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**Employment Relations at the Workplace Level in China:
Two Contrasting Cases**

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Employment Relations at the Workplace Level in China: Two Contrasting Cases

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Abstract

This paper explores the pressures of standardisation and differentiation in employment relations in China. Using case studies from two companies that share the same ownership, industry, size, location and labour market, the paper will show that, despite moves by the state and internationalisation of production to standardise employment relations in different ways, there continues to be an opening at the workplace level to construct very different employment and worker relations.

Keywords

Employment relations, dual-pressure, relative autonomy, Multinational Corporation, China

Employment Relations at the Workplace Level in China: Two Contrasting Cases

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INTRODUCTION

Multinational Corporations (MNCs) in China have attracted considerable research attention during the past decade and many researchers are interested in understanding how MNCs manage employment relations in their Chinese subsidiaries (Bjorkman and Lu, 1997, 1999, 2001; Cooke, 2004; Gamble, 2002, 2006a, 2006b, forthcoming; Walsh and Zhu, 2007). Despite some attempts to develop eclectic frameworks to capture the competing pressure facing MNCs in China (and MNCs in general) and dynamics involved in managing subsidiary employment relations, a key debate remains: will MNCs eventually adopt more programmatic “low-cost” techniques (the “race-to-the-bottom” thesis) in China or will they continuously transfer established employment practices to China (the “progressive transfer” thesis)?

Researchers following the “race-to-the-bottom” thesis see China as the host of a large number of manufacturing plants which relocated because of the economic rationale of reducing the costs of production. For these MNCs, operations are segmented, with “high-value added” activities reserved for home country subsidiaries and “low-value added” production moving to countries with low labour costs, most especially China. Further, it is suggested that the mobility of these MNCs has restrained the legislative and administrative power of the Chinese government to protect the workers and to encourage stable employment relations in the foreign invested companies (Cooke and Rubery, 2002). So, while evidence of more positive intervention by the Chinese state, such as an increase in employment tribunals in recent years and the new Employment Contract Law introduced in 2008 are seen by some as the government intervening to manage social disorder in response to considerable labour protests (Silver and Zheng, 2009), the actual implementation and impact of the new labour law needs further investigation. Besides, the All-China Federation of Trade Unions (ACFTU) and unions in individual foreign invested companies are seldom involved in collective bargaining and negotiation over employment terms (Clarke, 2005), apart from largely symbolic moves against companies like Wal-Mart (Blecher, 2010: 105-6)¹. In general this non-intervention gave MNCs leeway to autonomously manage the local workforce.

The “race-to-the-bottom thesis” suggests job design in these foreign invested manufacturing plants is simplified, with extensive fool-proofing requiring low or no skills from the workers. Employment relations are based on short and fixed-term labour contracts, pay is contingent to daily output, training basic to a limited range of task, and welfare limited or not offered to the majority of employees. The consequence is that employees show low morale, high turnover and absenteeism.

Spontaneous collective actions against the employers does take place, but in contained ways (Cooke, 2005; Lee, 2007).

Contrary to the picture of an inevitably “despotic” work regime in Chinese factories, other researchers argue that China’s lack of established “local management model” facilitates MNCs to reproduce some established home country practices in their Chinese subsidiaries (Goodall and Warner, 1998). Based on longitudinal studies of European-Chinese joint ventures over a 10-year period, Bjorkman et al (2008) found that subsidiaries showed some resemblance to *both* the parent and local companies in terms of employment practices. They interpreted this observation as a sign of convergence to global standardisation. On the one hand, they argue that MNCs have gradually transferred their home practices to manage employment relations in their Chinese subsidiaries, though these practices were modified to fit into China’s labour market conditions and national institutions. On the other hand, they also suggest that local companies, especially large scale ones competing in the international market have adopted more sophisticated employment practices learned from their Western counterparts. The Chinese government is also found to be actively promoting long-term and commitment-based employment relations through restructuring the SOEs, giving preferential industrial policies to the sun-rise sectors, introducing statutory employment regulations and setting up a supportive social security system (Cooke, 2003; Kwong and Qui, 2003; Lee, 2007). These authors therefore foresee a trend of standardisation of employment practices convergent to practices adopted in more advanced economies, although some “Chinese characteristics” may remain (Zhu, *et al.*, 2005).

Such a mixed picture of employment relations is not surprising given the transitional nature of the Chinese economy and the scale and economic diversity of China. Moreover these empirical studies were conducted across different time periods, were based on companies with different sizes, ages, ownership and international experiences, and from various country-of-origins, as well as competing in different industrial sectors and product markets, and located in different regions within China. However, a key question is to what extent can companies *choose* their employment relations and to what extent do locality, country-of-origin or a host of other contingencies determine subsidiary level choices.

To address this question, this paper will use two case studies of companies that share established contingencies of ownership, industry, size, age, production mode, product range, location and labour market. The cases are selected from Japanese firms as they provide a strong foundation for examining transfer, as it is generally recognised that the Japanese employment system is robust and distinctive, which would lead us to predict that the likelihood of shared practice between the two companies is high, and hence their reaction to the same environment might also be expected to be similar. In this way we can test country-of-origin thesis, that is, the tendency for employment relations to look like home practices in the overseas subsidiaries. We can also test the strength of local institutional context, and predict that two companies with common contingencies in the same environment would be expected to pursue common policies with regard to work and employment relations. Finally, by using the intensive comparative case methodology, based on structured observation, we are able to explore the workplace-level employment and work relations in some detail and with

considerable reliability, which surveys of Chinese HR and employment relations are not able to achieve. This permits us to test the strength of corporate or company level difference and hence the ‘relative autonomy’ (Edwards, 1990) of the subsidiary in terms of choosing employment and work organisation to suit particular needs. The question of workplace regulation having a ‘relative autonomy’ suggests that similar external situations can produce different internal work and employment outcomes, because of the distinctiveness and peculiarities of particular points of production and the way workers and managers *work out* or enact day-to-day relations. However, this does not imply an infinite variety of workplaces isolated from globalizing standards (carried by MNCs) or state direction (enforced by legal codes of government and the institutional setting). It is precisely the space for diversity and conformity that the paper aims to analyze through a comparative case study methodology.

