

Employee Retention in Chinese State-Owned Enterprises

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Attestation of Authorship

I hereby declare that this submission is my own work and that, to the best of my knowledge and belief, it contains no material previously published or written by another person (except where explicitly defined in the acknowledgements), nor material which to a substantial extent has been submitted for the award of any other degree or diploma of a university or other institution of higher learning.

Candidate's signature:

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Employee Retention in Chinese State-owned Enterprises

Abstract

China's social and economic development has facilitated the appearance of the knowledge economy since the market-based economic reforms and open-door policy in the 1970s. Subsequently many changes have taken place in the human resource management (HRM) field due to the rapid development of Chinese society and economy. China's state-owned enterprises (SOEs) are increasingly concerned about employee retention because of skill shortages and key staff turnover. The SOEs play a vital role in China's economic development as they continue to be dominant in the Chinese economy. As China's SOEs are rapidly becoming key players in the global market, it is crucial to understand the change from 'iron rice bowl' system to employment contract system, and how China's SOEs have managed their employees and what challenges they are now facing. Specifically, this dissertation will explore the development of SOEs and HRM practices in China in general and analyze the changes of employee retention practices in China's state-owned petroleum companies in particular. This is based on a literature review in order to provide an overview of HRM in China, especially in the field of employee retention in SOEs. A case study of China's state-owned petroleum companies is included in this dissertation for illustrating the status of employee retention in China. This dissertation adds value to scholarship on HRM in China by providing a detailed analysis of employee retention in China's SOEs, which may help Chinese firms gain a better understanding of employee retention to further develop and improve their HRM practices.

Key words

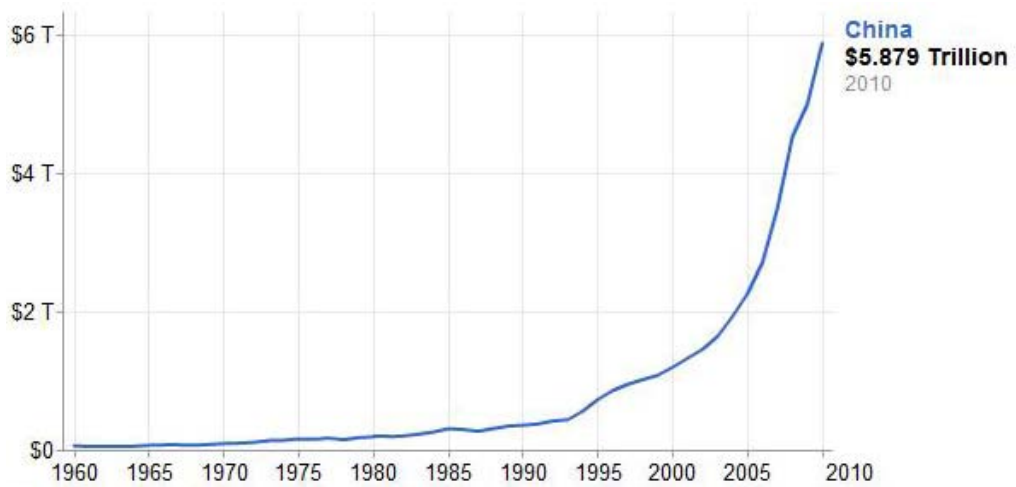
China; Employee Retention; Human Resource Management; State-owned Enterprises.

Chapter 1 Introduction

China's social and economic development has achieved remarkable success since the reform of 'Open Door' and the so-called 'Four Modernizations Construction' (agriculture, industry, science and technology, and defence) in 1978 (Putterman & Dong, 2000). In order to change the backward closed country image, China opened itself and implemented a series of development strategies to revitalize the economy. Since then, a lot of strategic changes such as a 'market oriented economy', 'foreign investment attraction', 'decentralization of decision making' have been adopted in order to replace the Soviet economic model (Jefferson & Rawski, 1994). Within the human resource management (HRM) field, the 'iron rice bowl' has been broken by the new employment system like 'the employment contracting system', 'pay for performance', and 'free labour market'. These changes have taken place in most of China's enterprises, including the state-owned enterprises (SOEs).

Under the trend of economic globalization, the world economy is undergoing a profound transformation. Admittedly, the growth rates of economic development in major developed countries are slowing down (Todaro & Smith, 2006), and developing countries, especially emerging market countries are playing a key role in the world economy. The economies of developing countries, including China, have maintained a rapid growth rate for many years (Jeffries, 2011). China is now playing an increasingly important role for the stabilization and prosperity of the world economy. Figure 1.1 indicates the steady and rapid growth of China's economy (GDP), especially after 2000.

