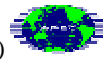


**HRM PRACTICES IN SMALL ENTERPRISES IN SELECTED
ASIAN COUNTRIES: HOW DO THEY COMPARE WITH
LARGER ENTERPRISES?**

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ABSTRACT

A global consortium of researchers has been conducting a survey of human resource management (HRM) practices in a number of countries to address the following broad questions: Which HRM practices are most used currently? Which practices are related to organizational effectiveness? Are there universal best HRM practices or only situation-specific best practices? These questions have not been adequately answered by the current state of research and theory, yet are important in providing guidance on the best way to manage human resources that would benefit both the organization and its members given the increasingly global world that firms face.

The current paper presents results from the People's Republic of China, Indonesia, South Korea, and the Philippines. Specifically, data will be presented on the prevalence of various practices with respect to hiring, training and development, performance appraisal, and compensation, comparing small enterprises (employment size of less than 250) to medium-sized enterprises (employment size between 250-1000) and large enterprises (employment size larger than 1000). In addition, the different HRM practices will also be related to their assessed effectiveness, and to perceived overall organizational performance.



A global consortium of researchers has been conducting a survey of human resource management (HRM) practices in a number of countries to address the following broad questions: Which HRM practices are most used currently? Which practices are related to organizational effectiveness? Are there universal best HRM practices or only situation-specific best practices? These questions have not been adequately answered by the current state of research and theory, yet are important in providing guidance on the best way to manage human resources that would benefit both the organization and its members given the increasingly global world that firms face. The consortium hopes to begin to address this inadequacy by providing a thick description of HRM practices in several countries, that enable the identification of possible contextual factors that influence HRM from an international perspective.

The current paper focusses on results from the People's Republic of China (PRC), South Korea, Indonesia, and the Philippines¹. Specifically, data will be presented on the prevalence of various practices with respect to hiring (8 practices), training and development (10 practices), performance appraisal (11 practices), and compensation (9 practices), comparing small enterprises (employment size of less than 250), medium-sized enterprises (between 250-1000 employees) and large enterprises (employment size larger than 1000). In addition, the different HRM practices will also be related to their assessed effectiveness, and to perceived organizational performance.

METHODS

Variables

A five-point scale was used to indicate the extent to which each of the listed practices described the respondent's own company, with "1" representing "Not at all" and "5", "To a very great extent". For each country, means were computed for each of the 38 practices according to employment size of the enterprise.

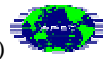
For each group of practices (e.g., hiring criteria), respondents were also asked to what extent their company's practices were effective. The same five-point scale was used to evaluate the following three statements:

1. The practices help our company to have high-performing employees.
2. The practices help our company to have employees who are satisfied with their jobs
3. The practices make a positive contribution to the overall effectiveness of the organization.

The average mean was then computed and this constituted the score for Assessed Effectiveness (Eff). Correlations of each of the practices under the group with its Eff score were subsequently computed.

The questionnaire also included a question on overall assessment of their company's performance. On a scale of five, with "1" representing "Very False" and "5", "Very True",

¹ Data are now available from nine other countries.



respondents were asked to what extent each of the following statements accurately described their company:

1. It produces high quality goods/services.
2. It has a promising future.
3. It manages its people well.
4. It is flexible enough to change when necessary.
5. It has high quality people working here.
6. It has a strong unified corporate culture.
7. It is very effective overall.
8. It has a very satisfied work force.
9. It has a very productive work force.
10. It is seen as a leader in industry.

The average mean was then computed and this constituted the score for perceived overall organizational performance (Org). Correlations with each of the practices with the Org score were then computed.

Profile of Respondents

The samples from the four countries were significantly different in terms of employment size. Chi-square analysis of each country shows that the South Korean sample was not evenly distributed, with more large enterprises and fewer small enterprises. As to the other countries, the sample was evenly distributed in terms of the three employment size categories.

To determine the extent to which the different samples were comparable, several organizational characteristics that might affect HRM practices were also measured. Table 1² provides data on the responding organizations from each country, according to employment size. Within each country, small, medium and large enterprises were significantly different on some organizational characteristic, but these organizational characteristics varied across the four countries. In the PRC, small, medium and large enterprises were significantly different in terms of industry, and perceived organizational performance. In South Korea, small, medium and large enterprises were significantly different in terms of perceived competitiveness of the environment, and status of the HR department³. In Indonesia, significant differences were found in terms of industry and organizational life cycle. In the Philippines, significant difference was only in terms of whether the organization was unionized or not.

Statistical comparisons of enterprises of the same employment size category across the four countries show significant difference in terms of unionization, product diversity, and

² Tables are attached at the end of the paper.

³ See appendix (at the end of the paper, before the tables) for the items included to measure perceived competitiveness of the environment and status of the HR department.



organizational life cycle, except in terms of industry, where only small enterprises did not differ significantly across the four countries, and in terms of competitiveness of the environment, where only large enterprises differed significantly across the four countries.

RESULTS

Because of the differences in the profile of respondents described above, it is not possible to collapse the different country samples into just the employment size categories of the firms. There will therefore be two levels of analyses: within-country comparisons among the small, medium and large enterprises, and between-country comparisons of the same employment size category enterprises.

Tables 2a to 2d show the means of all 38 practices, and the correlations of each practice to its assessed effectiveness (Eff) and the perceived overall organizational performance (Org). Only significant correlations are included in these tables. The asterisks attached to a practice indicate significant difference of the mean across small, medium and large enterprises. The top three and bottom three practices, in terms of means, in each employment size category were also identified for each of the four HRM subfunctions (hiring, training, appraisal, and pay).

Prevalence of Practices

People's Republic of China. Small, medium and large enterprises significantly differ in 23 practices (60.5% of the 38 practices), with most in performance appraisal and compensation practices, 10 out of 11, and 6 out of 9 respectively. Post-hoc analysis⁴ show that small enterprises in China were more similar to large enterprises: they do not differ significantly in 13 practices (56.5% of 23), and in these practices their means are lower than the means for medium-sized enterprises. Small enterprises are similar to medium-sized enterprises in only 8 practices (34.8%), mostly in compensation, and their means for these practices are higher than the means for large enterprises. Small enterprises were different from both medium-sized and large enterprises only in terms of benefits as being an important part of the total pay package.

Common in the top three practices across small, medium and large enterprises are ability to perform technical job requirements and proven work experience in similar job as hiring criteria, training to improve technical job abilities, appraisal to recognize things done well, and part of earnings contingent on group performance. Common in the bottom three practices across small, medium and large enterprises are right connections and future co-workers' opinions as hiring criteria, training to provide reward to employees and to improve interpersonal abilities, appraisal to plan development activities, and very generous employee benefits package.

South Korea. Small, medium and large enterprises significantly differ in 15 practices (39.5%). Unlike the Chinese sample, however, small enterprises are more similar to medium-

⁴ It should be noted that Scheffe analysis at alpha=.05 did not always show different subsets for those variables found to be significantly different.



sized enterprises, with no significant difference in 6 practices. Small enterprises are not significantly different from large enterprises in 4 practices, and small enterprises are significantly different from either medium-sized or large enterprises in 5 practices.

Common among the top three across small, medium and large enterprises are ability to get along well with others as a hiring criteria, training to improve technical job abilities, initial training for new employees, appraisal to determine subordinate's promotability, incentives as a significant part of total earnings, and seniority as not entering pay decisions. Common among the bottom three are future co-workers' opinions as a hiring criteria, training to provide reward to employees and to prepare employees for future job assignments, appraisal to determine appropriate pay, and pay raises mainly determined by job performance.

Indonesia. Small, medium and large enterprises do not differ significantly, except in one practice ("belief that person will stay with the company" as a hiring criteria). In this practice, small enterprises are similar to medium-sized enterprises.

Common among the top three practices across small, medium and large enterprises are ability to perform technical job requirements and ability to get along well with others as hiring criteria, training to improve technical job abilities, benefits as important part of total pay package, and seniority as not entering into pay decisions. There were no common practices in the top three appraisal practices. Common among the bottom three are right connections and future co-workers' opinions as hiring criteria, training to help employees understand the business, appraisal to plan development activities and to allow subordinate to express feelings, very generous employee benefits package, and futuristic orientation of pay system.

Philippines. Small, medium and large enterprises significantly differ in 10 practices (26.3%), mostly in training. Small enterprises were similar to medium-sized enterprises in 4 practices, and to large enterprises in 2 practices. Only in one practice were small enterprises different from either medium or large enterprises: training to improve technical job abilities.

The top three and bottom three practices in hiring criteria were the same across small, medium and large enterprises. The top three ones are ability to perform technical job requirements, proven work experience in similar job, and fit with company's values and ways. The bottom three are future co-workers' opinions, right connections and belief that person will stay with company in that order.