The paper is presented in five sections: we firstly briefly review employment practices in China. We then move on to consider the rationales and limitations of studying employment relations at workplace level by using comparative case study methods. We then compare the two sample subsidiaries and analyses how employment relations were managed and how the forces shaping employment relations in each subsidiary operated. Finally, we conclude the paper by drawing out the lessons of the case studies and the implications they have for future research.

EMPLOYMENT RELATIONS IN CHINA

China has been in transition to the market for 30 years, yet employment relations are far from achieving a convergent form of “local best practice”. There used to be highly unified practices governing employment relations in the public sector and state owned enterprises (SOEs). The large-scale SOEs were the dominant employers and recruited more than 70% of the urban working population, offering life-long employment and extensive welfare including pension, housing, healthcare, childcare, and sometimes, employment of employees’ family. As part of market-oriented reform over the last 30 years, the Chinese government launched a series of systematic reforms from the mid 1990s to downsize SOEs, to break the “iron rice bowl” and to enhance operational efficiency. Management issues such as “clarification of individual responsibility,” “establishing merit-based appraisal” and “recruiting employees on a contract basis,” have become the drivers of SOE restructuring. For the employees, however, SOE downsizing meant losing job security, and for some of them, losing the job completely. Lee (1999) has suggested that labour surplus as the result of large-scale downsizing, together with the lack of legislative protection and weak collective representation created a form of “disorganised despotism” in employment relations in China.

Compared to the SOEs, employment relations in the privatised companies in China show significant diversity. Unlike the SOEs which followed the government-led reform using the convergent Modern Enterprise System (CES) and Group Company System (GCS) models, privatised companies display significant differences in terms of production technologies, management approaches and workplace employment relations. A number of the most successful ones such as Hair, Lenovo and Huawei have developed systemic management practices to manage their workforce (Wu, 2000; Wen, 2006). On the other hand, a large majority of the individually privatised companies (such as family businesses) and the collectively privatised companies

(such as the Township and Village Enterprises) have remained organised in a paternalistic manner that relies on the exploitation of low-cost labour to survive amidst severe competition (Ding *et al.*, 2001; Cooke, 2005) or extensive use of social capital to grow these firms (Chen, 2008). These employees often work for long hours under hazardous working environment, pay rates are very low and they are given limited training and very few benefits.

Last but not least, foreign invested companies form the third group of “local companies”. As discussed earlier, the existing literature reveals a rather mixed picture of management practices used by foreign invested companies in China. Evidence of this mixed picture is expressed through a number of themes on the relative influence of home and local practices on management action. The majority of foreign invested companies are clustered in the coastal areas and some special economic zones. These companies, joint ventures or wholly owned, employ “hybrid” forms of employment practices differing from both the parent management practices and management practices employed by the local companies (Child, 1994; Cooke, 2004; Gamble, 2003, 2006a; Warner, 1993, 1997; 2005; Zhang and Edwards, 2007). Cultural and institutional differences between home countries and China (Ip, 1999; Warner, 1998); local labour market conditions (Smith and Pun, 2006); industrial sector characteristics (Cooke, 2004; Zhang, 2008) and subsidiaries mode of production (Morris *et al.*, 2009); as well as whether management control is executed by parent company personnel (Goodall and Warner, 1998) or local managers (Taylor, 1999; 2001) are found important in shaping the way employee relations are managed in these foreign invested companies.

In summary, employment practices have become more *diverse* in China’s transition. Some features of the old *danwei* (work unit) still have their influence in certain sectors, especially those with national security considerations. In family and small businesses, employment issues remain to be decided by the business owners and are therefore typically paternalistic (Chen, 2004). Foreign invested companies have the capacity to introduce parent employment practices to their Chinese subsidiaries; however, the company’s’ autonomy to decide employment relations is questioned by some researchers. For example, industrial sectors are found to have largely constrained company’s choice of employment practices. Zhang (2008) studied Chinese automobile manufacturers and found that employment relations turned out to be similar to each other, with work design based on “lean production”, a growing wage discrepancy between workers and managers, and increasing use of contingent labour all present. His findings also suggested that the age of the company was critical in determining the composition of workforce and whether companies maintained long-term employment relations with some employee groups (largely those inherited from the SOEs) or used contracted workers – hence implying a development logic shaping aspects of employee relations.

Local government regulations are often cited to be a force of “standardization” as well. Lee (2007) argues that the Chinese government intends to regulate employment relations through formal legislation. Promulgation of the Employment Contract Law in 2008 can thus be interpreted as the government’s endeavour to create some common standards to employment practices. Contrary to these arguments for “standardisation”, our empirical research shows that companies enjoy considerable freedom and manage employment relations in contrasting ways, even though we

controlled the contingent factors. Furthermore, since the companies' existing employment practices are not 'against the law', implementing new labour law in China does not necessarily mean that the companies will have to make adjustment or adaptations. These findings will be reported in more detail in the following sections.

