

SYMPOSIUM PROPOSAL FOR 15TH WORLD CONGRESS OF IIRA  
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**DO REGIONAL EMPLOYMENT-RELATION INSTITUTIONS MATTER?  
THE STORY OF CHINA**

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## JUSTIFICATION:

The surge of China since the inception of its economic reform has made the country an increasingly integral part of world economy. However, the experimental nature of the reform, featured by the non-linear processes of marketization, decentralization and privatization, implies that some 'regions have been more exposed to market competition and have changed faster than others', which differs from western experience (Child and Tse, 2001: 8). Regional inequality, in terms of income, resource distribution, human capital and multi-ethical distribution, has been put to the fore with the economic reform. As one Chinese saying describes, 'local people are the products of the uniquely propitious *feng shui* of the region', business experience in distinct regions might substantially vary. This leads to a challenging yet interesting question for both practitioners and industrial and organisational researchers: How regional employment-relation institutions matter in China? The symposium attempts to address on the issues of people management from a contextual perspective. Given the fact that the country is one of the most important destinations of FDI, the symposium is in relevance to audience from HRM, IR and IB and to the congress themes of track three and four.

Employment relationship literature suggests that firms rely on distinct forms of employment arrangements to manage people. For example, in view of human capital characteristics (strategic value and uniqueness of human capital), Lepak and colleagues (2002) suggest firms adopt four types of employment arrangements: partnership-based, knowledge-based, contract work-based and job-based employment. The framework is consistent with the contingency approach to investigate HR systems and firm performance, which asserts that some competitive HR practices might lose advantage when conditions or contexts have changed (Delery and Doty, 1996).

In this regard, the institutional dynamics in China's transformation offer a research field where regional employment-relation institutions might differ from one another primarily as a result of one reform objective that central government shifts the role from a direct business administrator to a regulatory authority (Li *et al*, 2006). In the employment relationship regime, social norms, labour market institutions and employment legislation are key institutional components that shape organisational human resource management. In the context of a country with strong regional inequality, regional governments with increased autonomy in administering business within their territory tend to construct distinct employment institutional environments to achieve economic goals and social legitimacy.

Given that regions in China varies in terms of exposure to market-oriented ideology (mainly driven by differential government opening-up policies), labour mobility (mainly driven by the unbalance of the emergence of a free labour market and of migrant workforce distribution), employment legislation (mainly driven by local government's autonomy to interpret national policies and distinct enforcement capabilities), quality of workforce (mainly driven by distinct local education investment and training provision) and labour protection (mainly driven by the reconfiguration of workforce dependence from state-paternalism to an inconsistent tripartite social insurance network), employers in different regions might select different bundles of HR practices (Lee, 2005). Additionally, high-commitment oriented HR practices, such as training, may have inconsistent impact on performance.

The three papers to be presented in the session documents and investigates people management in China from a contextual perspective. Gao and colleagues attempted to identify the within country variance of people management practices in China's private sector. Kim and colleagues investigate how regional labour market differences affect HRM-firm performance. In addition, Li & Dean's qualitative study offers an in-depth understanding of how certain regional and sectoral contexts affect female labour work outcomes. Taken a discussion with interested audience together, the symposia aims to contribute to the knowledge of a Chinese story of people management in different

regions and the knowledge of how institutions of employment relationship regime affect the effectiveness of HR practices.

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## FORMAT

The symposium will start with an introduction of the theme by the chair. Then, three papers will be presented one by one, followed by comments and discussion led by the presenters (max 20 minutes each). After the presentations, the discussant, Stephen Frenkel will provide his comments on three papers (10 minutes). Finally, we will have around 20 minutes for general discussion with contributions from the floor. Presenters' affiliations and two full papers and one abstract are followed.

# Gendered Employment Opportunity and Income in Two Low Pay Sectors

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## ABSTRACT

In China, migrant men and women are increasingly moving into gender atypical areas. We explore the phenomena of labor supply and demand, personal kin ties, education and traditional female roles producing gendered employment in low-pay sectors. This might be useful for migrants to cut the cost of job searching, to increase flexibility from rural to urban work, and even to view 'bad jobs' as 'good options' and the income level as 'satisfactory' within China's institutional system. Based on interview data from 19 case firms and 115 employees, we explore the extent to which migrant workers look for jobs through kin ties and marriage status. We also found that women working in small firms have more opportunity to balance work and the family responsibilities than in large Taylorised workplaces.

## INTRODUCTION: LABOR MARKET AND MIGRANT WORKERS' JOBS

Occupational segregation by sex is a common phenomenon worldwide despite being deemed to increase labor market inflexibility and be wasteful of human resources (Anker, 1997). Cotter et al. (1997) further identify that occupational integration is strongly associated with gender earnings equality. In the 21<sup>st</sup> century, men and women are increasingly moving into gender atypical areas (Hakim, 2000; Sacks and Marrone 2004), although segregation remains a dominant pattern (see e.g. Chao and Rones 2007; Franco 2007) and certainly in China (Berik et al. 2007). This tendency is becoming clear in low pay sectors in China, which employ huge numbers cheaply in 'bad jobs'. McGovern et al. (2004: 225) suggest four measures of bad jobs: low pay; no sick pay; no pension scheme; and no recognized career or promotion ladder. Such jobs are specifically relevant to the migrant workers in low-pay sectors such as clothing and construction in the city of Guangzhou in China. However, in spite of their growing numbers, such workers appear to be completely absent from the official statistics. This is within a context of the spread internationally of 'bad jobs' within Anglo-American capitalism as a result of the rapid growth in non-standard forms of employment (Edwards and Wajcman 2005: 29). This study explores what factors cause the migrant workers choosing gender atypical occupations, whether the 'bad jobs' are seen as 'good options' and whether the income level as 'satisfied'.

