HYBRID IV</b> i.e. Unfortunate JVE.

**Table 4: Comparison of HRM Practice among Different Enterprise Ownership**

No. %	PFMS	FMS	PLP	PSSS	SSS	PT&D	T&D	PPEP	PEP	DMP	PTU	TU
ASE	4	7	11	7	7	5	4	2	2	6	2	4
	27%	47%	73%	47%	47%	33%	27%	13%	13%	40%	13%	27%
SOE	1	1	3	0	9	4	1	0	1	2	0	7
	11%	11%	33%	0%	100%	44%	11%	0%	11%	22%	0%	78%
DPE	2	21	21	5	4	8	7	4	7	15	1	0
	9%	91%	91%	22%	17%	35%	30%	17%	30%	65%	4%	0%
FPE	0	6	6	2	2	0	6	0	6	5	0	0
	0%	100%	100%	33%	33%	0%	100%	0%	100%	83%	0%	0%
JVE	4	2	3	6	3	5	2	1	3	4	2	5
	44%	22%	33%	67%	33%	56%	22%	11%	33%	44%	22%	56%

**Table 5: HRM Outcomes in the Selected SMEs in China**

Enterprise category	0<r<10%		CGR		CPT		CMT	
	No.	percent	no.	percent	no.	percent	no.	percent
ASE (15)	12	80	7	47	11	73	11	73
SOE (9)	3	33	1	11	5	55	2	22
DPE (23)	17	74	17	74	19	83	20	87
FPE (6)	5	83	5	83	6	100	6	100
JVE (9)	6	67	6	67	6	67	3	33

**Table 6: Enterprises Performance in the Selected SMEs in China**

Enterprise category	ICR/SP		MKT		EXP	
	no.	percent	no.	percent	no.	percent
ASE (15)	8	53	9	60	9	60
SOE (9)	6	67	6	67	4	44
DPE (23)	20	87	18	78	20	87
FPE (6)	6	100	5	83	6	100
JVE (9)	4	44	6	67	6	67

Figure 1 demonstrates four hybrids, whereby the horizons indicate both good and bad enterprise performance, and the verticals show whether firms have taken HRM approaches.

Hybrid I means that enterprises which do not practice much HRM functions as indicated, however achieve good results in their overall performance in terms of output reflecting in increasing amount of sales, production and profits of firms (ICR/SP); market competitiveness (MKT) and growth tendency (EXP). It is found that SOEs fit preferably in this hybrid because from the interviews, the SOEs displayed a lack of overall HRM practices (Table 4 – Row SOE), and their HRM outcomes also look undesirable (Table 5 – Row SOE). However their enterprise performance in terms of sales and production and market competitiveness are better off than that in ASEs and JVEs (Table 6), though SOEs show a lack of vitality in future growth compared with ASEs and JVEs.

DPEs and FPEs sit well in Hybrid II where HRM practice were exercised to a certain extent and thus better HRM outcomes were generated, a stronger and healthier enterprise performance was also demonstrated (Table 4, 5 and 6 – Row DPE and FPE).

A number of evidence from the interviewed enterprises indicated that ASEs are in the position of Hybrid III whereby the companies have not sufficiently practiced HRM,



and their enterprise performance has also resulted in a bad shape, at least comparing even with that of SOEs (Table 4, 5 and 6 – Row ASE).

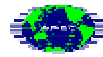
Hybrid IV is an unfortunate case where HRM practice did take place, nonetheless the end results were not desirable. Such cases are shown in joint ventures where particular foreign joint partners tend to focus on addressing internal management - the intention not well understood by their domestic partners. Conflicts often occur between local labor force and non-domestic management staff, in particular areas of management understanding of local staff - their work ethnic and cultural background (Table 4, 5 and 6 –Row JVE).