STUDYING EMPLOYMENT RELATIONS THROUGH COMPARATIVE CASE STUDIES

This paper is based on case studies of two Japanese synthetic fibre manufacturing plants (what we are calling COMMUNITY Co. and FLEXIBILITY Co) in a Chinese industrial new town-*Nantong*, outside of Shanghai. The methodological rationale of selecting the two companies is to develop prototype case studies that help address the "progressive transfer" or "race-to-the-bottom" debate, and hence explore the forces of multinational capital in shaping the direction of Chinese employment and work relations. Japanese multinationals are universally recognised as having distinctive production and personnel management, which is considered an important source of competitive advantage, and hence likely to be transferred rather than abandoned through internationalisation of the Japanese firms (see Elger and Smith, 2005 for a review). In view of the structural differences between China and Japan, some studies predict progressive transfer from the Japanese parent plants and systemic learning of the Chinese subsidiaries (Campbell, 1994; Hong *et al.*, 2006; Ma, 1998). These authors suggest that not only do the Japanese companies have reasons for transferring parent company employment practices to extend their competitive advantages, but they are also capable of doing so because of the availabilities of disciplined workers in China and less cultural distance between the two countries (Abo, 1994; Campbell, 1994; Campbell and Burton, 1994; Taylor *et al.*, 1996).

Critiques of the "progressive transfer" arguments arise from both the production strategy analysis and the perspective from the national business system (NBS) literature, which suggests continued national diversity between societies (Zhu and Warner, 2000). After examining the investment strategy of Japanese foreign direct investment (FDI) to China, some scholars argue that shifting routinised and low-skill production from Japan to China indicates simplification or "Taylorist" job design and employment relations, and therefore transfer of parent employment relation practices is only limited (Gamble *et al.*, 2004; Morris *et al.*, 2009; Taylor 1999, 2001). Also, scholars following the NBS approach stress that the socialisation and network-based control mechanism is embedded in the Japanese society and transfer of this to another space is extremely difficult (Legewie, 2002: 906). These characteristics of Japanese multinational in China make them an eligible context for us to revisit the debate regarding how employment relations are managed at workplace level. As mentioned above, all writers agree that there is a distinctive Japanese employment system, and hence there is something robust to examine in the context of a rapidly changing China, and hence this should allow for a careful dissection of the relative influence of internal and external forces on employment relations within one category of foreign-invested firms in China.

The fieldwork was conducted through intensive interviews and on-site observations at the selected companies. Bearing in mind that adopting a qualitative approach will mean some loss of external validity compared with more numerical approaches, this

study takes a number of measures to enhance the external validity of the evidence. The first step is to select the sample companies to make sure that their parent companies are similar in terms of size, age, international experiences, industry, and product scope. The second step is to select subsidiaries so that they share similar ownership structure (both wholly owned by the Japanese parent company), age (both set up mid of the 1990s), size (both are large scale companies employed more than 1500 employees), location (both locate in *Nantong special economic zone*), production technology (semi-automated machinery). The third step aims to achieve triangulation in information collected. This study uses different sources of information: descriptive analysis of the company documents and scanning of other accessible written records (such as company data release in Toyo Keizai Data Bank); on-site observation of the workplace and attending some of the social activities arranged by the companies; interviews with expatriates, local managers, local employees, where access was permitted (see Appendix 1 for the demographical information about the participant of this study). Finally, spending extensive time at the sample organisations also improves the researcher's understanding of the interpretations of concept and meanings that are used within the organisational contexts of the sample companies. One of the authors stayed in each of the sample site for 4 weeks, living in the employee dormitory, following the daily routines and talking to both managers and workers. These methods allow us to gain important insight of employment relations at workplace level.

CONSTRUCTING EMPLOYMENT RELATIONS AT WORKPLACE LEVEL

Nantong: An Industrial New Town In Yang-Zi River Delta

The two companies reported in this paper are located in *Nantong Special Economic Zone*, an industrial new town to the north of China's economic centre Shanghai. This location is a new manufacturing base transformed from a traditional agricultural area as a result of government-led industrialisation. Structural transition has created a large surplus of young unskilled rural labour. The average wage in the Nantong area was about 30 to 40 per cent lower than nearby areas to the south of the *Yang-zi River Delta* (though this difference has decreased in recent years). The government is keen to attract foreign investors by offering customs exemption for production machinery, tax reductions, and local income tax rebates. Land and property prices were much lower in *Nantong* compared to prefectures to the south of Shanghai. *Nantong* developed a textile industry cluster, especially synthetic fibre plants, spinning mills, weaving and dyeing yarn and garment factories.

This *locality* has many implications for employment relations in the two cases - COMMUNITY Co. and FLEXIBILITY Co. Firstly, the companies faced a relatively homogenous labour market — unskilled workers who had previously been employed in agriculture in the neighbouring area. Although the turnover among migrants was high, industrialisation of the area forced large number of job-seekers to move into the area each year. This meant that the companies did not need to put much effort into finding unskilled replacements. Secondly, given Nantong's lower salary levels and proximity to more developed areas, experienced employees often chose to migrate to areas such as Shanghai and Suzhou in search of better-paid work. To the Japanese subsidiaries, a critical issue therefore was how to retain the internally trained workers. Finally, the employees working in different companies formed the majority of the

local population. Since most employees lived in company-tied accommodation, news of new employment opportunities, working conditions and pay rates could spread quickly among employees. For the subsidiaries, this added to the difficulty of controlling employee behaviour such as “hopping” between different jobs in the same area.

RELOCATING TO CHINA IN SEARCH OF A LOW COST PRODUCTION BASE

The output of synthetic fibre manufacturing in China has accelerated since the mid-1990s. By the end of 2006, China contributed more than half of the total output of textile synthetic fibre worldwide. Compared to China, Japan seems to have lost competitive advantage in the labour-intensive textile industry. The synthetic fibre companies witnessed decline and closure of factories in Japan. Most fibre manufacturers have gradually restructured their product range and reinforced innovative capacities at the home country. The headquarters have generally centralized the R&D function and production of new materials, and standardized production has largely been moved overseas. Since standard synthetic fibre manufacturers rely on economies of scale in production, these companies lack incentives of upgrading production machinery.