There are three rationales for this study. First, with China's open-policy and industrialization, the move away from the rhetoric of socialism towards marketization has brought dramatic changes in the economic position and activities of Chinese workers (Taylor, et al., 2003:77). City labor bureaux usually classify jobs into three types: urban-*hukou* (household) jobs, rural migrant jobs, and jobs open to all, but in practice, priority is given to urban workers (Knight and Song, 2005: 128). Further, unlike the findings of Pollert (2003) in post-Communist nations of Europe, economic transition in China gives female migrants much more opportunity to participate in employment (Berik et al. 2007: 2). Second, both clothing and construction sectors hire migrant workers. In the clothing sector, which is a traditionally female-dominated sector, there are many male migrant workers (an occupational arrangement that both male employees and employers seem happy to accept in this sector (Li and Edwards, 2008). In construction production sites (traditionally male-dominated), some female migrant workers could be found; in contrast with the high proportion of young migrant women factory workers who make up 70 percent of the total workforce in the garment,

toy, and electronics industries (Lee, 1995; Pun, 2005; Frenkel, 2001). The third reason of this study is that both sectors are low-pay sectors but with very different gender arrangements and we know very little about whether or how such arrangements affect pay issues for workers or employers. As Braunstein and Brenner (2007) note, there has been very little work on the gendered impact on employment and pay of China's restructuring. As such, this paper presents an initial, exploratory account of gender and pay issues in relation to specific concentrations of migrant workers in Southern China.

The paper draws on interview data from 19 case firms and 115 employees in exploring factors such as labor kinship ties and labor supply and demand in affecting non-traditional occupational options. This is in the context of the inefficient functioning of China's migrant labor markets, in terms of the great difficulties faced by migrants in obtaining information about jobs. We compare differences in women's and men's demographic and educational backgrounds as well as their occupational positions and pay gaps within and between the two sectors. The paper is organized into five sections. First, theories related to gender occupations and incomes are reviewed. Then the labor force situation of small clothing firms and construction firms in Guangzhou is introduced. In the third section, research methods and data are introduced. In the fourth section, we analyze the findings in light of existing literature on gendered occupational and pay issues. Finally, we discuss the findings and consider their implications for future research

## **THEORIES OF GENDER OCCUPATIONS AND INCOME**

In neo-classical and human capital models, workers and employers are presumed to act rationally and labor markets function efficiently. Workers seek out the best-paying jobs after taking into consideration their own personal endowments. However, during the second half of the 20<sup>th</sup> century, occupational sex segregation has remained an enduring feature of labor markets across all industrialized countries (Elliot, 2005). Researchers usually distinguish between labor supply and labor demand factors when explaining occupational segregation by sex. The factors related to labor supply generally focus on variations of human capital theory to explain why women "prefer" certain types of occupation (e.g. Becker 1971; Hakim 2000). For example, these approaches argue that women have low expected tenure and low labor force attachment. This argument focuses on women's need for flexibility between work and home (Heywood and Wei, 1997). These explanations do not focus on the gendered class context in which 'choices' are made in relation to aspects of male occupational selection.

On the other side of labor demand, the factors are relative to why employers generally "prefer" to hire women or men for particular occupations and why women and men have different opportunities for promotion and career development within firms. It is important to question the assumptions that higher direct and indirect labor costs are associated with female workers than with male workers. A series of empirical studies in Third World countries are informative in that they challenge these assumptions (Anker, 1985).

In terms of institutional and labor market segmentation theories, dual labor market theory distinguishes between a "primary" and "secondary" sector (Doeringer and Piore, 1971), or "formal" and "informal" sectors (ILO, 1972). Women's continued high rate of participation in non-standard employment may be a consequence of women's exclusion from primary sector employment (Casey and Alach, 2004). Feminist theories focus on non-labor market variables to explain the reasons why women predominantly work in specific sectors and positions, reflecting women's traditionally subordinate role in society (Wajcman, 2000). For example, in every society, women are chiefly responsible for household work and child care (Anker, 1997), constraining their ability to participate in employment in the same ways as men.

The compensating differentials model is another neo-classically based economic theory sometimes mentioned as casting light on the lower pay in typical female occupations (Anker, 1997). According to this model, women prefer certain occupations to avoid unpleasant and dangerous work conditions, thus they earn less than male who are chief breadwinners. However, occupational integration could change the gender earnings inequality (Cotter, et al., 1997) and our findings suggest both that the avoidance of unpleasant work conditions is not restricted to women and also that the compensating differentials model does not account for the socio-economic realities of male and female partners working together in such conditions.