In the other subfunctions, common among the top three practices are training to improve technical job abilities and to build teamwork within the company, appraisal to document subordinate's performance and to determine subordinate's promotability, benefits as important part of total pay package and pay raises mainly determined by job performance. Common among the bottom three are training to provide reward to employees and to help employees understand the business, appraisal to discuss subordinate's views and to allow subordinate to express feelings, and futuristic orientation of pay system.

Country Comparisons. Country comparisons of enterprises with the same employment size category were also made statistically. Across all size categories, no significant difference was found for only two practices: providing training as a reward for employees, and seniority as not entering pay decisions. Table 3 lists additional practices in



which enterprises of the same employment size category did not differ significantly across the four countries.

Post-hoc analysis was conducted to determine in which country significantly different practices can be found. The results are shown in Table 4. Across all employment size categories, the Philippine sample was significantly different from the other country samples in more practices. On the other hand, the Indonesian sample across the three employment size categories were not significantly different in any practice from the other country samples.

Large enterprises in the Philippines showed the most difference: 17 practices across the 4 subfunctions, and in these practices, the Philippine sample had higher means. Next in the large enterprise category is the South Korean sample with significant difference in 4 practices, scoring lower than the other countries in all 4 practices. Among medium-sized enterprises, the Philippine sample again had more significant differences (5 practices), and all with higher means. Next is Korea again, with 3 practices, scoring lower in all. The PRC sample was significantly different in one practice, scoring in the middle ground. The pattern is broken somewhat among small enterprises. While the Philippine sample was again significantly different in 4 practices and scoring higher, and the South Korean sample was not significantly different from other countries, the PRC sample was significantly different in one practice, and scoring higher.

The practices that appeared in the top three (according to their means) in small enterprises across all the four countries are proven work experience in similar job as hiring criteria, training to improve technical job abilities, and benefits as an important part of total pay package. Among three of the four countries are ability to perform technical job requirements as a hiring criteria (except South Korea), appraisal to recognize subordinates for things done well (except South Korea) and to determine subordinate's promotability (except PRC). In medium-sized enterprises, common in the top three across all countries are ability to perform technical job requirements as hiring criteria, and training to improve technical job abilities, and among three of four countries is appraisal to determine subordinate's promotability (except PRC). In the top three in large enterprises across all countries are ability to perform technical job requirements as hiring criteria, training to improve technical job abilities, and appraisal to recognize subordinates for things done well. Practices in the top three for large enterprises in three out of four countries are ability to get along well with others as a hiring criteria (except the Philippines), benefits as an important part of the total pay

package (except PRC), and seniority as not entering into pay decisions (except the Philippines).

The common bottom three practices in small enterprises across all four countries are future co-workers' opinions as hiring criteria, and training to provide reward to employees. Common in three out of the four countries are right connections as a hiring criteria (except South Korea which includes this as a top three), appraisal to discuss subordinate's views (except Indonesia), long-term results more important in pay practices (except PRC) and generous employee benefits package (except the Philippines). In medium-sized enterprises, common in the bottom three across all countries are right connections and future co-workers' opinions as hiring criteria, and training to provide reward to employees; in three out of four



countries, the common practices are appraisal to allow subordinate to express feelings (except PRC), very generous employee benefits package (except the Philippines). In large enterprises, the common practices in the bottom three are right connections and future co-workers' opinions as hiring criteria.

Correlations with Assessed Effectiveness and Perceived Organizational Performance

People's Republic of China. Across small, medium and large enterprises, all or almost all (that is, except for one) of the practices listed under training and appraisal were perceived to be effective and positively correlated with organizational performance. In addition, for medium-sized firms, all or almost all (except for one) of the practices listed under hiring criteria were correlated with perceived effectiveness and organizational performance. These correlations are positive, except for right connections as hiring criteria. For small enterprises, this particular practice was positively correlated with perceived effectiveness. For large firms, all the pay practices were perceived to be effective, although not all were positively correlated with organizational performance.

South Korea. All or almost all (except for one) of the practices listed under hiring criteria and pay were perceived to be effective across small, medium and large enterprises. However, only in medium enterprises were hiring criteria (except one) positively correlated with organizational performance, and only in large enterprises were pay practices (except one) positively correlated with organizational performance. For medium and large enterprises, all practices listed under training and appraisal were perceived to be effective (hence, all or almost all practices under hiring, training, appraisal and pay were deemed effective by medium and large enterprises). However, positive correlations with organizational performance are shown only for all or almost all practices in hiring and training for medium-sized enterprises; for large enterprises, this is true for appraisal and pay practices.

Indonesia. None of the enterprise groupings find all (or almost all) practices under hiring criteria as effective, while almost all or almost all practices in training were seen as effective across small, medium and large enterprises. In addition, small enterprises found all pay practices as effective, although only a few were correlated with organizational performance. Almost all of the practices under appraisal were found to be effective and also positively correlated to organizational performance by small enterprises. Organizational performance was found to be positively correlated to all practices under training and appraisal by medium-sized enterprises, which also found these practices effective, while in large enterprises correlations with effectiveness and organizational performance were found for almost all practices under training only. In medium and large enterprises, right connections as a hiring criteria were negatively correlated with organizational performance, and in large enterprises it was also negatively correlated with perceived effectiveness. A negative correlation with organizational performance was also found for seniority as not entering pay decisions in large enterprises.

Philippines. Similar to Indonesia, small, medium and large enterprises did not find all the practices under hiring as effective, nor positively correlated to organizational performance. It is under training that all or almost all practices listed which were found to be effective across all employment size categories; however, it is only in small enterprises were these practices



also positively correlated with organizational performance. In addition, small and medium-sized enterprises found all practices under appraisal to be both effective and positively correlated with organizational performance (as did the Indonesian sample). Medium-sized enterprises also find that almost all the listed pay practices were effective and positively correlated with organizational performance. One negative correlation with organizational performance was found: right connections as hiring criteria in small enterprises.

Country Comparisons. Among the four subfunctions included in the survey, training practices are to be seen as the most effective (that is, all or almost all listed practices) by firms of all employment size categories across the countries, except for South Korea, and hiring practices seem to be seen as the least effective, except for South Korea. In South Korea, all or almost all the hiring practices listed were seen as effective across the three employment size categories, while in Indonesia and the Philippines, only some hiring practices were considered effective across the three categories and in China, only medium-sized firms considered almost all hiring practices as effective, with right connections correlated negatively with assessed effectiveness. In South Korea also, medium and large enterprises perceive all four subfunctions as effective, whereas in other countries, none of the employment size categories perceive all four subfunctions as effective.

Among small enterprises across the four countries, all or almost all training and appraisal practices are seen as effective, except South Korea, where it is hiring and pay practices. Medium enterprises across the four countries also perceive all or almost all training and appraisal practices as effective (for South Korea, hiring and pay practices are perceived effective by medium-sized enterprises). For large enterprises, only training practices are seen as all or almost all effective across the four countries.

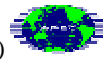
It is in the People's Republic of China, where the most number of practices correlated positively with perceived organizational performance, with all or almost all practices listed under training and appraisal correlating positively across the three employment size categories. In no other countries were all or almost all practices listed under a subfunction correlated positively with organizational performance. The least number of practices correlating with organizational performance is in South Korea, where the most number of practices were seen as effective.

SUMMARY

The rich data that has been generated will now be summarized. To reiterate, because of the differences found in the profiles of the country samples, the question posed in the title of this paper can best be answered on two levels: comparisons of small, medium and large enterprises within a country, and comparisons of enterprises of the same employment size category across the four countries included in the survey.

Within-Country Comparisons

- The most number of difference in HRM practices among small, medium and large enterprises can be found in the People's Republic of China, where small enterprises were more similar to large enterprises. The next country with the most differences is South Korea, but small enterprises are somewhat similar to medium-sized enterprises, somewhat similar to



large enterprises, and also uniquely different from either medium or large enterprises. In the Indonesia, small, medium and large enterprises were hardly different from each other, showing only one significant difference in HRM practice (belief that person will stay with company as a hiring criteria). In the Philippines, small enterprises are different from either medium or large enterprises in only one practice (a lower mean in training to improve technical job abilities).

- In the Philippines, small, medium, and large enterprises shared the most number of practices in the top three and bottom three practices across the four subfunctions, particularly in hiring criteria, where the top three and bottom three are the same across the three employment size categories.
- South Korea had the most number of subfunctions where the practices listed were seen as effective by the different employment size categories, with medium and large enterprises considering all or almost all practices in all four subfunctions as effective. This was not observed in the other countries. In Indonesia and the Philippines, small enterprises did not perceive all or almost all hiring practices as effective.
- Overall, there were fewer practices that were correlated with organizational performance than were perceived as effective across all employment size categories in all four countries. Further, where South Korea posted the most number of subfunctions that were perceived as effective, South Korea has the fewest number of subfunctions where all or almost all of the practices listed were positively correlated with organizational performance across the employment size categories. The People's Republic of China had the most number of positive correlations across the four subfunctions for different size categories, and this is particularly true with training and appraisal practices. None of the other countries showed any subfunction with all or almost all practices as positively correlated with organizational performance across all employment size categories.