“From the factory’s perspective, we prefer producing standardised fabric, which is more cost-effective. But the trend in the textile industry is that people do not want standardised clothes. Believe me; no company in this industry will invest in full automation as long as there is a place, somewhere in the world, that provides the low-cost labour. People are much more flexible than machines, and cheaper as well.” (Division manager, COMMUNITY Co., Japanese, male, 40)

Relocation of subsidiaries reflects the company’s global division of labour. Neither COMMUNITY Co. nor FLEXIBILITY Co. was the earliest overseas subsidiary. They were initially supplementary manufacturing bases of their sister plants in Indonesia and Thailand. As COMMUNITY Co. and FLEXIBILITY Co. showed more cost advantages, they have overtaken their sister plants to become the major production base in Asia. Production expansion increased the demand for labour and both companies had taken measures to secure workers to maintain production.

Composition of the workforce

COMMUNITY Co. and FLEXIBILITY Co. recruited a large number of unskilled and semi-skilled workers and showed strong preference for young workers, largely due to the laborious and repetitive nature of the job. Employment contracts were yearly based and generally renewable. Composition of workforce was slightly different between COMMUNITY Co. and FLEXIBILITY Co.

Recruitment in COMMUNITY Co. was overwhelmingly focused on local young students and the majority of shop floor workers (70%) were recruited from local technical collegesⁱⁱ. Migrant workers made up 20% of the workforce and the remaining 10% were university graduates, who were normally recruited as managerial trainees. They do not have specific selection criteria apart from gender and health requirements, which can be seen as the company’s attempt to restrain labour mobility and enforce social control over a relatively malleable workforce. The rationale for

COMMUNITY Co.'s preference for technical college students seems practical when facing the high levels of employee turnover in the local area. As the HR manager stated:

“In principle, we want to recruit local people because they are less mobile compared to migrants. The local technical colleges recruit from the nearby regions. Also, graduates from technical colleges have already gained some practical skills and are better disciplined. These make (internal) trainings much easier.” (HR Manager, COMMUNITY Co., Chinese, male, 37)

Many employees working in the factories had left their rural home because the land allocated was not enough to afford a living for the whole family. For these workers, moving back home did not seem to be an option. These workers believed they would be better off working in factories. COMMUNITY Co. didn't seem to have experienced difficulty in sourcing new recruits, but a more critical issue was how to control mobility among these young graduates.

FLEXIBILITY Co. didn't build strong alliance with local schools for recruitment. While the company did say that they preferred local workers, the continuous expansion of production capacity necessitated the use of more migrant workers. By the time FLEXIBILITY Co. was visited in 2007, migrant workers formed 70% of the total workforce. FLEXIBILITY Co. experienced high labour turnover (the published figure was 34% but the actual turnover was between 50%-60% according to the workshop supervisors). And like COMMUNITY Co., control of labour mobility is critical to achieve the productivity targets.

Job design and working hours

Work in both factories was extremely laborious. Production machines ran 7/24 to ensure full production capacity. Machinery noise, high temperatures, the smell of dyeing agents, and ever-present fibre dust degraded the working conditions. In terms of working hours, COMMUNITY Co. divided their workers into four shifts to ensure continuous production: a normal shift (8:15-17:00), early shift (7:00-15:15), late shift (15:00-23:15) and night shift (23:15-07:15). Workers could choose to work on 2-, 3- or 4-shift patterns but average working time was normally eight hours per day. A worker had a day off after five working days and overtime was normally voluntary. This pattern was unusual in the industry and the company explained their working time design in relation to the international standards they followed:

“We may be the only factory that performs 8-hour working policy strictly in this industry. Actually, our workers are not happy with 8 hours because this means they earn less each day compared to those working 10 or 12 hours a day. You know, stress always leads to accidents. Being an ISO14000 qualified company, workplace safety is our top priority.” (HR Manager, COMMUNITY Co., Chinese, male, 37)

FLEXIBILITY Co. split their operating hours into three shifts: early (6:00-14:30), afternoon (14:00-22:30) and night (22:00-6:30) shifts. Workers often work more than 8 hours as compulsory overtime was quite common.

“Yes, we require overtime. The Japanese managers often criticise this because workers didn't get enough rest. But they don't understand Chinese workers. They are young, energised and want to earn money. They wouldn't mind working overtime.”

Actually they want to work overtime as the pay is higher.” (HR Manager, FLEXIBILITY Co., Chinese, male, 40)

The managers’ explanation is only partially accurate. Another important reason for worker willing to take long-hours was the low level of basic pay compared to the living expenses, which will be discussed in the next section.

Work pressure also came from the enforcement of rigorous output and quality control standards. As most of the machinery was semi-automated, the workers had to cope with the speed of machines. While the workers are normally given a break every 2 or 3 hours, some could not leave their work stations. The factories adopted detailed measures to monitor the production process, product quality, and workplace safety. Workers always see their supervisors and managers walking around at the workshop. In particular, the implementation of 5S was considered to be essential to maintain workplace safety and product quality. In COMMUNITY Co., a formal “factory inspection tour” was organized once a month and all the managers would meet to check 5S implementation. Photographs were taken wherever something inconsistent with the 5S standard was detected. These photos were then presented at the monthly managerial meeting. The person in charge of the workshop was supposed to take responsibility for improvement. Photographs of before and after improvement measures taken were expected to be presented at the following monthly meeting. Productivity, quality and 5S maintenance were all directly linked to workers’ salary.