## **CLOTHING AND CONSTRUCTION INDUSTRY IN GUANGZHOU**

The low pay situation in China makes it famous for its immense and cheap labor force, accounting for some 29 percent of the world's total labor pool (Lee, 2007:1). The majority cheap labor force refers to the migrant workers. China was the world's largest exporter of clothing in 1995 as well as 2002, and Guangdong Province is one of the largest clothing production bases in China (Li and Edwards, 2008). Employees are mainly from neighboring and poorer provinces: they are called *wailaigong*, meaning migrant workers (Taylor et al., 27, 94-8; Cooke, 2005: 32). The study was conducted in Guangzhou, the capital of Guangdong Province, and particularly noted for the clothing industry. According to interview data from the employer body the Textile and Clothing Association, there were over 300,000 migrants working as line workers in the clothing sector in 2007 in Guangzhou.

With many barriers to trade in construction goods and services, the development of an efficient and effective local construction industry is an objective of government policy in Guangzhou. However, "less attention has been paid to the development of the labor force. This is serious omission" (Reilingh, 2001: ii). By the end of 2007, 400,000 migrant workers were involved in construction activity in Guangzhou according to interview data from the government office Guangzhou Construction Commission. They are a temporary labor force, and the majority of them are not adequately educated, skilled and trained, nor well-organized and disciplined. As in other countries, the construction industry is not attractive to young people as construction work is viewed as a 3D (difficult, dirty and dangerous) job (Lu and Fox, 2001), even those young migrant workers in Guangzhou because they can get employed elsewhere.

## **METHODS AND DATA**

The research collected interview data from both organizations and individuals regarding job seeking and pay level. A multiple case-study approach was chosen, called a "case-survey approach" (Yin, 2003). This avoids the problems of a single-case study approach and the problem of insufficient representation of job options and pay level by a survey approach. Also, this approach helps to verify patterns among cases. We followed the research method of semi-structured face-to-face interviews with questionnaires that were adapted from instruments used in previous and current UK research (Gilman et al., 2002). Data was collected during October 2007 to April 2008.

### **Data from Case Firms**

A sample of 19 small firms (ten small clothing firms and nine construction firms) was selected from these two low-paying sectors with large proportions of low-paid migrant workers. In the clothing sector, semi-structured interviews were conducted with the owner-managers of 10 small firms in the biggest garment and clothing trade market in the Haizhu District of Guangzhou. In the construction sector, the same techniques were used with owner-managers and project managers in 9 firms with workplaces

located in different districts of Guangzhou. Employers, who were all male, were asked to provide descriptions of: their market competition situation; recruitment practices; pay structure; pay levels, and the factors considered in gender and employment.

### **Data from Migrant Workers**

Interviews were undertaken during the same period of October 2007 to April 2008. A sample of 115 employees (51 in the clothing sector, 27 male and 24 female, and 64 in the construction sector, 38 male and 26 female). These were in the same 10 small clothing firms and 9 small construction firms as the employer interviews. The sample included employees from 6 of the above 19 case firms, getting permission from the employers. There were very few female workers in the construction firms. In a study by Zhang (2007), she found only 4.1 percent of worker in the construction sector were women, therefore the sector with the fewest few female migrant workers. In order to address the occupational choice and pay of female workers in construction, a deliberately larger sample of females was chosen in the construction workplaces. Individual employees were asked why they chose to work in the clothing and construction industry, why they work for their employers and what their earnings were. All data collection was carried out by face-to-face interview with the 115 employees, using a semi-structured questionnaire, each interview lasting at least half an hour.

## **GENDERED EMPLOYMENT OPPORTUNITY IN TWO SECTORS**

### **Background of the Migrant Workers**

We compared the background of workers in small clothing and construction firms along three dimensions: age, education and marital status. Employees are older in construction firms (71.9% over 30 years old) than those in clothing firms (74.6% below 30 years old) for both males and females. The interview data made clear that no matter what gender they are, young workers prefer to work in the clothing sector for its better work conditions, compared with the difficulty, dirty and dangerous construction sites.

In relation to education, the difference between male workers is not significant between the two sectors, both close to the level of at least secondary high school level. Focusing on female, female workers in the clothing sector had higher levels of education than those in the construction sector. The former has 78.2 percent workers with at least a secondary high school certificate; while the later has only 23.1 percent with such a certificate, which means that 76.9 percent of female workers had fewer than 6 years education.

In the construction sector male workers dominated the labor force, the same as other countries' construction industries (Langford et al., 1995:166; Greed 2000), but there was a small minority of female workers, who accounted for around 5 percent, based on employers' interview data. Among all female workers we interviewed in construction firms, 22 out of 26 entered the construction firms accompanying their husbands; the other 4 women were working with other family members in the same workplaces. We were told by employees that marriage status for female workers was the basic and essential requirement to find jobs in construction.

### **Views from Workers**

Responses to the question why the male workers chose to work in the clothing sector are that they can acquire skills in workplace as apprentices, and therefore it is easy to find a new job when they are older. What emerged as a factor is that they follow personal kin ties to enter the clothing sector which is consistent with the findings by Li and Edwards (2008). That means their friends and relatives working in the clothing sector are the reason for most people to enter into clothing sector. This applies to both

male and female workers. Kin ties are so important because employers likely to employ new workers through this channel in order to cut recruitment cost in small clothing firms.