Between-Country Comparisons

- Enterprises of whatever size category differed across the four countries, with the most number of differences in HRM practices found among large enterprises (84% of the 38 practices listed), with small and medium enterprises differing in 68% and 66% of the 38 practices, respectively.
- Philippine enterprises differed in the most number of practices (26 or 68% of 38 practices), particularly in the large enterprises (17 or 45% of 38), while the Indonesian sample did not differ significantly in any practice from other countries across all employment size categories. South Korean small enterprises and large enterprises in the People's Republic of China did not differ significantly from other countries in any practice.
- Training to improve technical job abilities appeared as a top three across all employment size categories in the four countries. Future co-workers' opinions as a hiring criteria appeared as a bottom three across all employment size categories in all the four countries. In medium and large enterprises across all the four countries, ability to perform technical job requirements as a hiring criteria appeared in the top three, and right connections as a hiring criteria appeared in the bottom three (in South Korean small enterprises, right connections was a top three practice). A common bottom three practice in small and medium



enterprises in all four countries is training to provide reward to employees. In small enterprises in all four countries, the other top three practices (in addition to training to improve technical job abilities) are proven work experience in a similar job as a hiring criteria, and benefits as an important part of the total pay package.

- All or almost all practices in the training subfunction were perceived as effective across all employment size categories in all four countries, except for small enterprises in South Korea. The next is appraisal, with the only exceptions being in South Korean small enterprises, and large enterprises in Indonesia and the Philippines, where it is only in the training subfunction where all or almost all practices are seen as effective. For South Korea, it is the hiring and pay subfunctions where all or almost practices are seen as effective in small enterprises.
- None of the subfunctions were found to have all or almost all listed practices as correlating with organizational performance across all employment size categories for any of the four countries. The most number of countries where all or almost all listed practices in a subfunction correlated with organizational performance in the same employment size category is three out of the four countries: appraisal practices for small and medium enterprises (except South Korea), and training practices for medium-sized enterprises (except the Philippines).

Thick descriptions of existing practices are only the beginning of building a body of knowledge about a particular organizational phenomena. Because of the dearth of empirical data on different countries, this is an especially difficult undertaking for international management. Hopefully, this can be provided by the massive amount of information that the best practices consortium has been collecting. And similar to the data-gathering phase, making sense of the observed differences and similarities across the different countries will be done through a collaborative effort of researchers with an understanding of the legal, political, economic and cultural contexts of these countries, which influence the practice and effectiveness of HRM in the organizations operating within these countries.

Appendix.-

Measures of Perceived Competitiveness of Environment and Status of the HR Department

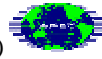
Perceived Competitiveness of Environment:

- Items:*
1. Marketplace competition has increased dramatically.
 2. Conditions in our business environment are rapidly changing.
 3. Government regulations are rapidly changing.
 4. The technology in our product/services is complex.
 5. Abundant supply of skilled people in the labor market (reverse-scored).

Scale: 5-point, with "1" - Very False, and "5" - Very True

Status of the HR Department:

- Items:*
1. It is viewed as an important department in the company.
 2. It works closely with the senior management group on the key strategic issues facing the company.



3. It seems to keep informed about the best human resource management practices that are used in other countries.
4. It is viewed as an effective department.

Scale: 5-point, with "1" - Very False, and "5" - Very True

Table 1.- Profile of Responding Organizations from Each Country According to Employment Size

Organizational Characteristic		PRC (N=190)			South Korea (N=497)			Indonesia (N=146)			Philippines (N=134)		
		Small n=57	Medium n=65	Large n=68	Small n=114	Medium n=163	Large n=220	Small n=42	Medium n=50	Large n=54	Small n=45	Medium n=54	Large n=35
Unionized	Yes	100.0%	100.0%	100.0%	57.4%	71.2%	73.2%	23.8%	40.8%	43.4%	26.7%	59.3%	77.1%
	No	-	-	-	42.6%	28.8%	26.8%	76.2%	59.2%	56.5%	73.3%	40.7%	22.9%
Industry	Manufacturing	52.7%	79.4%	80.6%	44.8%	45.8%	37.9%	31.7%	62.0%	46.2%	25.0%	37.0%	31.4%
	Services	10.9%	3.2%	10.4%	16.1%	29.9%	30.1%	63.4%	32.0%	38.5%	47.7%	51.9%	68.6%
	Government	3.6%	-	-	18.4%	6.3%	16.5%	4.9%	6.0%	15.4%	-	1.9%	-
	Agriculture	-	-	-	9.2%	6.9%	9.2%	-	-	-	2.3%	-	-
	Other	32.7%	17.5%	9.0%	11.5%	11.1%	6.3%	-	-	-	25.0%	9.3%	-
Product Diversity	One	67.3%	67.2%	51.6%	53.6%	41.4%	44.5%	68.3%	60.9%	73.1%	42.4%	33.3%	29.4%
	Related	21.8%	25.9%	39.1%	29.8%	35.7%	29.5%	19.5%	32.6%	25.0%	55.6%	59.3%	67.6%
	Unrelated	10.9%	6.9%	9.4%	16.7%	22.9%	26.0%	12.2%	6.5%	1.9%	2.2%	7.4%	2.9%
Life Cycle	Mature	44.4%	41.0%	47.5%	36.0%	39.7%	41.1%	34.1%	62.5%	84.9%	63.6%	61.5%	60.0%
	Growth	55.6%	59.0%	52.5%	38.7%	51.1%	41.7%	65.9%	35.4%	15.1%	36.4%	36.5%	40.0%
	Both	-	-	-	25.3%	9.2%	17.2%	-	2.1%	-	-	1.9%	-
Competitive Environment		2.51	2.53	2.33	2.29	2.51	2.54	2.47	2.46	2.42	2.50	2.56	2.77
Status of HR Department		3.89	4.04	3.67	2.86	3.20	3.23	3.37	3.45	3.64	3.84	3.90	4.10
Organizational Performance		3.30	3.68	3.32	2.99	3.17	3.11	3.36	3.44	3.49	3.63	3.59	3.71

Note: Shaded cells indicate significant differences:



p < .05



p < .001

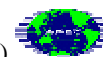
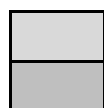


Table 2a.- Means of Practices and Correlations with Assessed Effectiveness (Eff) and Perceived Organizational Performance (Org) in the People’s Republic of China According to Employment Size