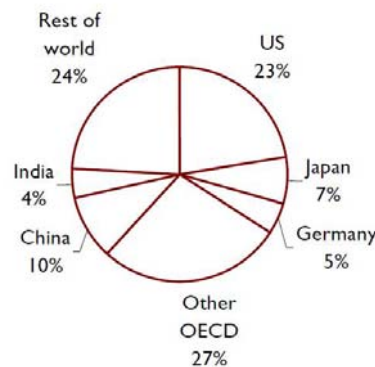
Figure 1.1 The growth of China GDP (in USD)



Source: Using Data from: World Bank, World Development Indicators, 2011.

Since the mid-1990s, the sustained and rapid growth of the Chinese economy has become the most dynamic and substantial part of the world economy (Agarwal, 1999). Soon after the Asian Financial Crisis in 1997, China replaced Japan to become the ‘Asia-Pacific economic growth engine’ (Shin, 2011). According to the Asian Development Bank report (2004), China’s economic position is crucial to the regional economic growth. The Chinese economy not only contributes to Asia-Pacific economic dynamism, but also brings vitality to the world economy. According to Barrell and Holland (2008), the Chinese economy has played an ‘engine’ role in the world economy and shares 10 percent of global GDP in 2005 (see Figure 1.2).

Figure 1.2 Share of global GDP in 2005



Source: Barrell, R., & Holland, D. (2008).

China has a great impact on the world economy due to its faster and longer lasting growth, although the US economy still remains in an overlord position for the growth of the global economy. Some scholars believe that China will be at the top position as a share of global economic power (measured in terms of GDP, trade and net capital exports) in 2030, and as big as the US was in 1970. Table 1.1 shows the top three countries by the measure of global economic dominance. It indicates that China will instead of US and to be at the top position in 2030.

Table 1.1 Top Three countries by economic dominance

	<i>1870</i>	<i>1973</i>	<i>2010</i>	<i>2030 (forecast)</i>
1	UK: 16.4	USA: 18.6	USA: 13.3	China: 18.0
2	Germany: 9.3	Japan: 8.0	China: 12.3	USA: 10.1
3	France: 8.3	Germany: 8.0	Japan: 6.9	India: 6.3

The percentage share of global economic power in a historical perspective (weighted by world GDP, trade and net capital exports).

Source: Subramanian, A. (2011).

It is important to understand how Chinese enterprises practice HRM as China is recognized as an important global contributor and player in the world economy. China is the most populous country in the world with over 1.3 billion people. The big population contains obvious advantage which means huge human resources (Cooke, 2005). To study the situation of HRM in China has great significance as China represents 20 percent of the world's population (The World Bank, 2011). Corresponding to the 30 years' development of economic reform and open door policy, China's HRM has experienced the process of introduction, practice and exploration, and systematic implementation. Before the 1980s, HRM in China was in the 'labor and personnel management' stage based on the traditional planned economic system (Zheng & Lamond, 2009). In the late 1980s, the concept of 'human resource management' was introduced into China, but this management method has not been commonly adopted by SOEs due to the social economic situation (Lamond & Zheng, 2010). In the late 1990s,

Chinese society was aware of the necessity of continually reforming, innovating and developing HRM, and then, the practices of HRM began to be widely used in China (Zhu et al., 2008). But the establishment and implementation of modern HRM were not effectively supported by the related business management system and labor market economic system (Zhu, 2005). In the 21st century, Chinese economic development is facing changes in the external environment, such as economic globalization. In order to adapt to the changing situation, HRM in China is deepening the reform and towards development with international, market-oriented, professional, knowledge-based aspects.

In order to understand the major characteristics of HRM in China, the study of China's state-owned enterprises (SOEs) is central. In the course of China's economic development, the SOEs play a vital role. SOEs are one of the strategic forces for the economic and national security that can promote and protect the state economic stability and development (OECD, 2005). China's SOEs were dominant in the Chinese economy regardless of the number or assets of businesses. Chen et al. (2009) claim that from 1998 to 2006, the numbers of China's SOEs decreased dramatically from 39.22 percent of Chinese enterprises to 8.27 percent, but the assets of SOEs concentrated to a few of large companies. For example, in 2006, 2.31 percent of the largest companies accounted for 35.9% of assets in all SOEs. More than 80 percent assets of China's SOEs concentrated in the petroleum, petrochemical, electric power, defense, communications, transportation, mining, metallurgy, machinery industry and related fields, and the SOEs accounted for 82 percent of the gross output value of all industrial companies in China (Lin et al., 2001). After years of development, the distribution and structure of Chinese SOEs are more rational, the operational quality is improving significantly, and the core competitiveness is increasing markedly. There were 30 China's SOEs listed on the 2010 Fortune global top 500 enterprises that include China Petrochemical Corporation (Sinopec), China National Petroleum Corporation (CNPC), and China National Offshore Oil Corporation (CNN Money, 2010).