However, in the construction sector, only those migrants with a low education level and no opportunity to work in a factory opted to work as a construction worker. Few of the male construction workers were semi-skilled workers with a high school or professional education which would have given them a broader choice of occupations. And female workers highlighted where their husbands worked, then decided to follow their husband to work. It is important to stress that female workers in construction emphasized that they needed to take care of their families, and working in construction gave them the freedom of leaving and staying with less discipline leaving the job to go and sort out their family issues and then being given it back by employers when they return. Of course, their education level and work experience also limited their ability to find jobs in other sectors. In contrast with the women in clothing firms, nobody mentioned that they must rely on their husbands to find jobs instead of owing skills with good education.

### **Views of Employers**

From the employers' side, the reasons given for why they hire male workers in clothing firms and why they hire female workers in construction firms were related to labour costs. Employers in the clothing small firms preferred to hire female and older male workers for package positions at lower wages in order to control costs. Both female workers without skills and older male workers with skills controlling quality have no bargaining power, and are easy to accept the lower pay. But in most situations, employers did not have many options in the labor market due to limited applications. Therefore the sewing positions are opened to both male and female, with the same piece-rate pay, with only cutting and ironing positions which require physical ability and skills reserved for men. Whenever the employers have options to hire different gender workers, they prefer to hire female workers and couples who are likely to stay for longer.

In the construction sector, it is not easy for women to find jobs without kin relationship. Due to the dangerous and dirty work conditions, employers felt only male workers were strong enough to be efficient and they preferred to hire male workers. But employers said that fewer and fewer young men are willing to work in 3D construction workplaces, so employers have felt constrained to hire women as assistant workers responsible for moving materials and cleaning.

### **GENDER, PAY AND JOB SATISFACTION**

In contrast to the compensating differentials model, migrant women in China do not have many options in job preference. They have two choices: one is working in rural areas; another is working in low-pay sectors in urban areas.

In both the clothing and construction sectors, the pay structure has two types: a fixed wage scheme, and a piece rate pay scheme. In clothing firms, clerical workers, supervisors, Quality Control/trainers, cutting and package workers usually get fixed pay; and sewing, sewing assistants and ironing workers get piece rate pay. Usually, the clerical, supervisor, QC/trainer, cutting and iron workers are male, and the package and sewing workers are female. While in small construction firms, all skilled workers get piece rate pay, some female assistant workers working with their husbands also get piece rate pay; workers in other positions are paid by fixed wage.

We compared the wages between the two sectors, and found that the wage gap is large, because workers are increasingly less willing to work in dirty and dangerous environments in construction workplaces which made the pay were higher than clothing sector, while at the same time the construction industry has developed very



well and demands a large number of workers. However, comparing within sectors, we find that pay is close between female and male workers within the clothing sector because of piece rate, while within the construction sector, the gap between female and male is quite large due to skill differentials. All female workers are responsible for assistant jobs that require lower skill levels in the construction sector. Skill decides the pay level in these two sectors: however, we found male wages higher in both sectors, even in the female-dominated clothing sector. This is because of the definition of 'skills' in this sector, in that male-dominated jobs such as cutting and ironing are seen as more skilled and are higher paid *because* they are done by men. As Sturdy et al. (1992: 4) note: 'the reality of skill is socially constructed and contested.'

Edwards and Wajcman (2005:17) state that "many low-skill and low-wage jobs not only continue to exist but are newly created by the dynamism of market economies. Workers in these jobs are often portrayed as highly exploited, and in a way they are; but they also display commitment and engagement." In terms of workers' job satisfaction, we found that both genders in construction are more satisfied with their jobs. This was particularly clear with the lower-paid women workers in construction firms: only 16 percent female in construction firms disagreed that they were satisfied with their wage.' In contrast, 34.7 percent of women workers in clothing firms 'strongly disagree' or 'disagree'. We asked women workers in construction firms why they were satisfied with their jobs and most of them said that this job gave them marginal income in addition to their land income as well as flexibility to cope with house work responsibilities.

## **DISCUSSION AND CONCLUSION**

We find the same facts in these two low-pay sectors in Southern China. With the development of a transitional economy, rural people have a chance to be employed in cities. Although there are some similarities in gender inequality as concluded by Pollert (2003), significant differences exist in that gender has much more chance to play its role in employment, even though the 'bad jobs' are regarded as 'good options' to study skills and good for future job guarantee, or to earn more money. In terms of positions in clothing and construction firms, all positions which are seen as needing physical abilities and high skills hire male workers, while positions without much skill requirements hire females, except in the sewing positions.

Due to limitations of China social system, migrants have no employment options in 'formal' sectors as defined by ILO (1972). Migrants' continued high rate of participation in non-standard employment may be a consequence of migrants' exclusion from primary sector employment which pushes them into low-pay sectors leading to employment segregation between the formal and informal sectors. However inside low-pay sectors, factors such as kin ties, labor supply and demand, education (skills) and marriage status influence the migrants' occupational opportunities. Thus, male workers find it easy to find jobs in the female-dominated clothing sector through kin ties, and it is possible for women to work in construction workplaces, also through kin ties. The results show that the female workers with higher levels of education can find jobs without help from family members. Comparing the data between the two sectors, the gender pay gap is small in the clothing sector, confirming findings by Cotter et al. (1997) that occupational integration strongly contributes to gender earnings equality. Even in the construction sector, the gender pay gap is smaller compared with the earnings of female in rural areas. Married women with family responsibilities emphasize the balance of job and family in small firms in low-pay sectors, while Taylorised workplaces have no such possibility in large firms (Pun, 2005).