	Practice	Small			Medium			Large		
		0	Eff	Org	0	Eff	Org	0	Eff	Org
Hiring Criteria	Ability to perform technical requirements	3.11	.46**	.46**	3.40	.58**	.45**	3.19	.62**	.31**
	Ability to get along well with others	2.88			3.08	.35**		3.06	.26*	
	<i>Right connections</i>	2.70	.24*		2.45	-.43**	-.32**	2.65		
	Belief that person will stay with company	3.04	.25*	.35*	3.35	.48**	.40**	3.01	.54**	.46**
	Proven work experience in similar job**	3.11	.48**	.31*	3.59	.72**	.46**	3.26	.41**	.22*
	Potential to do a good job	2.82	.38**		3.02	.49**	.57**	2.82	.36**	
	Fit with company’s values & ways*	2.95	.34**		3.25	.43**	.44**	2.79	.33**	
	<i>Future co-workers’ opinions</i>	2.63			2.78	.33**	.41**	2.42	.31**	.28*
Training Purposes	<i>Provide reward to employees</i>	2.57			2.52			2.62	.58**	.42**
	Improve technical job abilities*	3.21	.43**	.58**	3.57	.73**	.65**	3.18	.54**	.31**
	<i>Improve interpersonal abilities**</i>	2.63	.34**	.29*	2.95	.29*	.34**	2.43	.46**	.50**
	Remedy past poor performance	2.89	.46**	.54**	3.13	.32**	.35**	2.88	.48**	.34**
	Prepare employees for future job assignments	2.95	.46**	.46**	3.18	.54**	.57**	2.96	.28**	.26*
	Build teamwork within company	2.82	.35**	.36**	2.97	.34**	.43**	2.71	.48**	.53**
	Initial training for new employees	3.07	.41**	.51**	3.17	.56**	.56**	2.90	.51**	.33**
	Help employees understand the business***	3.20	.46**	.42**	3.38	.75**	.74**	2.72	.42**	.40**
	Provide skills for a no. of different jobs***	2.82	.62**	.47**	3.27	.66**	.57**	2.68	.60**	.53**
	Teach employees about company’s values***	2.88	.53**	.36**	3.38	.84**	.77**	2.53	.63**	.43**
Appraisal Purposes	Determine appropriate pay**	2.91	.50**	.41**	3.42	.73**	.48**	2.93	.41**	.47**
	Document subordinate’s performance*	2.58	.36**	.40**	2.92	.30**	.34**	2.60	.57**	.51**
	<i>Plan development activities*</i>	2.54	.50**	.49**	2.95	.72**	.74**	2.54	.71**	.44**
	Salary administration**	2.75	.31**	.27*	3.28	.75**	.49**	2.88	.57**	.45**
	Recognition for things done well*	3.14	.38**	.40**	3.45	.71**	.49**	3.06	.50**	.27*
	Specific ways to improve performance***	2.82	.51**	.50**	3.31	.77**	.62**	2.69	.68**	.50**
	Discuss subordinate’s views***	2.63	.48**	.47**	3.05	.75**	.54**	2.43	.62**	.33**
	Evaluate subordinate’s goal achievement***	2.86	.59**	.51**	3.51	.76**	.56**	2.59	.69**	.38**
	Identify strengths & weaknesses***	3.16	.55**	.42**	3.42	.75**	.55**	2.71	.74**	.38**
	Allow subordinate to express feelings***	3.11	.65**	.52**	3.22	.81**	.71**	2.58	.60**	.27*
	Determine subordinate’s promotability	2.96	.45**	.38**	2.95	.55**	.34**	2.79	.58**	
Pay	Incentives as important part in pay strategy	3.32	.30*	.24*	3.55	.75**	.58**	3.21	.32**	
	Benefits as imp. part of total pay package***	3.33			2.95			2.72	.58**	.42**
	Part of earnings contingent on group perf.	3.63			3.49	.63**	.60**	3.31	.45**	.23*
	Long-term results more important***	3.42	.33**	.28*	3.23	.68**	.66**	2.51	.64**	.46**
	Seniority does NOT enter into pay decisions	2.82			2.71			2.88	.40**	
	Incentives significant part of total earnings*	2.93			2.75			2.54	.43**	.35**
	<i>Very generous employee benefits package*</i>	2.72	.51**	.60**	2.88	.39**	.37**	2.46	.35**	.33**
	Futuristic orientation of pay system***	3.02	.60**	.49**	3.02	.68**	.55**	2.45	.54**	.33**
Job perf. mainly determines pay raises**	3.05	.43**		3.18	.76**	.60**	2.60	.65**	.49**	

* p < .05 ** p < .01 *** p < .001



Small enterprises not significantly different from either medium or large enterprises.

Small enterprises significantly different from both medium or large enterprises.

Note: Means in bold type indicate top three; means in italics indicate bottom three. Practice in bold type indicates common top three across employment size categories; practice in italics indicates common bottom three across employment size categories.

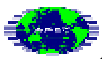


Table 2b.- Means of Practices and Correlations with Assessed Effectiveness (Eff) and Perceived Organizational Performance (Org) in South Korea According to Employment Size

	Practice	Small			Medium			Large		
		0	Eff	Org	0	Eff	Org	0	Eff	Org
Hiring Criteria	Ability to perform technical requirements***	2.49	.41**	.61**	3.00	.48**	.26**	2.95	.46**	.36**
	Ability to get along well with others	3.07	.47**	.49**	3.03	.44**	.42**	2.96	.45**	.28**
	Right connections*	2.79	.20*		2.44			2.54		
	Belief that person will stay with company*	2.61	.52**	.30*	2.94	.53**	.42**	2.88	.48**	.33**
	Proven work experience in similar job	2.83	.44**		2.64	.22*	.20*	2.61	.40**	.21**
	Potential to do a good job	2.79	.44**	.59**	2.82	.47**	.47**	2.80	.35**	.18*
	Fit with company's values & ways	2.70	.47**	.47**	2.86	.51**	.43**	2.86	.45**	.36**
	<i>Future co-workers' opinions*</i>	2.65	.47**		2.61	.36**	.25**	2.31	.29**	
Training Purposes	<i>Provide reward to employees</i>	2.37	.39**	.60**	2.56	.31**	.38**	2.46	.36**	.33**
	Improve technical job abilities*	2.86	.32**	.28*	3.03	.52**	.46**	3.23	.51**	.29**
	Improve interpersonal abilities	2.76	.30**	.39**	2.86	.36**	.33**	2.79	.46**	.35**
	Remedy past poor performance	2.71			2.72	.24**	.22*	2.76	.15*	
	Prepare employees for future job assignments	2.51			2.65	.32**		2.60	.29**	
	Build teamwork within company	2.71		.45**	2.79	.35**	.46**	2.88	.42**	.38**
	Initial training for new employees	2.81			2.91	.43**	.30**	3.02	.27**	.34**
	Help employees understand the business	2.75	.27**	.29*	2.87	.53**	.36**	2.97	.47**	.32**
	Provide skills for a no. of different jobs	2.57	.25**		2.66	.39**	.43**	2.84	.41**	.33**
	Teach employees about company's values***	2.51	.24*		2.99	.48**	.35**	3.23	.49**	.24**
Appraisal Purposes	<i>Determine appropriate pay</i>	2.57	.41**	.30*	2.44	.34**	.19*	2.31	.36**	.26**
	Document subordinate's performance	2.76	.62**	.46**	3.00	.49**	.43**	2.89	.39**	.47**
	Plan development activities	2.66	.57**	.52**	2.82	.53**	.36**	2.76	.52**	.40**
	Salary administration*	2.54	.53**	.34*	2.62	.32**		2.31	.29**	.25**
	Recognition for things done well**	2.67	.61**	.49**	3.14	.59**	.45**	2.95	.31**	.36**
	Specific ways to improve performance*	2.73	.50**	.55**	2.58	.43**	.35**	2.38	.41**	.48**
	Discuss subordinate's views	2.47	.56**		2.62	.21*		2.47	.35**	.39**
	Evaluate subordinate's goal achievement	2.63			3.04	.48**	.40**	2.98	.40**	.44**
	Identify strengths & weaknesses	2.59	.35*		2.52	.23*	.29**	2.62	.32**	.35**
	Allow subordinate to express feelings***	2.86			2.24	.36**	.28**	2.13	.28**	.26**
	Determine subordinate's promotability	3.46	.40**	.37*	3.48	.48**	.27**	3.37	.19**	.23**
Pay	Incentives as important part in pay strategy	2.62	.44**	.31*	2.70	.42**	.54**	2.68	.41**	.50**
	Benefits as imp. part of total pay package	2.88	.46**		2.83	.39**		2.78	.41**	.28**
	Part of earnings contingent on group perf.***	2.70	.45**	.44**	2.88	.46**	.21*	2.29	.26**	.14*
	Long-term results more important*	2.51	.28**	.58**	2.74	.52**	.31**	2.39	.38**	.40**
	Seniority does not enter into pay decisions	2.77	.26**		2.98	.45**		2.87	.23**	
	Incentives significant part of total earnings	2.95	.22*	.34*	2.89	.26**		3.08		.19*
	Very generous employee benefits package	2.62	.43**		2.68	.49**	.27**	2.60	.45**	.42**
	Futuristic orientation of pay system***	2.72	.54**	.43**	2.73	.59**	.43**	2.31	.58**	.46**
	<i>Job perf. mainly determines pay raises***</i>	2.54	.44**		2.16	.42**		1.90	.30**	.17*

* p < .05 ** p < .01 *** p < .001

- Small enterprises not significantly different from either medium or large enterprises.
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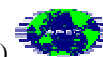


Table 2c.- Means of Practices and Correlations with Assessed Effectiveness (Eff) and Perceived Organizational Performance (Org) in Indonesia According to Employment Size