It is believed that the major causes of such a unique model of the SME-HRM combination lie in the imperfect legal system, unfair competition, imperfect market and inflexible labor market in the transformational period China is undergoing. Such systems in the way provide lee-ways particularly for SOEs to gain temporary, monopolised pricing and market advantages over new enterprises especially those with private owned in market domination and control of new entry to protect their distorted competitiveness. A few empirical studies (Huang & Meng, 1997, Zhang 1998 and Kong & Marks, 1999) support the same argument and advocate that the method of revitalisation of SOEs and their sustainable growth should lie in the establishment of internal management and exercising ‘corporate governance’, rather than pursuing a short term gain, which could hinder a long term benefits in effectively reforming SOEs.

Furthermore, the research results demonstrate better HRM outcomes and enterprise performance of DPEs and FPEs, though some elements of HRM practices in Chinese SMEs still need time to be institutionalised such as those areas dealing with performance appraisal and training & development of staff, and union’s function. This may imply that management autonomy in terms of free selection staff from market should be given solely to enterprises, and the state should withdraw its ultimate control on major decision-making on staffing, remuneration and development of firms. The point will be further extended with the explanation via factor analysis using the similar set of data presented in the following.

### **Results from Factor Analysis**

In Table 7, it is found that better HRM outcomes in terms of cost effectiveness (RLESS = staff turnover <0.1 annually), congruence (CGR), competent (CPT), and commitment (CMT) are significant results of factor 1, 2, 3. In another words, practice or non-practice of the identified seven elements of HRM would have significant impacts on staff commitment, competency and overall enterprise cost-efficiency.



**Table 7: Relationship between Factors, HRM outcomes and Enterprise Performance**

HRM outcomes/ Performance/ Factor	Factor 1 B, Significance	Factor 2 B, Significance	Factor 3 B, Significance	rho <sup>2</sup>	Goodness of Fit %	Overall Observed %
<b>RLESS</b>	-.4299, .1642	.5262, .1856	1.7324, .0057	0.69	74.07	68.92
<b>CGR</b>	-1.0863, .0017	.8749, .0311	1.9432, .0028	1	75.44	75.68
<b>CPT</b>	-.2312, .4656	.2062, .6076	1.1027, .0778	0.20	73.61	71.62
<b>CMT</b>	-1.0098, .0035	1.1064, .0302	2.4615, .0007	0.67	69.62	77.03
<b>ICRSP</b>	-.2748, .3674	.7877, .0566	.9284, .1413	.33	73.75	70.27
<b>MKTCP</b>	.2895, .3812	.6392, .1166	.9302, .1505	0.25	75.11	68.92
<b>EXP</b>	-.1861, .5511	.5871, .1456	.3559, .5800	0.18	72.58	72.60

The provision of social security schemes (factor 1 as ‘Social Benefits) including pension, housing and health care etc. does not create a positive influence on HRM outcomes and enterprise performance (Table 7). Neither does labor union’s influence which most likely in Chinese enterprise cases are under the Party’s authoritarian leadership over enterprise management on performance, Instead, a reversely correlated variable of free market selection (B shows in negative) could have contributed more positive HRM outcomes and to enterprise growth.

Staff Development and Performance Management are the two key factors that have not only contributed to better HRM outcomes but also to enterprise growth.

A similar exercise is taken to treat HRM outcomes as independent variables (Table 8, 9 and 10). Factor analysis results in two factors: Factor 1 is highly correlated with CGR, CMT and RLESS, it is defined this factor as “Staff Commitment” and Factor 2 is only correlated with CPT, which is defined as “Staff Competency”.

**Table 8: Correlation Matrix for HRM Outcomes (as independent variables)**

	CGR	CMT	CPT	RLESS
CGR	1.00000			
CMT	.70614	1.00000		
CPT	.43759	.44311	1.00000	
RLESS	.63731	.69798	.54133	1.00000

**Table 9: Principal Components Analysis of HRM outcomes**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = .78680

Bartlett Test of Sphericity = 128.38294, Eigenvalue set at .5

Variable	Communality	Factor	Eigenvalue	Pct of Var	Cum Pct
CGR	1.00000	1	2.74721	68.7	68.7
CMT	1.00000	2	.63734	15.9	84.6
CPT	1.00000	3	.34587	8.6	93.3
RLESS	1.00000	4	.26958	6.7	100