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# Regional Disparities of People Management Practices in Chinese Family Business

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## ABSTRACT

Using data from 181 family business owners across six cities in China, this study attempted to compare regional differences in traditional people management practices by assuming unequal foreign influences in various regions. The analysis suggested that regional disparities exist with respect to several practices, including relationship-based and market-based recruitment channels, training and development to family members, adoption of formal appraisal system, informal rewarding system (large commission with fixed pay) and the guarantee of job security. Also, the study showed that favouritism to family members is still endemic in Chinese family firms.

## INTRODUCTION

Research conducted in China has been increasingly appreciating regional disparities in respect of economics (Jones *et al.* 2003), culture (Stening and Zhang 2007), managerial values (Ralston *et al.* 1996) and institutional arrangements (Lee 2007). Among various reasons put forward, the varying degree of exposure to western influences in the form of technology, people and values has been instrumental in shaping each region in the country, which is characterised by the gradual mix of such influence and traditional Confucian values and norms (Child and Tse 2001). One influential study, Ralston *et al.*'s (1996) demonstrate that different regional clusters display varying levels of individualistic and collectivistic orientations, although Confucian values are still widely held by people of all regions.

Similar to Ralston *et al.* (1996), our study attempts to investigate the regional disparity in people management practices. People management in Chinese organisations has experienced significant changes in the last four decades. Before the late 1970s, the 'iron-bowl' policies were dominantly adopted nationwide, which guarantee life-long employment and overall welfare (Warner 2004). The underlying notions of traditional people management practices are the Confucian values and norms, advocating social orders are maintained through a set of seniority-favoured differentiating relationships. Under such notion, organizations generally take overall care of, and hold authority over, employees; employees in turn reciprocate with dedication and loyalty to organizations (Chen and Chen 2004). However, after China opened itself to foreign capital and market in the 1980s and its accession to WTO in the new century, the western concept of "human resource management" has entered China and local businesses have relatively changed their people management by including some practices, such as formal appraisal. With these changes, one could therefore expect that in traditional people management practices diminish and that regional disparities in HR practices ensue in parallel to regional exposure to foreign practices.

An 'inside-out' approach (Tsui 2006) adopted in our study not only helps us understand Chinese people management practices extensively, but also provides a conceptualised understanding of Chinese HRM. Furthermore, our study focusing on family business closes the gap in the literature and is particularly important given the sector's significant economic contribution in China. Despite its contribution to more than 50 percent of national GDP (Zhao 2005), only less than 10 per cent of Chinese management literature from 1984 to 2003 (Tsui *et al.*, 2004) relates to CFB. This lack of research attention to CFB is much more pronounced than their overseas counterparts (Tong and Kee 1998). CFB in mainland China are operating in an environment different from other types of businesses in China, with little institutional support than other organisations (Xin and Pearce, 1996). Finally, one is likely to observe

traditional people management practices in CFB. CFB owners tend to extend Confucian tradition to business context to cope with discontinuous policies associated with CFB operations (Young 1989).

By using survey data from CFB, we attempt to answer the following questions specifically: (1) To what extent do people management practices differ across regions? (2) Are some people management practices reflecting family-favouritism norms still adopted in all regions?

## **CHINESE FAMILY BUSINESS: CONFUCIANISM, DEVELOPMENT AND PEOPLE MANAGEMENT**

Adopting a structural-based approach (Sharma *et al.* 1996), family business is defined as an organization in which “the majority of ownership or control lies within a single family” and in which “two or more family members are, or at the same time are directly involved in the business” (Rosenblatt *et al.* 1985). Accordingly, Chinese family business (CFB) refers to family business owned and operated by Chinese.

Differing from western family business, Confucian values and norms appear to have significant impact on the operation and management of CFB in several ways. First, Confucian values regard familial unity as the basic unit of society, in which internal conflicts are minimized to achieve societal harmony (Yan and Sorenson 2004). Family members are heavily included in top management team by most CFBs. Family members are expected to be loyal to the business as much as to family (Yan and Sorenson 2004). Second, Confucian values and norms also specify how social orders are maintained in Chinese society in which stability is achieved through maintaining the differentiated relationships (Lee 1996; Chen and Chen 2004). Social orders, according to Confucian ‘*wu lun*’ concept, has been coded in basic social relationships. A ‘*wu lun*’ view is that the sovereigns, father, elder-brother, husband and senior friend hold authority over the subject, son, younger-brother, wife and the junior friend. Although the structures of relationships might evolve over time, Confucian societies remain relationship-oriented and strongly in favor of seniority (Ralston *et al.* 1996; Chen and Chen, 2004). CFB owners have traditionally managed their workforce with orders implied by Confucian norms, which seems to be informal and implicit for non-Confucian cultures.

The informal nature of people management in CFBs has been reinforced by discontinuous policies in modern China that have changed dramatically since the 1950s. During the central planning period (1950s), CFBs were only allowed to operate in certain specialized household businesses, such as embroidery, construction and carpentry (Young 1989). Many CFBs subsequently emerged to gain legalization after China’s 7th plenum of the 11th Central Committee in 1980s (Young 1989). The growth of CFB gained further momentum in the early 1990s when the Central government initiated the reform of stated-owned enterprises (SOEs) with the slogan of ‘grasp the large (SOEs) and let go of the small (SOEs)’. Some entrepreneurs seized the opportunities and turned collective-owned businesses into family-owned. However, CFBs are always legally obligated to pay higher taxes and granted less resources, compared to other forms of organizations (Ralston *et al.* 2006). In the face of the turbulent and unsupportive institutional environment, most CFBs chose to minimize administrative investment by adopting informal people management practices (Zhang 2005).