	Practice	Small			Medium			Large		
		0	Eff	Org	0	Eff	Org	0	Eff	Org
Hiring Criteria	Ability to perform technical requirements	3.49	.53**	.28**	3.32	.47**	.43**	3.33	.46**	.39**
	Ability to get along well with others	3.27	.46**	.42**	3.10	.25*		3.12	.65**	.33**
	<i>Right connections</i>	2.51			2.52		-.27*	2.85	-.26*	-.35**
	Belief that person will stay with company**	2.68		.45**	2.76			3.33	.38**	
	Proven work experience in similar job	3.08			2.88			2.90		
	Potential to do a good job	3.05	.37*		3.04	.32*		3.08	.44**	
	Fit with company's values & ways	3.00	.31*	.44**	3.14			3.12	.46**	
	<i>Future co-workers' opinions</i>	2.49			2.42			2.27		
Training Purposes	Provide reward to employees	2.61	.38**	.31*	2.66	.45**	.45**	2.84	.40**	.32*
	Improve technical job abilities	3.10	.46**	.29*	3.16	.50**	.54**	3.43	.75**	.42**
	Improve interpersonal abilities	2.80	.36*		2.84	.50**	.51**	2.90	.54**	.34**
	Remedy past poor performance	2.83			2.94	.43**	.47**	3.06	.63**	.26*
	Prepare employees for future job assignments	2.76	.48**	.39**	3.02	.55**	.64**	2.94	.55**	.39**
	Build teamwork within company	2.78	.33*	.42**	3.06	.64**	.47**	3.14	.59**	.27*
	Initial training for new employees	2.73	.60**	.28*	2.70	.44**	.33*	2.76		
	<i>Help employees understand the business</i>	2.54	.41**	.37*	2.55	.31*	.32*	2.54	.40**	.33*
	Provide skills for a no. of different jobs	2.76	.46**	.45**	2.64	.44**	.40**	2.76	.55**	.37**
	Teach employees about company's values	2.63	.42**	.57**	2.86	.57**	.59**	2.78	.51**	.44**
Appraisal Purposes	Determine appropriate pay	3.10	.54**	.55**	3.12	.52**	.50**	3.12		
	Document subordinate's performance	3.03	.54**	.38*	3.34	.41**	.44**	3.26	.41**	.49**
	<i>Plan development activities</i>	3.00	.72**	.68**	2.90	.50**	.42**	2.78	.52**	.52**
	Salary administration	3.10	.58**		3.27	.57**	.47**	3.26		
	Recognition for things done well	3.17	.67**	.45**	3.17	.64**	.59**	3.14	.47**	.59**
	Specific ways to improve performance	3.00	.78**	.53**	2.83	.67**	.49**	2.88	.54**	.52**
	Discuss subordinate's views	3.14	.76**	.43*	2.98	.30*	.28*	2.74	.58**	.55**
	Evaluate subordinate's goal achievement	3.10	.48**	.36*	3.22	.36*	.33*	2.85	.58**	.58**
	Identify strengths & weaknesses	3.17	.70**	.52**	3.10	.61**	.57**	2.84	.66**	.56**
	<i>Allow subordinate to express feelings</i>	3.00	.69**	.49**	2.85	.40**	.37**	2.73	.62**	.49**
	Determine subordinate's promotability	3.17	.74**	.43**	3.29	.67**	.43**	2.94	.35**	.41**
Pay	Incentives as important part in pay strategy	2.78	.36*		2.90		.25**	2.84	.43**	.57**
	Benefits as impmt. part of total pay package	2.98	.46**		3.14	.42**	.41**	3.28		.25*
	Part of earnings contingent on group perf.	3.05	.31*		2.96		.50**	3.06	.36**	.47**
	Long-term results more important	2.78	.44**		2.96	.41**		2.92	.25*	.37**
	Seniority does not enter into pay decisions	2.88	.33**		2.98			3.24		-.28*
	Incentives significant part of total earnings	2.88	.54**		2.86	.30*	.24*	2.84	.33**	.35**
	Very generous employee benefits package	2.35	.47**	.33*	2.32	.29*		2.46		
	Futuristic orientation of pay system	2.40	.36*	.36*	2.82	.56**	.50**	2.60	.31*	.44**
Job perf. mainly determines pay raises	2.88	.39**	.40**	3.10	.46**	.47**	2.86	.41**	.36**	

* p < .05 ** p < .01 *** p < .001



Small enterprises not significantly different from either medium or large enterprises.

Small enterprises significantly different from both medium or large enterprises.

Note: Means in bold type indicate top three; means in italics indicate bottom three. Practice in bold type indicates common top three across employment size categorize; practice in italics indicates common bottom three across employment size categories.

Table 3.- Nonsignificantly Different HRM Practices in Same-size Enterprises Across the 4 Country Samples

	Small	Medium	Large
HIRING	<ul style="list-style-type: none"> • Ability to get along well with others • Future co-workers' opinions 	<ul style="list-style-type: none"> • Ability to get along well with others • Right connections 	<ul style="list-style-type: none"> • Right connections • Future co-workers' opinions
TRAINING	<ul style="list-style-type: none"> • Provide reward to employees • Improve interpersonal abilities • Remedy past poor performance • Provide skills for a no. of different jobs 	<ul style="list-style-type: none"> • Provide reward to employees • Initial training for new employees 	<ul style="list-style-type: none"> • Provide reward to employees
APPRAISAL	<ul style="list-style-type: none"> • Lay our specific ways to improve performance • Allow subordinate to express feelings 	<ul style="list-style-type: none"> • Plan development activities • Recognition for things done well • Evaluate subordinate's goal achievement 	
PAY	<ul style="list-style-type: none"> • Seniority does not enter into pay decisions • Incentives a significant part of total earnings 	<ul style="list-style-type: none"> • Long-term results more important • Seniority does not enter into pay decisions • Incentives a significant part of total earnings • Futuristic orientation of pay system 	<ul style="list-style-type: none"> • Seniority does not enter into pay decisions

Table 4.- Significantly different HRM Practices in Same-size Enterprises Across the 4 Country Samples

SIZE	Philippines	South Korea	PRC	Indonesia
Small	<p>HIRING CRITERIA</p> <ul style="list-style-type: none"> • Ability to perform technical job requirements • Proven work experience in similar jobs • Fit with company's values and ways <p>APPRAISAL PURPOSE</p> <ul style="list-style-type: none"> • To document subordinate's performance 	No significant difference from other country samples	<p>PAY</p> <ul style="list-style-type: none"> • Long-term results more important 	No significant difference from other country samples
Medium	<p>HIRING CRITERIA</p> <ul style="list-style-type: none"> • Ability to perform technical job requirements • Proven work experience in similar jobs <p>TRAINING PURPOSE</p> <ul style="list-style-type: none"> • To improve interpersonal abilities • To build teamwork within company <p>PAY</p> <ul style="list-style-type: none"> • Benefits as important part of total pay package 	<p>APPRAISAL PURPOSE</p> <ul style="list-style-type: none"> • To identify subordinate's strengths and weaknesses • To allow subordinate to express feelings <p>PAY</p> <ul style="list-style-type: none"> • Pay raises mainly determined by job performance 	<p>HIRING CRITERIA</p> <ul style="list-style-type: none"> • Proven work experience in similar job 	No significant difference from other country samples
Large	<p>HIRING CRITERIA</p> <ul style="list-style-type: none"> • Ability to perform technical job requirements • Ability to get along well with others • Proven work experience in similar jobs • Fit with company's values and ways <p>TRAINING PURPOSE</p> <ul style="list-style-type: none"> • To improve interpersonal abilities • To prepare employees for future job assignments • To build teamwork within company • Initial training for new employees • To provide skills for a no. of different jobs <p>APPRAISAL PURPOSE</p> <ul style="list-style-type: none"> • To document subordinate's performance • As recognition for things done well • To evaluate subordinate's goal achievement • To identify strengths and weaknesses • To allow subordinate to express feelings • To determine subordinate's promotability <p>PAY</p> <ul style="list-style-type: none"> • Benefits as important part of total pay package • Very generous employee benefits package 	<p>APPRAISAL PURPOSE</p> <ul style="list-style-type: none"> • To determine pay • For salary administration <p>PAY</p> <ul style="list-style-type: none"> • Part of earnings contingent on group performance • Pay raises mainly determined by job performance 	No significant difference from other country samples	No significant difference from other country samples

HRM PRACTICE IN THE FAST GROWING CHINESE SMEs

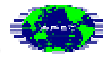
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HRM PRACTICE IN THE FAST GROWING CHINESE SMEs

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.

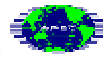
Research (Chen, 1995, Hall 1994) has shown that SMEs in China are growth-oriented and the sector is the engine to the national economic development. However, there is no clear indication that the growth is as a direct result of management autonomy and overall changes of management practice.

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.

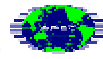
In comparison with western enterprises, Chinese enterprises management have not taken the same autonomy as pursued by enterprises under the free market system, they are still much more influenced by changing external environment such as government economic policies, the nature of market, legislation 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

Enterprise Ownership	Number	Percentage %
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

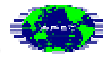


Table 3: Results of Principal Components Analysis

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

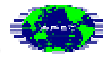
The model (Figure 1) is derived from Table 4, 5 and 6 which indicate different management practice, HRM outcomes and enterprise performance among four different categories of company structures, namely SOE, ASE, DPE and/or FPE and JVE.

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

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

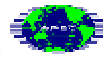


Table 7: Relationship between Factors, HRM outcomes and Enterprise Performance

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

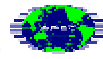
Growth/ Factors	Factor 1 B, Significance	Factor 2 B, Significance	rho ²	Goodness of Fit %	Overall Observed %
ICRSP	2.9162, .0000	.4044, .5346	0.71	68.46	79.73
MKTCP	1.3436, .0137	.6473, .2511	0.36	73.33	70.27
EXP	2.0725, .0005	.9844, .0998	0.53	70.69	76.71

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.