Pay and benefits

Both COMMUNITY Co. and FLEXIBILITY Co. employ a complicated pay-for-the-job-grade system. The workers generally agreed that the pay rates in both factories was “slightly better” than factories in the nearby area. However, close comparison of pay and benefit themes showed contrasting employment approaches.

COMMUNITY Co. offered more benefits than FLEXIBILITY Co.. The starter’s salary was RMB950.00 (GBP86.38) per month with another RMB450.00 (about GBP40.90) paid to the worker’s social insurance account (including pension, work accident, serious illness, lay-off, and housing fund). The company also offered all employees enterprise health care insurance and maternity insurance for female workers. New recruits were required to pay for their health check before joining COMMUNITY Co. This health check fee was refunded after the employee stayed in the company for 6 months. All workers were entitled to a raise of RMB50.00 each year, which was often interpreted as a “seniority pay”. COMMUNITY Co. offered free accommodation and utilities (including bedding, water and electricity) except for the use of air-conditioners. The company offered one free meal at the factory and gave 1/3 discount for other meals at the factory canteens.

In contrast, wage levels at FLEXIBILITY Co. were higher compared to COMMUNITY Co. the starting salary was RMB1400.00 (GBP127.27) per month and with overtime workers could earn as much as RMB2000.00 (GBP181.82) per month. An annual raise was not specified but often linked to the performance of the company. Pay to the employees social insurance account was based on the minimum amount required by the local labour bureau. FLEXIBILITY Co. also offered dormitories and factory canteens but employees needed to pay for accommodation, utilities and food.

The differences between the two companies were reinforced following a major HR review in both companies. Labour turnover problem became salient from 2000 due to the increased demands for workers to support both companies' production expansion and the rising competition for workers in the local area with more companies setting up factories there. COMMUNITY Co. conducted their HR review in 2004. A key change in the pay system meant that the annual bonus was amalgamated into monthly salary. While the manager explained pay review was aimed to solve worker dissatisfaction, the raise seems only to have been rather nominal:

“The managers said that our wage has been raised, but not really. Before, our bonus was not calculated for social insurance contribution. It seems we get more on the pay slip, but more was deducted as well.” (Operator, COMMUNITY Co., Chinese, female, 26)

A more feasible explanation for the change of pay policy was that COMMUNITY Co. intended to control mobility among workers and to build long-term employment relations. Due to the provisional reform in China, regional policies concerning employers' contribution varied. COMMUNITY Co. chose to pay a higher proportion of insurance contribution to the worker's social insurance account than either required by the government or contributed by other companies. Employees were not able to claim for pension and housing fund unless they have continuously paid to these accounts for a certain number of years. Also, in practice, transferring employees' social insurance accounts required coordination between employers. Through accumulating a larger social insurance account, it was thought this would discourage the more experienced workers from moving to jobs, and at the same time, prevent workers from quitting their job without prior notice - a major problem in China. At the same time, the reviewed pay theme linked the workers' salary with their daily output, quality and workplace behaviour. This was considered to be advantageous to the senior workers.

“The older ones benefit more under current policy. They are more experienced, work faster and know the managers. Plus, the assessment is top-down. Of course the group leaders will rate the experienced people higher.” (Operator, COMMUNITY Co., Chinese, male, 22)

These measures seem to indicate COMMUNITY Co.'s intention to develop long-term employment relations with a sense of seniority among their employees. At the same time, COMMUNITY Co. postponed its annual reward until after March, which was aimed at trying to address the high rate of labour turnover that occurs after the Chinese New Year.

FLEXIBILITY Co. reviewed their pay structure in 2005, which was part of the corporate HR reform. While the original purpose of this review was to make the subsidiary HR system more consistent with that of the parent company, serious disagreements arose concerning the leverage of seniority in the assessment criteria. The Japanese managers insisted on the importance of seniority in the pay structure, which would help reduce conflicts generated by wage differences.

“We incorporated ‘merit’ in performance assessment ...Our Chinese managers always say that they don't want to be assessed based on seniority. But they won't like the idea of promoting someone who is much younger than they are. The elder ones

would make a big fuss if someone younger were paid slightly more than them.” (HR Manager, FLEXIBILITY Co. Chinese headquarters, Japanese, 48, male)

Local Chinese managers seemed to be very critical about “seniority” as it was deemed to be “the exact cause of inefficiency in the Chinese SOEs” and hence these managers tended to support a “merit/competence-oriented” pay system. Since the parent companies’ general policy was to centralise some strategic HR functions at the regional headquarters and decentralise employment issues to subsidiary level, and also since the Japanese managers at subsidiaries had not been able to develop measures to control the persistently high levels of labour turnover, the Chinese managers gained more autonomy to decide employment relations related issues, such as identifying possible job-hoppers, finding replacements, giving training and designing policies to deal with migrants. Employment was often based on fixed-term contracts and pay became contingent on the short-term performance of workers. The consequence of HR review in FLEXIBILITY Co. was a division between a core group and the majority of employees. The core group was formed by the senior managers, who were offered pay and benefits package inconsistent with the parent company employees. For the majority of the employees under short-term contract, their pay was based on their productivity. While FEXLIBITY Co. did not rule out the possibility of promotions and hence integrating more employees into the “core” group, moving up was extremely difficult given the qualifications required for these posts. The following section discusses in more details about training and skill development in both companies.