People management practices basically include four subsystems: staffing, training and development, performance appraisals and reward management (Fombrun *et al.* 1984; Becker and Huselid 1998). Particular attention was paid to possible differential treatments of CFB owners to family members and non-family members.

Table 1 listed the key features of traditional people management practices and HR practices of High-Performance Working System (HPWS). HPWS includes a bundle of HR practices that lead to workers’ superior ability/competence, and high motivation, and contribute to the discretion, autonomy and control of workers to use the knowledge and skills (Guest 2007:131).

In contrast, the main characteristics of traditional people management practices include: use of relationship-based recruitment channels over market-based recruitment channels, favouritism towards family members reflected in high proportion of family members in teams, extensive training and development opportunities, the absence of formal appraisal system, subjective bonus and commissions, and long-term job security (Gatfield and Youseff, 2001; Zhang and Ying, 2003; Xiong, 2003; Xie and Yang, 2005).

**Table 1 A Comparison of Traditional HR Practices in CFB and High-Performance HR Practices**

People Management Sub-systems	Common People MGT Practices in traditional CFB	High-Performance HR practices in western countries
<b>STAFFING</b> <ul style="list-style-type: none"> <li>Recruitment</li> <li>Top management Team</li> </ul>	<ul style="list-style-type: none"> <li>More extensive use of relationship-based sources (family members; friends, close relatives) than market-based ones (advertisements etc.) (Gatfield and Youseff 2001; Luo 2004);</li> <li>More family members in top management teams (Zhang and Ying 2003);</li> </ul>	<ul style="list-style-type: none"> <li>Selective staffing: no particular preference for informal recruitment sources; sophistication in market-based recruitment</li> <li>No preference for inclusion of family members in top management teams;</li> </ul>
<b>TRAINING &amp; DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>More training and development opportunities to family members than non-family members (Wan and Zhang 2002; Luo 2004);</li> </ul>	<ul style="list-style-type: none"> <li>More extensive training but no preference for family members.</li> </ul>
<b>EMPLOYEE APPRAISALS</b>	<ul style="list-style-type: none"> <li>Informal and non-quantifiable appraisal tools (Yi and Zhu 2005);</li> </ul>	<ul style="list-style-type: none"> <li>Formal, long-term and results-oriented appraisal system</li> </ul>
<b>REWARD MANAGEMENT</b>	<ul style="list-style-type: none"> <li>Provision of unstandardized, subjective bonus and commissions (Xiong 2003);</li> <li>Provision of job security (Gatfield and Youseff 2001; Qin 2005);</li> </ul>	<ul style="list-style-type: none"> <li>Extensive but quantifiable rewards</li> <li>Guarantee job security, but not life-long security.</li> </ul>

Source: High-performance HR practices were adapted from Bamberger and Meshoulam (2000).

## REGIONAL DISPARITIES

The classification of regions is based on the work of Ralston and colleagues (1996), who argue that 'regions may be viewed as subcultures – groups that share the overall culture of the society, but which also have their own distinctive values and norms' (p.4). Three cluster are identified along a continuum from 'open-to-foreign-influence' to 'closed-from-foreign-influence' (p.6). Specifically, they classified Shanghai and Guangdong (both are coastal cities open to foreign business in 1980s) as the open end, Chengdu and Lanzhou (both are inland cities with low-level industrialization) as the closed end, and Beijing and Dalian (both are inland cities with moderate industrialization) in-between (for details, see Ralston *et al* 1996). Following Ralston *et al.*'s (1996) categorization, we conducted the study of family firms in six cities. A summary of key sources of regional disparity across the selected cities is provided in Table 2. In our study, Shanghai and Guangzhou (Group 1) are placed as the most open, followed by Beijing and Harbin (Group 2) as moderately open and Chengdu and Lanzhou (Group 3) as the least open.

## HYPOTHESES

Based on the documented regional differences in foreign influences, we expect variations in people management practices across regions. Specifically, in regions that are closed from foreign influence, traditional CFB people management practices are expected to dominate, such as long-term job security and informal rewarding systems. On the contrary, within regions that are open to foreign influence, traditional CFB people management practices may shift towards western HRM practices, such as market-based recruitment and establishment of formal appraisal. The following hypothesis is proposed:

*H1: CFB in Chengdu and Lanzhou (Group 3) will show the highest level of traditional people management, followed by CFB in Beijing and Harbin (Group 2), and lowest level of people management in CFB in Shanghai and Guangzhou (Group1).*

Despite increasing liberalism and foreign influences in the country, familial favouritism is still strongly embedded in CFBs, thus leading to the following hypothesis:

*H2: CFB will adopt more relationship-based recruitment channel and provide more training and development opportunities to family members than to non-family members.*