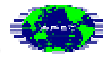
It is confirmed from the follow-up factor analysis that to achieve a sustained growth especially for SMEs such as those interviewed private owned enterprises, establishing internal management system and building a sound and institutionalised HRM policies and practices are the better option to gain sustained 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.

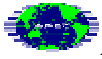


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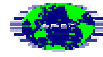
**COPING WITH ASIAN ECONOMIC CRISIS: THE RIGHTSIZING
STRATEGIES OF SMALL AND MEDIUM ENTERPRISES**

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COPING WITH ASIAN ECONOMIC CRISIS: THE RIGHTSIZING STRATEGIES OF SMALL AND MEDIUM ENTERPRISES

ABSTRACT

Hong Kong has been experiencing the worst economic downturn in decades for the last two years. What, how and to what extend the SMEs have done to overcome the situations are unknown? Given the apparent importance of retrenchment to small firm survival and success in economic turmoil, but its clear neglect in a Chinese socio-cultural environment, this paper provides in-depth knowledge of the rightsizing strategies of Chinese small and medium firms in Hong Kong. The research results suggest that SMEs in Hong Kong exhibit different human resources practices at different stages. In the 'restricting stage', SMEs reduce or stop intake staff and restrict overtime for the existing staff to deal with the fall of sales and oversupply of manpower. In the 'trimming stage', SMEs scale down or streamline the operations. In the 'proactive stage', SMEs request the existing staff to work overtime and start to hire new staff with lower pay but higher technological competencies to prepare for the recovery. A tentative model for rightsizing strategies of Chinese small and medium firms in Hong Kong is proposed.



INTRODUCTION

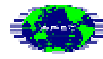
Starting from October 1997, Hong Kong has experienced as other Asian countries the worst economic crisis of the last few decades. The impact has been more widespread than expected. Hong Kong is going through an economic adjustment period. The employers are under pressure to restructure their organizations by reducing their overheads, operating cost and increase productivity by way of lay-off, downsizing or reduction of wage (Cheung, 1999).

In Hong Kong the small and medium enterprises (SMEs) have made up more than 90 percent of the total establishments. They are the hardest hit sector of the economy. When the external environment is averse, the strategic options for organizations would usually be aiming at improving the internal environment: resources, capabilities and core competencies (Hill and Jones, 1995). Resources include the firm's financial, physical, organizational and human resources. Capabilities represent the firm's capacity to deploy resources to achieve a desired state. Core competencies are the source of the competitive advantage for a firm and distinguish a company competitively and reflect its personality. By definition, SMEs have a smaller number of staff than their larger counterparts. With a lean structure, limited resources and core competencies, the SMEs face greater difficulty to cope with the downturn.

LITERATURE REVIEW

Facing the worst economic downturn in Asia, firms in Hong Kong start a wave of turnaround in the hope to combat this external influence. An empirically-driven conceptual model has been developed by Pearce and Robbins (1993) to explain the turnaround process. Two phases of turnaround responses: retrenchment phase and recovery phase has been discussed in the model. Retrenchment consists of a combination of cost cutting and asset reducing activities and followed by recovery response to regain their pre-downturn level of performance (Hofer, 1980). One of the most common means of retrenchment is cost cutting by downsizing that is a reduction number of employees, but it may or may not change the composition of businesses. However, many firms that downsized only partly met their goals of reducing expense, increasing productivity and competitive advantage (Hitt, Ireland and Hoskisson, 1997).

The issues of whether, when and how to downsize are clearly important. Cameron (1994) and Cameron, Freeman and Mishra (1991) have discussed the prescriptions of best practices for downsizing. Baron and Kreps (1999) have considered the process issues on downsizing to attenuate the psychological cost for workers and reputational costs for the company and suggest ways to minimize the adverse effects. Hitt, Keats, Harback and Nixon (1994) have discussed the effective as well as ineffective downsizing practices. There are nine downsizing practices have been proved to be ineffective. The first four practices relate to reduce workforce: implement voluntary early retirement programs; make across-the-board layoffs; make deep reductions of staff and implement layoffs slowly in phases over time. There are another four practices that relate to survivors: place survivors in challenging jobs for which they have insufficient skills; expect survivors to work harder; emphasize employee accountability in place of



employee involvement and promise high monetary rewards rather than careers. The last ineffective practice that relate to eliminate training and development program. There are nine downsizing practices that have been proved to be effective. The first four relate to manpower adjustment: reduce the number of layers/levels rather than the number of individual positions; consider the interdependent relationship before cutting particular positions; rightsizing: instead of focus on how much to cut, seek the appropriate size; continue to hire, grow, and develop in priority areas. There are another three relate to survivors: identify and protect individuals with strong leader in the organization; empower key individuals and ensure maximum flexibility and emphasize team effort and team building among remaining units. The last two relate to development and competencies: protect and promote educational programs and identify and protect core competencies. The effective downsizing practices emphasize rightsizing by reevaluating the appropriate size of the organization periodically. Rightsizing is a specific way of downsizing that when downsizing is necessary, the cuts are done in a way that the firm's human capital changes do not affect strategic competitiveness (Hitt, Keats, Harback and Nixon, 1994).

The SMEs have adopted retrenchment during economic downturn. The retrenchment activities did improve the performance of the small firms studied (DeDee and Vorbies, 1998). They used both cost and asset reductions in their retrenchment. The recommendations for practitioners are clear. When they have to retrench, they should cut those factors as they can be easily rehired or repurchased in markets that are not related to the core of their competitive advantage (Michael and Robbins, 1998).

RESEARCH OBJECTIVES

To date, there is no research into the rightsizing strategies of small firms in a Chinese socio-cultural context. The purpose of this study is to explore the various HRM strategies and practices that the Chinese SMEs in Hong Kong employed to overcome the economic downturn. Specifically, the research objectives are:

1. To examine the extent to which rightsizing strategies have been adopted by Chinese small firms in Hong Kong;
2. To identify the human resource practices exhibited by Chinese SMEs in Hong Kong at various stages; and
3. To propose a tentative model to explain the rightsizing strategies, specifically related to major human resource practices, adopted by Chinese SMEs in Hong Kong.

RESEARCH METHODOLOGY

This is an exploratory study based on a case-study design (Yin, 1989). This allows multiple sources of data to be included in the collection and analysis. Data were obtained from two sets of interviews. A semi-structured interview schedule was used to collect information. McCracken's (1988) long interview techniques guided the interview and provided focus on a series of open questions pertaining to human resource



practices in small firms. The average duration of each interview was one to two hours. Interviews were recorded and transcribed accordingly. The grounded theory approach (Glaser and Strauss, 1967; Strauss, 1987; Strauss and Corbin, 1990) was used to analyze the interview script.

The first set of interview is with three key officers in the Hong Kong Labour Department with a thematic interview guide consisting of opened questions were used to uncover the background for this study by revealing the context for general labour and labour relations situation in Hong Kong. The second set of interview is with sixteen owner managers of SMEs. The interview is based on a semi-structure interview schedule with open-ended questions so that the SME managers are able to discuss their human resources strategies and practices in overcoming the economic downturn.

One chief labour officer from the Labour Relations Unit, one senior labour officer from the Workplace Consultation Promotion Unit and a registrar from Minor Employment Claims Adjudication Board were interviewed in May. Information gathered regarding the latest statistics and labour market situation and the labour department's role in assisting companies during retrenchment.

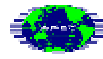
Sixteen owner managers of SMEs were interviewed during May, July and August. They were asked to discuss about the economic downturn and its impact on their organizations with different periods of difficulty in form and/or extent if such periods do exist. The corresponding human resources strategies and practices for different periods of difficult time were reviewed with their underlining reasons given by the owner managers.

HONG KONG SITUATION

The Asian economic crisis provides a chance for Hong Kong to evaluate the past and plan for future in terms of appropriate company strategies for firms and government policies. The economic downturn is a combined result from the Asian regional downturn and the burst of asset price bubble. Being a small and open economy, the crisis has pushed Hong Kong to reevaluate not just its market mechanisms but also its high land and labour costs and productivity (Enright, Scott and Leung, 1999).

SMEs have played an important role in the economic development in Asia. There is no precise definition of an SME. They can vary in terms of size and can be distinguish as follows: micro with 0 to 19 employees; small with 20 to 100 employees and medium with 101 to 500 employees (UNCTAD, 1998). Using this definition, more than 96 percent total establishments in Hong Kong can be classified into this category. The importance of this group of organizations and its impact on Hong Kong economy is indisputable.

In general the labour relation scene is relatively peacefully in Hong Kong. In the Report of the Commissioner for Labour 1997, it states the economic conditions took a down turn after late October together with the easing back of tight labour situation. The number of trade disputes and the number of claims handled by the Labour Relations Service have been on an upward surge from 1997 to 1999. The increase between 1997



to 1998 is about 50%. However, the increase in the first quarter of 1999 is about 8.5% for trade disputes and 19.3% for claims. These reflected the increase of labour disputes mainly resulted from wage cut and lay off that have been happening in Hong Kong. After experiencing more than eighteen months of difficult times, in recent months, although the number of disputes has increased, the employees tend to be more willing to negotiate and settle in disputes.