Skill development and career advancement

Contrasting employment policies were also reflected in the way workers were trained in the two companies. COMMUNITY Co. put substantial resources into language training and developing workers’ skills in-house. All employees were expected to be able to communicate in Japanese and Japanese proficiency was essential for moving up in the company. COMMUNITY Co. preferred to recruit technical college students with some knowledge in Japanese and having the entire workforce Japanese literate was said to be a long term goal of the company. To this end, the company arranged different levels of language courses for the employees to attend and attendance was recorded as work attendance. Though no official rules required employees to attend the Japanese language courses, not attending was generally considered as “rule breaking” which could lead to lower assessment results and hence affect worker’s pay. Self-study was also encouraged. A skill bonus was paid to workers who had passed the Japanese Language Proficiency Test (JLPT) and the amount differed according with the levelⁱⁱⁱ of test. Japanese proficiency was also associated with internal promotion. An employee could not be assigned any leader role if they did not have JLPT level 4 and for departmental manager, the minimum requirement was a JLPT level 2 certificate.

Concerning the rationale of intensive in-house language training, the managers explained that an understanding of Japanese was essential to avoid misunderstanding in technical and quality terms. In fact, all technical and quality related terms displayed in COMMUNITY Co. were in Japanese. PCs were installed with Japanese systems as well. More importantly, language training also functions to build “internal” knowledge among the workers and was seen as a way of controlling the mobility of

labour. As mentioned earlier, COMMUNITY Co. tended to train workers internally and labour turnover had a negative impact on the effectiveness of training in terms of enhancing skills of the workforce and reducing production accidents. While the general principle of recruiting young students and providing technical training internally remained unchanged, COMMUNITY Co. has rearranged training programmes to encourage building internal knowledge and skills – and hence internal labour markets. Japanese language is thus named as an entry-level skill. The measure to retain technical and managerial training until a certain level of language proficiency was achieved can also be interpreted as the management’s attempt to control mobility by putting emphasis of firm-specific skills and knowledge – in this case Japanese - which is useful in Japanese companies, but not other foreign-owned firms in China.

In contrast, FLEXIBILITY Co. put limited effort into developing employees’ language skills internally. Rather, they encouraged employees to take professional language trainings by offering tuition refunds to the employees who passed Japanese or English language proficiency tests. In terms of technical skills, on-the-job training was cited as the most important way employees could gain and develop work knowledge. However, the scope and depth of job development an employee could gain through job rotation was related to the level of their positions. Workers were normally put to work after elementary orientation at the factories and gained most training “on-the-job”. A senior member was assigned to train the newly recruited workers in basic skills. Job rotation was selectively applied in FLEXIBILITY Co. due to the high level of labour turnover. Workers, in general, did have the chance to work on different tasks. Nevertheless, most tasks were standardised and routinised, and therefore required limited skills. Employees who had been with the company for 10 years would not be able to develop broad and specialised skills, unless they struggled to move up the job ladder. Managers justified keeping tasks routine because the high rates of labour made deepening work knowledge “impractical”, hence tasks were fool-proofed in order that smooth production flows could be scheduled. Managers at the junior level did have a chance to work in different functions but it was very unlikely that these junior managers would be transferred across factories, each of was treated as a stand-alone manufacturing unit.

Employee voice and enterprise unions

An important similarity between COMMUNITY Co. and FLEXIBILITY Co. is the way employee voice was managed. Both companies encouraged group meetings to gather on-site suggestions from the employees. Both of the companies encouraged workers’ improvement suggestions, a practice commonly adopted in the Japanese companies. COMMUNITY Co. awarded the “Outstanding Suggestion Prize” each year. As the managers below explained, the local managers were very keen to cultivate employees’ voluntary participation by boosting their sense of belonging to the company.

“We believe that our employees should think themselves as members of the large family—the company. At least, I think I am responsible for taking care of my employees and I feel many of my colleagues feel the same way.” (Divisional Manager, COMMUNITY Co., Chinese, male, 35)

“It takes time for our employees to get used to providing improvement suggestions. However, when they are used to these, they come up with suggestions spontaneously, even after they leave this company.” (Manager, administrative division, COMMUNITY Co., Chinese, female, 38)

What has to be highlighted was that the managers are well aware of the difficulty of cultivating this sense of belonging. Many workers expressed the idea that they are “pressurised” to take part rather than “motivated” to do so.

“Our assessment is not just about quantity and quality but also the managers’ impression of our work attitude. We have to show a positive attitude, like giving suggestions to avoid production accidents or cleaning of the machines.” (Worker, COMMUNITY Co. Chinese, male, 20)

This partly reflects Taylor’s (1999) observation that monetary reward is important to motivate the workers to participate in providing suggestions. In fact, in FLEXIBILITY Co., workers whose suggestion was accepted for implementation were rewarded. This direct line between employee suggestion and pay indicates more contractual employment relations operating in this company. The amount of reward was often decided by the managers according to the “significance” of improvement. This meant that work-related decisions were made in a “top-down” manner.

“The accepted suggestions are announced on the white board and we are asked to collect our awards from the personnel office. But there is no way to know how our suggestions are assessed or how much the suggestions help to improve production.” (Operator, FLEXIBILITY Co. Chinese, male, 23)

In terms of collective voice, both companies had enterprise unions. All workers were automatically members of the in-house union and none of them joined external workers’ associations. The in-house union functioned to organise social activities, such as end-of-year celebrations. In COMMUNITY Co., the union leader was the only female member in the management team and she was the only one who didn’t speak fluent Japanese. In FLEXIBILITY Co., the union leader was the administrative manager. He commented:

“Our union representatives are paralysed. None of the employees here pay a membership fee to the union. The company allocate fees for union activities, such as building basketball courts.” (Administrative Manager/Union leader, FLEXIBILITY Co. Chinese, male, 34)

Like unions in the SOEs, both companies in-house union were associated with the local branch of the All-China Federation of Trade Unions (ACFTU), which functioned more as a government agent than an autonomous actor concerned with collective bargaining. The local union’s interest was to control possible active worker conflict by providing advisory services and conducting routine factory visits. In-house unions are therefore often responsible for implementing 5S, which is explained as a measure to enhance workplace health and safety protection.