**Table 2 A summary of the Historic, Geographic, Economic, and Educational Characteristics of the Six Cities**

	NORTHEAST [Harbin]	NORTHCENTRAL [Beijing]	EASTCENTRAL [Shanghai]	CENTRAL-SOUTH [Guangzhou]	SOUTHWEST [Chengdu]	NORTHWEST [Lanzhou]
<b>1. LOCATION CHARACTERISTICS</b>						
A. Coastal or inland location	INLAND	INLAND	COASTAL	COASTAL	INLAND	INLAND
B. Located on navigable water	YES	YES	YES	YES	NO	NO
C. Opened to foreigners after the Opium War-1840	YES	NO	YES	YES	NO	NO
D. Foreign commercial and trading centre over the past century	YES	NO	YES	YES	NO	NO
<b>2. INDUSTRIALIZATION CHARACTERISTICS</b>						
A. 1980s economic reform (one of the 14 open cities)	NO	NO	YES	YES	NO	NO
B. Industrialized pre- or post-Communist Revolution	POST-1949	POST-1949	PRE-1949	PRE-1949	POST-1949	POST-1949
C. Level of industrial output in the region (1990)	MODERATE	MODERATE	HIGH	HIGH	LOW	LOW
D. Increase in output per capita (1984-1990)	MODERATE	MOD/LOW	HIGH	HIGH	MODERATE	LOW
<b>3. EDUCATION CHARACTERISTICS</b>						
A. Regional educational emphasis (percentage of high education inhabitants in 2005)	6.09	23.56	18.91	5.42	3.39	3.94
B. Beginning of educational emphasis (length of time that college education was available)	1950s	1890s	1910s	1920-30s	1920-30s	1950s

Sources: Ralston *et al.* (1996) and NBS (2006)

## METHODS AND DATA

The initial questionnaire was revised according to comments from a group of CFB owners that participate in pilot test. To address the absence of relevant database and difficulties in accessing CFB in China (Hoyle, *et al.* 2002), a snowball sampling method and obtained usable responses from 181 CFB owners in six cities. Information on participating CFB is provided in Table 3. The average age of our sample firms is 8.65 years, with 123 employees.

The six-city location was re-coded into three regional groups for statistic analysis (Ralston *et al.* 1996). The extent of family participation was measured by the number of family members in the top management team. People management practices were measured on four major dimensions (staffing, training and development, performance appraisals and reward management) (Fombrun *et al.* 1984). Respondents were asked to indicate the degree to which their company adopts various practices on a 5-point Likert scale (1= very little, 5=very much). *Relationship-based recruitment channels* were measured by the degree to which the company recruits from family members, relatives, friends and referrals (Cronbach's alpha = 0.82). *Market-based recruitment channels* were measured by the degree to which the company recruits from advertisement, company recruitment session, external agencies and

campus recruitment (Cronbach's alpha = 0.82). Factor analysis also supports these two different types of recruitment. *Training and development* were measured by the sum of the amount of training and the amount of development provided for employees. Furthermore, the amount of training and development for family members and non-family members were also collected separately (Nankervis *et al.* 2002; Dessler, *et al.* 2004). *Reward system* was measured by the extent to which informal commission-based pay and fixed pay are used respectively. *Job security* was measured by the extent to which job security is guaranteed. Appraisal system was recorded as a dichotomous variable (0 = no appraisal system, 1= the presence of appraisal system).

**Table 3 Key Characteristics of Response Firms**

	Shanghai N=29	Guangzhou N=26	Beijing N=26	Harbin N=32	Chengdu N=31	Lanzhou N=37	Total N=181
<b>Company Age</b>	9.07	9.38	7.54	11.38	7.68	7.05	8.65
<b>No. of Managerial Staff</b>	17.93	21.73	26.69	22.69	10.81	10.65	17.87
<b>No. of Non-managerial Staff</b>	106.76	94.73	169.62	191.25	56.55	37.73	106.29
<b>No. of Total Staff</b>	123.66	105.23	196.31	221.1	66.13	48.22	122.86
<b>HR Dept Establishment (in percentage)</b>	58.60	53.80	50.00	78.10	48.40	37.80	54.10
<b>Manufacturing (in percentage)</b>	41.40	53.80	15.40	40.60	22.60	8.10	29.30
<b>Service (in percentage)</b>	58.60	46.20	84.60	59.40	77.40	91.90	70.70

## RESULTS

ANOVA test results are presented in Table 4(on next page). As shown, the less open group has the highest number of family members in top management team. Relationship-based recruitment channels display significant difference across three groups. Group 3 is significantly higher than the other two groups. For market-based recruitment channels, three groups are significantly different, with Group 2 significantly higher than Group 1 and Group 3. For training and development opportunities, Group 3 is significantly higher than Group 1. Significant variations were also found for formal performance appraisal with Chi-square test, with Group 2 adopting more formal performance appraisal than Group 3. CFBs were also found to provide significantly different levels of commission-based pay and fixed pay across the regions, with Group 3 showing significantly higher levels than Group 2 and Group 1 lower levels than Group 2 and Group 3, respectively. Three groups are also different in the level of job security for employees, with Group 1 significantly lower than other groups. Together, we have found significant regional differences in most of the people management dimensions. However, the specific expected differences between the three groups were only partially confirmed, thus demonstrating partially support for H1.

Results of paired-sample t-tests are shown in Table 5. The mean scores of relationship-based and market-based recruitment channels are 3.33 and 2.91 respectively. CFBs were found to use relationship-based recruitment channel significantly more than the market-based channels. Similarly, significantly more training and development opportunities were provided for family members than non-family members. Taken together, these results support H2.