To provide advice to employers seriously affected by the economic downturn, the Labour Department has written the 'Guidelines on What to do if Wage Reductions and Retrenchments are Unavoidable'. It is highly recommended that employers should enter sincere discussions with their employees to find solutions and allow employees a reasonable notice period between 7 to 14 days for decision on proposal. It is also suggested that the employers should assure employees that if the company's situation worsens further, and retrenchment has to be considered, severance pay will be calculated at an employee's wage level before the wage reduction scheme was introduced. If possible the employer should assure employees to have appropriate adjustments if the performance improves. The Labour Department is fully aware of the distresses that the employers and employees have been through. In time of difficulty, harmonious labour relations underpin Hong Kong's prosperity and success. The 'Guide to Good People Management Practices' sets out a series of good practices in order to build up teams of highly motivated and efficient employees who will in term achieve the competitive advantage for their respective companies.

FINDINGS - SME's HRM PRACTICES

From the interview conducted with the Chinese owner managers, specific human resources practices used for turnaround to overcome the economic downturn have been revealed. The most common practice that they adopt is downsizing in one form or the other. The following is to illustrate the human resources management practices from the interview results.

Cut Staff Development Fund

Distinct human resource wheel or human resource process is not apparent among the interviewees. Being a sub-contractor of major exporters in Hong Kong or prestigious overseas importer, most of the Chinese SMEs work as a production arm. Thus, the Chinese SMEs perform as an order-taker, as suggested by Siu (1997). Chinese SMEs would cut their operation costs as low as possible. Hence, the staff development or expenditure will only be kept at a minimum level. Neither well-designed training programs nor human resource development activities are found. Finding it difficult to tackle the recession due to the financial turmoil, some of the owner managers even admit that they cut the budget for recreational activities for the workers as well.

One owner-manager recalled: "Normally, we will have ball games and competitions every month. I will arrange some gifts for the winning teams. Now,



they could have their games and competitions, I would not pay for any banquet nor presents”.

The interview results suggest that the Chinese owner-managers perceive that human resource as a peripheral function to production. Thus, they will cut the staff development fund immediately in view of the financial crisis.

Wage Cut

During the financial crisis, the major objective of the SMEs is to maintain normal operation and proper cash flow. Thus, they will cut the salary expenditure. Interestingly, however, they would not choose to lay off workers before cutting of wages. Rather, they try to cut their entire salary expenses in a very subtle manner.

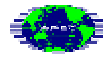
For workers on wage system, the owner managers would start out by cutting their work in overtime, which in term save a big amount of wage expenses. In the past overtime work is part of the workers regular work with higher pay. The workers rely heavily on this part of income and the SMEs depend on these extra working hours to complete their order without hiring extra manpower. In times of trouble, cutting overtime work is the first option that the owner manager and the workers would both agree to carry out. This is a form of wage cut by restricting the working hours to their normal hours.

One owner-manager remarked: "We previously used a quota system to motivate our workers. We identified the average production level of skillful workers. Then we set the quota at 70% of the average production level. Thus, every worker could attain the basic salary. We allowed worker to work overtime as they could earn more. Even facing the financial turmoil, I do not want to lay off workers. Thus, we do not allow them to work overtime at present. Previously, if we did not allow overtime work, workers would resign immediately. Now, most of them know the business environment is not good and they accept our arrangement. As long as we could have a proper cash flow, we would like to maintain our operations at a normal level."

For the middle and senior management, the owner managers of SMEs used another approach. As the family members are mostly the senior managers in the company, they would cut their own salaries to a minimal level.

One owner-manager mentioned: "It is a family business. The family members form the management team. We understand the current situation. We only have the basic salary. I remembered in the most difficult time, I worked with no salary for over three months. As I lived in the factory, I tried to stay there and kept my daily expenditure as low as possible."

Analysing the interview transcript suggests that the Chinese managers will try to maintain the operations. Reasons for this are unknown. Be that as it may, it is a family business and they would try to maintain the continuity. Or they perceive that sales will be picking up soon. Notably, however, they absorb the salary cut subtly. For workers, the owner managers tend to prefer not to allow overtime work than cutting



the wage across the board as long as they can as a measure to reduce the wage expenditure. Also, the family members work with no salary to maintain the operation in a proper cash flow. Thus, the nature of family business tends to affect the operations significantly.

Lay Off

If the situation does not improve much, actively they would start to lay off part of the workers and passively they would encourage natural attrition. If a supervisor resign, the owner manager will not try very hard to retain him or her. However, this approach is not effective in some cases.

One manager remarked: “My assistant resigned. She decided to resign because she wanted to get married and have a baby. As she wanted to be a housewife and we also faced the financial turmoil, I did not urge her to stay on. I asked my brother to take charge of her work. Initially, we thought it was a good arrangement. First, we cut the salary expenditure. Second, we could absorb the job by our existing staff given the slow sales. However, it was not as we have expected. The workload was not double; rather it was triple or even more. We were busy at "extinguishing fire" daily and could spend less time on quality control. A customer put in a claim because of poor product quality!”

Human resource as a functional area does not have a major role in corporate planning. The interview results suggest that the Chinese owner managers do not have detailed job analysis and human resource planning. Their poor planning or lack of planning in eliminating or combining posts created hardship for the survivors.

Plan For Recovery

After using various measures of downsizing, the situation has stabilized for some of the companies. The owner managers of those companies predict that their business might pick up in a short period of time and they forecast the need for more quality employees.

One of the managers commented with enthusiasm: “We can see the light from end of the tunnel now. It might take about six months for us to move out from the bottom of the valley. As we have cut down our product line and become more focus on our high quality items to maintain our competitiveness, we need to equip ourselves with high quality employees that they are of high capability and productivity to sustain our new direction.”

This group of companies has either started to hire quality staff to join their company or planned to do so. However, the newly hired staff is for the new business direction or competitiveness that the companies have defined for. The new recruits are different from those that they have dismissed. Some of the owner managers view this economic downturn as positive. They felt that because of the downturn, they found it easier to hire quality employees at a lower cost and mobilize their employees for changes that were necessary in order to reshape the company. The owner managers are



more willing to share their vision for the future and become more conscious to reevaluate the appropriate size of the company periodically. The companies are thus healthier than they were before the crisis.

A Dilemma Case

Some owner managers commented that they did not practise active downsizing by dismissing some of the employees because their companies were not able to afford severance or long service pay. As they have not established provident fund for their employees, they can not finance this large sum of extra payment related to dismissal of employees. This is a great dilemma for the SMEs. On one hand, lay off would be too costly for them in this time of hardship. As an alternative, carry a group of employees with no work for them for extended period of time is a heavy financial burden as well.

One manager disclosed: “ It is a suicide one way or the other. If we lay off the employees in order to cut down our expenses, we have to borrow from the bank or somewhere to pay them off. As most of them have worked for us for more than five years, the amount of funds required for dismissal is alarming. With our present situation, this is like cutting our throat. However, by keeping all the employees with limited work, this is like bleeding to death.”

The way out for this group of companies is to reduce asset as a way maintain their liquidity and aggressively look for other markets for orders to prolong their chance of survival. This group of companies is generally weak financially, if the economic situation can not move out from its bottom in the next six to eight months, they may have problem to maintain their businesses.

A Success Case

However, the human resource management process and the market orientation are interrelated. Using Ford and Rowley's (1979) categorisation, Chinese owner-managers can be classified as the owner-managers or the professional managers. The professionally managed companies conformed far more closely with, compared with the owner-managed companies, the theoretical model of the marketing concepts, particularly in respect of explicit analysis, planning and control of the marketing function. The professionally managed companies exhibit distinct human resource activities and adopting effective downsizing and rightsizing practices.

The following interview excerpt from a professionally managed company shows the differences: "Yes, we had a very difficult time as we encountered slow sales mainly due to inadequate orders from our major buyers. Lay off workers is the only strategy to maintain our operations. The employment size was reduced from 500 to 300. Fortunately, one of our major product lines is coffeepot for hotels in Europe and the US. This is a simple classic product and we could have steady orders during the financial turmoil. We could make use of this product line to maintain our operation level. After that, the employee turnover rate of our company was quite low. However, we tried to add value onto our existing product in order to have a competitive edge over our major competitors. The whole management team was involved in the new product



development. We recruit 100 new workers specifically for this new product. At present, the sales figure of our new product increases steadily. Facing the financial crisis, we are not able to operate with profit. Thus, I cannot give any bonus to the senior and middle managers as we normally did in previous years. I understand that they have worked very hard. I talked to them and I agreed to distribute some of my shares of the company to them if we can survive this crisis. With the full cooperation of staff, we can maintain our operations. Last quarter, our sales increased slightly. I expect we could attain break-even this financial year.”