Rotated Factor Matrix:

	Factor 1	Factor 2	Factor 1	Factor 2
CGR	.87367	.19311	.49300	-.22218
CMT	.88903	.21275	.49304	-.20575
CPT	.24881	.95804	-.33903	1.06679
RLESS	.75861	.43941	.28381	.14712

Factor Score Coefficient Matrix:

**Table 10: Relationship between HRM Outcomes and Enterprise Growth**

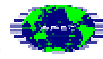
Growth/ Factors	Factor 1 B, Significance	Factor 2 B, Significance	rho <sup>2</sup>	Goodness of Fit %	Overall Observed %
<b>ICRSP</b>	2.9162, .0000	.4044, .5346	0.71	68.46	79.73
<b>MKTCP</b>	1.3436, .0137	.6473, .2511	0.36	73.33	70.27
<b>EXP</b>	2.0725, .0005	.9844, .0998	0.53	70.69	76.71

It is not significant at all that the first factor ‘staff commitment’ will be the sole reason for better performance in the selected SMEs. However, positive B values (2.9162, 1.3436, and 2.0725) represent that staff commitment if combined with good HRM outcomes could have contributed to firms’ increasing sales and production (ICRSP), market competitiveness (MKTCP) and further development of the firms (EXP). Table 10 indicates that the second factor of ‘staff competency’ is a more positive factor for firms to gain competitive advantages in taking more market shares and being more likely to lead to future development.

From the above, three key elements of HRM practices can be concluded to have contributed to the growing Chinese SMEs. They are management autonomy, retention of competent staff, and the motivation of staff.

Enterprise management, being able to recruit their own staff and workers free from market (rather than manoeuvred by the state planned system whereby staff and workers were allocated to state-owned and collectively owned enterprises and in some cases even to joint ventures) is seen as a key to a better enterprise performance. In a number of interviewed enterprises, in particular with state-owned enterprises, social welfare provided to staff and representation of labor union in organisations have not created appropriate incentives for better production and staff performance. Instead, staff development via training together with the incentive social security scheme tightly linked with staff performance, is a more effective factor to enterprise growth. The research has also demonstrated that training and development of staff has led to more competent staff who have helped increasing firms’ competitiveness in market and enhancing growth tendency.

Motivation of staff by linking payment with performance and involving staff in management decision making is the key performance management factor which has also contributed to enhancing staff competency that assists the Chinese small and medium sized enterprises.



The factor analysis has clearly indicated that the firms with more management autonomy and focusing on retention strategies and performance management demonstrate their better position in market competitiveness and more growth potential.

### **CONCLUSIONS AND IMPLICATIONS**

The cross-tabs analysis shows that though SOEs do not practice the identified elements of best practice of HRM, their enterprise outcomes are in some ways similar if not too much better off to those who do practice. Unfortunately JVEs even put emphasis on HRM practice have not achieved desirable results as expected. From the interviews, it is concluded that the reasons for such distorted indicators were due to imperfect market information, unfair competition, inflexible labor market etc, rather than the direct result of non-practicing HRM. In fact, the firms that do practice HRM show more likely for future expansion and growth. That phenomena has also applied to a number of interviewed JVEs, in contrast, SOEs, though are better off in the areas of increasing production and sales and market dominance as indicated, have not demonstrated a strong sense of growth tendency.

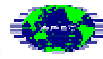
It is confirmed from the follow-up factor analysis that to achieve a sustained growth especially for SMEs such as those interviewed private owned enterprises, establishing internal management system and building a sound and institutionalised HRM policies and practices are the better option to gain sustained competitiveness and growth. To revitalise SOEs especially SME SOEs, industry policy in China should further pursue management autonomy, allowing enterprises themselves to make decisions, rather than to be constantly intervened by the state on the key management decisions for staffing, investment, resources allocation and expansion plans.

It is also encouraged that better HRM policies in enterprises should be designed to promote retention of competent staff and develop performance management tools to encourage staff to participate in all levels of quality control and management decision making.



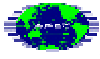
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