## DISCUSSION AND CONCLUSION

Our sample of 181 CFBs within China confirmed the existence of regional disparity in people management practices, and the stronger preference for family members. Our results are consistent with Ralston *et al.*'s (1996) study and other similar intra-country studies in China.



**Table IV: Means, Standard Deviations and Regional Comparisons of Traditional People Management Practices**

People Management Practices	Mean	S.D.	Regional Comparisons				F
<b>Top Management Team</b>			Tukey HSD comparisons				
No. of Family Members in TMT	2.60	1.25	Group1				1.03
	3.00	2.01	Group2				
	3.09	1.52	Group3				
	2.91	1.65	Total	G1	G2	G3	
<b>Recruitment</b>							
Relationship-based recruitment channels (a=.86)	3.19	0.62	Group1				11.52***
	3.02	0.99	Group2				
	3.70	0.83	Group3	*	*		
	3.33	0.89	Total	G1	G2	G3	
Market-based recruitment channels (a=.82)	2.68	0.82	Group1				7.04**
	3.22	0.93	Group2				
	2.83	0.63	Group3	*	*		
	2.91	0.82	Total	G1	G2	G3	
<b>Training &amp; Development (a = .77)</b>							
T & D Provision	3.52	0.61	Group1				5.43**
	3.75	0.56	Group2				
	3.87	0.58	Group3	*			
	3.73	0.60	Total	G1	G2	G3	
T&D to Family members	3.56	0.66	Group1				14.43***
	3.23	1.01	Group2				
	4.03	0.79	Group3	*	*		
	3.63	0.89	Total	G1	G2	G3	
<b>Appraisal</b>							
Adoption of formal appraisal system	0.42		Group1				4.51*
	0.62		Group2				
	0.37		Group3		*		
	0.46		Total	G1	G2	G3	
<b>Informal Rewarding System</b>							
Use of Informal commission-based Pay	3.72	0.84	Group1				5.08**
	3.63	0.93	Group2				
	4.06	0.62	Group3		*		
	3.82	0.82	Total	G1	G2	G3	
Use of fixed Pay	3.51	1.03	Group1				6.87**
	4.14	1.09	Group2				
	4.15	1.04	Group3	*			
	3.95	1.09	Total	G1	G2	G3	
<b>Job Security (a=.84)</b>							
Service industries	3.32	0.88	Group1				6.52**
	3.75	0.64	Group2				
	3.87	1.00	Group3	*			
	3.67	0.89	Total	G1	G2	G3	

\* p &lt; 0.05; \*\*p&lt;0.01; \*\*\*p&lt;0.001

**Table V Means, Standard Deviations and Analysis of Some People Management Practices**

Items	Mean (S.D)	Mean (S.D)	t	Sig.
1. Recruitment channels	Relationship-based		4.25	0.00
	3.33 (0.88)	2.91(0.82)		
2. Training and development	Family		1.97	0.05
	3.63 (0.89)	3.47(0.79)		

The three-group comparisons suggest that significant differences are reflected in relationship-based and market-based recruitment channels, adoption of formal appraisal system, informal reward system (large commission with fixed pay) and guarantee of job security. However, the comparisons of mean scores in training and development provision show that Group 3 show more training and development opportunities than Group 1. Overall, our results show partial support for H1.

The second focus of the study is the degree of favouritism towards family members as a manifestation of Confucian values and norms. As expected, CFB owners use more relationship-based recruitment channels than market-based ones. They also provide more training and development opportunities to family members than to non-family staffs. This upholds the view that Confucian values still dominate all regions of China, especially in CFB.

Thus, consistent with other intra-country studies (Lee 2007; Stening and Zhang 2007), this study has shown that regional disparity in people management exists. The demarcation criterion seems to coastal-inland distinction. The results suggest that CFB in coastal regions show a shift towards western HRM practices, and that CFB in inland regions still retain traditional people management practices. The study also shows the strong relevance of Confucian values and their related practices in CFB given their introverted nature.

The study bears some limitations. Firstly, due to its non-probability sampling technique, the external validity of the results suffers to some degree. However, given the dearth of empirical studies on HRM of CFB within China and difficulties in accessing CFB, the findings of this study are a good starting point for understanding CFB and their people management practices. Secondly, the study is based on cultural perspectives; however, HRM practices are also shaped by other factors, such as institutional environment (Bjorkman and Lu 2001) and firm's internal resources (Boxall and Purcell 2003). Future research may consider these factors. Thirdly, we used limited dimensions of people management in our study. Despite these limitations, this study has extended our knowledge of Chinese people management practices in a largely neglected area, i.e. family business. It also provides further empirical evidence of the co-existence of foreign and traditional Confucian influences held by family business practitioners.

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# Human Capital Investment and Firm Performance: Does Context Matter?

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## **Abstract**

This study empirically examined the impact of training investment on labor productivity using a unique large multiyear nationally representative dataset from China; and the cross-level moderation effect of regional labor shortages on the training – firm performance relations using hierarchical linear modeling method. The results suggest that in the face of high labor shortages, companies can enhance the labor productivity by increasing, rather than reducing, training investment. The findings of study shed lights on how contextual factors influence the relationship between human resource management and firm performance in the emerging economy of China.