Also, the professionally managed company does not perform as a production arm of the export houses or overseas importers. They also develop their own products. Thus, they have to use innovative approach to motivate their employees rather than cutting costs. An overlapping task force is formed to develop new products. There are also open communications among employers and employees in professionally managed companies. Figure 1 shows the relationship among the human resource practices of SMEs, external and internal environments and perception of the owner-managers.

A TENTATIVE MODEL - SME's RIGHTSIZING STRATEGY

To summarize, what have the Hong Kong SMEs done to overcome the economic crisis? The most commonly turnaround strategy that the SMEs have adopted is retrenchment. Under retrenchment, downscoping and downsizing are the most favour options for the SMEs. However, the downscoping would be less significant for the smaller companies as they have limited unrelated business for them to divest. For some of the SMEs, they did not just react to the situation by downsizing alone; they have adopted rightsizing to increase the firm's capabilities to overcome the crisis. There are three stages for rightsizing strategy, each stage with its corresponding practices reflecting different degree and nature of difficulties that the firms are facing in their external environment and how they tackled them.

Table 1
Stages for SME's Rightsizing Strategy

<u>Stage</u>	<u>Focus</u>	<u>External/Internal Environment</u>	<u>Turnaround Response</u>	<u>Major Human Resources Practices</u>
1	Restricting	Bad	Retrenchment	Moderate downsizing
2	Trimming	Worst	Retrenchment	Drastic downsizing & wage cut
3	Proactive	Improving	Recovery	Rightsizing

In Table 1, we have summarized the focus, environmental situation and major human resources practices for different stages. Stage 1 is the 'Restricting Stage' that the companies start to find themselves facing low sales that they have not experienced in years. They would reduce or stop intake of staff and restrict overtime for the existing staff to deal with the fall of sales and oversupply of manpower. They would also



drastically reduce or cut their expenses on items that they felt is peripheral in nature like the staff development and recreational funds. Stage 2 is the 'Trimming Stage' that the firms find themselves unable to survive with the restricting practices only as the demand situation getting worst. They would encourage natural attrition and carry out reduction of staff and/or pay to trim down the operation in head count and overhead cost. For those companies with unrelated and unprofitable businesses, the management would opt downscoping to streamline the operation. Stage 3 is the 'Proactive Stage' that the company has survived so far and found that the decline of sales has levelled off. Their measures to overcome the adverse environment have been successful. If they predict that the economic situation in the near future or/and their new focus of maintaining their competitive advantage has been successful, the owner managers would place greater emphasis on maintaining and recruiting quality employees. They would request the existing staff to work overtime and start to hire new staff with lower pay but higher technological competencies to prepare for the recovery.

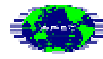
The first two stages belong to the retrenchment phase of the turnaround response for the SMEs to cope with the economic downturn. The third stage belongs to the recovery phase of the turnaround response for those SMEs that have survived so far to increase their capabilities and core competencies in order to equip themselves for economic recovery.

As SMEs have limited capacity to influence the external environment, all they can do to overcome the economic crisis would be to make themselves as efficient as possible internally. Rightsizing seems to be an effective strategy that it would not be for the retrenchment response to overcome the situation of economic downturn only and it includes the recovery response that prepares the company for the economic upsurge that would eventually come as the downturn ends.

CONCLUSIONS

In the past, Hong Kong has faced many challenges and on each occasion, we have emerged stronger, better and more vibrant. SMEs should treat this economic downturn as another challenge for them to improve themselves. By working together, the owner managers and their employees can rebuild their company not just to survive the adversity of the external environment and to be prepared for the recovery of the environment.

The human resource strategies of Chinese SMEs depend on the relationship with their buyers. If they perform as a production arm, human resource management will be considered as a peripheral function and limited resources will be allocated to human resource activities. Professionally managed companies place much more emphasis on human resource management and innovative measures to motivate staff are found. The influences of the nature of family business are still profound. To lay off employees would not be on the top of the consideration set. They will use the family members as a buffer to absorb the operating expenditure.



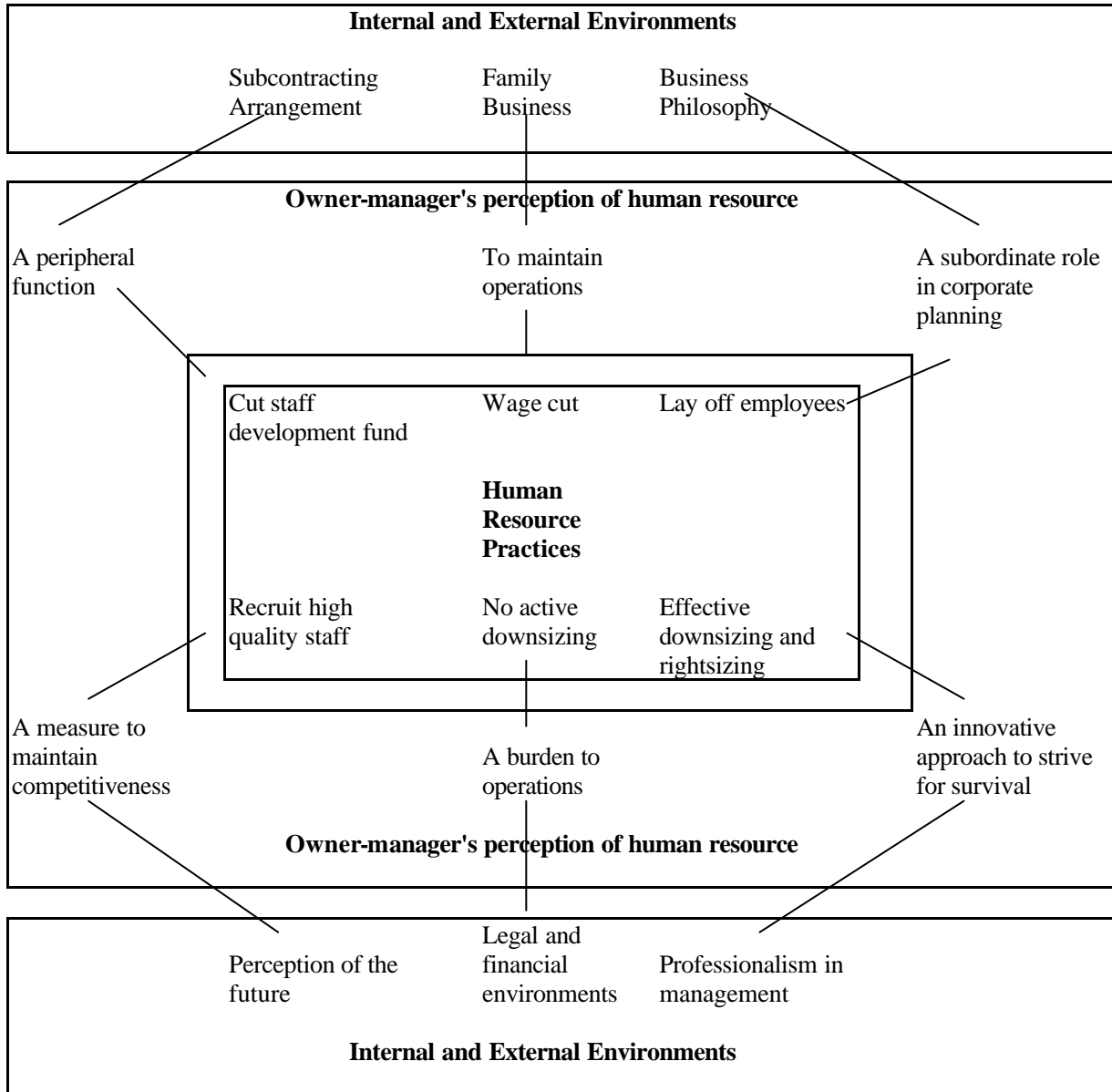
The rightsizing strategy that seems to be effective for the SMEs is in fact can be linked to and supported by the Pearce II and Robbins' (1993) model for turnaround. As described by Pearce II and Robbins (1993) and Robbins and Pearce II (1992), the rightsizing strategy is the recovery response that is necessary to follow the retrenchment response in order for successful turnaround to occur.

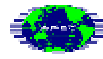
Future research might fruitfully focus on differentiation effective and ineffective retrenchment practices in various size, industry and environmental context. To follow Mroczkowski and Hanaoka's (1997) idea, we can carry out a comparative study of effective rightsizing strategies in various Asia countries instead of their Japan and American study. The finding of this study also suggest that a particularly promising line of research may be an investigation to test the stages for rightsizing strategy and its corresponding effectiveness. Hopefully, such efforts will increase the practical utility of the SME's strategic management and human resources practices.



Figure 1

The relationship among the human resource practices of SMEs, internal and external environments and the perception of the owner-managers





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