Tensions between employers and employees were observed. Tension often manifested itself in workers’ misbehaviour, and sometimes, sabotage. However, workers seldom took collective action, such as strikes. While lack of an independent collective representative body was one of reasons for non-organised forms of confrontation, the

availability of alternative employment opportunities was also important. Workers tended to chose to quit rather than fight against these dominant employers in the local area.

Retention and exit

Retention was managed differently as well. As explained earlier, COMMUNITY Co. endeavoured to develop long-term employment relations with employees. However, the companies had a strict policy of not paying to retain workers. The company viewed quitting as a way of screening-out those employees who were “not suited to the company”. The General Manager of COMMUNITY Co. explained the rationale of this policy:

“Employee competence can be built internally, but people who stay with a job for money will also leave the company for money. This is why we won’t offer a raise to retain people. What I always say to our HR managers is that don’t worry about losing some people. We will train others who have the commitment to the company.”(General Manager, COMMUNITY Co., male, Japanese, 58)

COMMUNITY Co.’s preference for an internally trained workforce was also reflected in their policy of not firing employees. The HR manager explained that an employee would be offered a transfer if he/she was found to be not competent for a job. However, such transfer often led to the employee choosing to quit the company since an “ungraceful” transfer would mean losing opportunities for future career advancement.

Likewise, FLEXIBILITY Co. seldom fired an employee, which may largely be due to high turnover removing workers before dismissal occurred. Neither did the company implement a clear retention policy. The HR manager said that retention was dealt with case by case. In practice, the company did not take any measure to retain workers and junior managers. For managers at key positions, FLEXIBILITY Co. would normally conduct a face-to-face consultation to find out the reasons for leaving and offer alternative packages to retain the employees. In this sense, employees at senior managerial positions enjoyed better job security compared to the junior members in the company.

CONCLUSION

The paper has highlighted different patterns of employment relations adopted by two Japanese subsidiaries operating in a shared setting. Despite the fact that both companies were set up in the mid 1990s, were wholly owned by Japanese companies, carried out standardised and routinised production, and faced a similar local labour market, the companies exercised contrasting policies to manage a highly mobile workforce. The following table summarises the key similarities and differences of employment practices adopted by COMMUNITY Co. and FLEXIBILITY Co.

[insert Table 1 here]

Comparing the key differences between the two companies, we found that COMMUNITY Co. showed important characteristics of a “community firm” like their Japanese parent. The company was keen on building employee loyalty. They recruited

a relatively homogenous group of employees and provided intensive language and corporate culture training. A unified job-grade system was applied to all employees and managers. Technical and managerial training was highly internalised. Corporate knowledge was essential for performance assessment and career advancement. Managers were all internally promoted and worked on the shop floor before being promoted to their current positions. These showed that the company intended to develop organisation-focused employment relations (Tsui, *et al.*, 1995). In contrast, FLEXIBILITY Co. had developed a dual-system to manage employment and labour relations in China. A limited number of senior managers were considered “core“ and therefore offered extensive pay and benefit packages, intensive on-the-job and off-the-job training, world-wide promotion opportunities and job security. For the rest of the employees, employment relations were based on a short-term contract. Workers were mainly formed by migrants. The company had policies that encouraged employees to seek training from external professional bodies. No language or professional training was provided in-house. Internal career advancement was very difficult but not impossible. The loyalty based employment relations was absent and the company relied on the market to source and develop the workforce. This indicated the company’s move towards more job-focused employment relations (Tsui, *et al.*, 1995). Such contrasting employment practices were important in reassessing several key debates concerning employment relations in China.

First of all, the comparison between COMMUNITY Co. and FLEXIBILITY Co. offered a critique to the transfer literature, which suggests firms move their employment relations with them when they internationalise, especially where local institutional practice are weak and home practices mature and robust. While the parent companies’ influence can hardly be ignored in both our cases (such as adopting a sophisticated pay-for-the-job-grade system), similarities between the subsidiaries cannot solely be interpreted by the country-of-origin thesis. Industrial sector is as important, if not more important, in defining these similarities. Companies in the textile fibre industry compete on economies of scale, which means employers are more powerful in the labour market. Semi-automated production technology, the repetitive nature of tasks and low skill requirements of job design indicates and that entry training could be shortened and that sourcing/replacement of employees was easy, which reinforced the power of employers in China’s immature labour market with its massive surplus of unskilled labour. Besides industrial sector, the lack of employee representation bodies further weakened the employees’ power in employment negotiation. It is exactly the strength of employers in the local labour market that allowed the subsidiary autonomy to manage employment relations in distinctive ways.

These findings therefore challenge the idea that internationalisation of employment relations as a consequence of the spread of transnational companies is squeezing the space for workplace level employment relations diversity (Edwards *et al.*, 2007). In fact, our findings reconfirm that there is substantial autonomy at the workplace or subsidiary level to manage and control employee relations in radically different ways. We observed a developmental trend of subsidiary level construction of employment relations. Given the abundant labour supply when both subsidiaries were set up, they were able to choose different local sources of employees. COMMUNITY Co.’s choice of technical college students led to their reliance on internal resources to cultivate

skills and pursued commitment based employment relations, whereas FLEXIBILITY Co.'s choice of local job agents made it practical to use the external market to source skills and hence moved towards the contract based employment relations that have become embedded in China. We would agree on the point that subsidiary autonomy is often restrained both by local institutions as well as the internal power play among the Japanese and Chinese managers. Divergent ways of managing employment relations are often outcomes of such power play, rather than a straightforward reflection of globalisation or localisation pressures (Smith, 2008).

Finally, our findings suggest that the argument that employment juridification will lead to standardisation of employment relations, especially in so-called sunrise regions (Lee, 2007) needs some qualification. Although promulgation of the Employment Contract Law imposed more legislative pressure on companies adopting more standard employment practices such as offering long-term contracts to employees, enhancing workplace safety and protection, and reinforcing employers' responsibility for employee social welfare. This legislation will, however not restrain companies from developing either organisation-focused employment relations or job-focused employment relations. As explained earlier, employment practices adopted by both companies complied with the legal frameworks under the Employment Contract Law. For COMMUNITY Co., offering firm specific benefits more than the minimum legal requirements is a key measure for employee loyalty building and internalisation of the labour market. FLEXIBILITY Co.'s use of contracted workers did not violate the state labour laws and local labour policies. Furthermore, as current employment relations didn't encounter strong resistance from the employee groups or local trade unions, the contrast between COMMUNITY Co. and FLEXIBILITY Co. is more likely to be maintained, at least in the near future. We therefore argue that this diversity is likely to persist, and not trend towards standardisation under twin pressures from the state or capital globalisation.

Our findings cannot be over generalised as the study is based on two companies from a country with relatively homogenous and distinctive employment relations (Japan) located in the same employment and work relations context of China, where external institutional patterns remain fluid and not mature. Within this shared setting we showed the continued autonomy of the subsidiary, thus highlighting the real need for more workplace based case studies to understand the social reality and diversity of employment relations in contemporary China. In order to test the external validity of our research findings, comparative case studies could be located in a mature and robust host country setting to investigate the extent of autonomy allowed for subsidiary control of employment relations.

TABLES

Table 1 Employment Relations in COMMUNITY Co. and FLXIBILITY Co.

		COMMUNITY Co.	FLEXIBILITY Co.
Workforce composition	Similarities	Both companies preferred young and unskilled workers.	
	Differences	70% of the workforce were local technical college students; 10% were university graduates and 20% migrants. Recruitment and selection were done by the company. All engineers, shop floor group leaders, supervisors and managers were internally promoted.	70% were migrants and 15% locals, who were recruited through the local job centres. The remaining 15% were university graduates, mostly recruited by the Chinese headquarters. Half of the engineers, supervisors and managers were internally promoted and the rest were recruited externally.
Job Design	Similarities	Job design in both companies was repetitive and organised around semi-automated production technology. Work pressure came from both speed of the machines and close supervision. Job-rotation was restrained within individual department.	
	Differences	Average working time was 8 hours; overtime was voluntary.	Average working time was 10 hours; overtime was often involuntary.
Pay and Benefits	Similarities	Pay was higher than most companies in the local area. Both companies adopted a pay-for-the-job-grade system.	
	Differences	The company offered more in-house benefits, such as free health care, accommodation and food. Payment to employees' social insurance account was more than legal requirement.	Pay-for-the-job-grade system is linked to the parent company's job grade system. The company followed the legal requirements in terms of contribution to employees' social insurance accounts. Employees were expected to pay for the accommodation and other in-house services offered by the company.
Training and career advancement	Similarities	Limited training was given to new starters.	
	Differences	All employees were required to go through Japanese training. Technical and managerial training were offered in-house. Japanese proficiency was essential for internal career advancement.	The company offered financial support to employees seeking professional training. Senior managers were offered on-the-job managerial training.
Employee representation	Similarities	Enterprise union had weak representation function. Union leaders took part in management meetings but their voice was often marginalized. Limited collective action was observed.	
	Differences	Enterprise union was actively involved in encouraging employees to provide improvement suggestions	Enterprise union has limited internal function.
Retention	Similarities	Both companies seldom fire their employees.	
	Differences	No retention package was offered.	Managers and engineers were offered individual consultation and retention packages were decided on a case by case basis.

APPENDICES

Appendix1 Demographical Information of the informants

	Employee groups	Number of participants	Nationality	Age	Gender
COMMUNITY CO.	Expatriates	10 (1 at Shanghai office, 1 at Beijing office)	Japanese	2 expats in their 30s, the rest 1 in their 40s and 7 in their 50s	male
	Local staff	24	Chinese	24 to 38	5 female 19 male
	Workers	246 (22 were formally interviewed)	Chinese	20 to 42	62 female 184 male
FLEXIBILITY Co.	Expatriates	8 (2 at FLEXIBILITY Co. Chinese headquarters)	Japanese	7 in their 40s and 1 in his 50s	male
	Local staff	29	Chinese	23 to 45	8 female 21 male
	Workers	213 (23 were formally interviewed)	Chinese	16 to 39	47 female 166 male

ⁱ Blecher (2010: 106) notes: 'Within months, most Wal-Mart union branches came to be dominated by management, its objective ally in the local Party branches, or both. Some dispirited worker activists cried out in their blogs to 'save the Wal-Mart union!'. Others accused their democratically elected union branch leaders of corruption, authoritarianism and sloth. As early as March 2008, Han Dongfang, a leading advocate for workers' rights, was driven to abandon his earlier hopes, arguing that the Wal-Mart unions were mere window dressing.'

ⁱⁱ High students who fall below university entry requirements can choose to join technical colleges. These colleges normally offer 3-year practical training. Students are awarded graduate certificates after successfully completing 3-year education.

ⁱⁱⁱ Japanese Language Proficiency Test is the official language test arranged by the Ministry of Education of Japan. The test has four levels. Level 4 is an elementary level and Level 1 is the most advanced level.

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