Although the dramatic development of Chinese economy gives the chance of reforms to

SOEs, they still have great needs to improve the adaptability and effectiveness of HRM, especially organizational development, strategic planning and employee retention (Sun, 2000). SOEs are still facing the challenge of employee retention, especially to keep the professional and talented staff (Lewis, 2002). In this dissertation, the employee retention in SOEs in China is the main aspect and is placed at the centre for studying research issues. This dissertation contains three-levels of research. The first level is the macro level that focuses on the social and economic characters of China. The second level is the research of HRM in China. The third level is the micro level, which presents a case study of employee retention practices in Chinese state-owned petroleum industry.

This dissertation consists of the following chapters:

- Chapter 1: Introduction
- Chapter 2: Research on employee retention
- Chapter 3: The development of SOEs in China
- Chapter 4: Research methodology
- Chapter 5: Findings and discussion
- Chapter 6: Conclusions

Chapter two reviews how employee retention is an important and unique HRM issue. The chapter three examines the development of SOEs in China. Chapter four explains the research methodology and scope of the literature review. In chapter five, the discussion and conclusion sections will be presented in order to provide the main findings and offer some suggestions and further implications of the research. The last chapter is the conclusion of this dissertation.

Chapter 2 Research on Employee Retention

Employee retention has been seen as an important business strategy that is valued by many organizations. Employee retention is one of the HRM norms used to describe the efforts by which employers attempt to keep employees in their workforce (Frey & Stechstor, 2007). Employee retention as HRM strategy can answer some questions about why some organizations have lower employee turnover while others struggle (Carsen, 2002).

This chapter will include the following issues:

- Why employee retention is an important issue that is worthy of research?

- Factors that affect employee retention:
 - Employee motivation (2.2)
 - Job satisfaction (2.3)
 - Career planning and management (2.4)
 - Corporate culture (2.5)
 - Employee participation (2.6)

2.1 The importance of employee retention

Employee retention has attracted researchers' attention through numerous articles and research papers. Many organizations' experiences illustrate that employee retention is a serious and complex issue that cannot be ignored (Johnson, 2000). Managers have to face the challenging problem of how to reduce the turnover rate and keep employees on board (Horwitz et al., 2003; Steel et al., 2002). Even though the economic development and workplace conditions are changing continuously, managing employee turnover has an important significance, in both developed and developing countries.

The influence of employee turnover can generate unfavorable consequences to both the organizations and employees. Many managers and team members are aware of problems associated with turnover. Bluedorn (1982) and Steel (2002) claim that employee turnover results in higher financial cost. Employee turnover, especially the leaving of talented employees will cause the loss of client resources, core skills and knowledge, and further create huge economic impact on the organization. The cost of employee turnover is often underestimated. It not only includes the leaving compensation, but also includes recruitment costs and training costs. Business survival and success depends on the employee retention to some extent (Ferguson & Brohaugh, 2009). Human resources are an important resource, especially talented employees. In a perfectly competitive labor market, the success of business mostly depends on the employees with critical skills and knowledge. Obtaining or losing the appropriate talented employees can determine the success or failure of the business. Employee turnover strongly influences the business performance. Reid and Crisp (2008) believe that the resignation of employees especially talented employees will cause the decrease of productivity. Also employee turnover has a negative impact on the quality of customer service. The leaving of 'front-line' employees is often regarded as the most serious negative impact on the business and external customer service quality (Phillips, 2002). Woodruffe (1999) claims that employee turnover means the loss of expertise. If key technical employees who have the critical skills suddenly resign, it is difficult for the company to replace the position, at least in the short term. Also turnover will cause the management problems. Many organizations invest a lot of hard work to do recruitment, job planning, analysis, and selection. It needs a burdensome amount of administrative effort. Employee turnover takes precious efforts and time away.

Phillips and Connell (2003) believe that employee retention has not been given sufficient attention. In their point of view, the factors keeping employee retention are not realized by many organizations. The effect of employee retention was not obvious even though some organizations conducted related solutions to reduce employee turnover as these methods were irrelevant to the reason of turnover. It is undeniable that

any employees want to work for the best organizations with good remuneration and benefits. Organizations are urged to be the 'best company' since that is the best way to reduce the rates of employee turnover directly (Chen, et al., 2004). Fitz-enz (2000) claims that many factors that can contribute to the forming of 'best company', for example, how to obtain the talent staff into the company, how to motivate employees to work hard, improve performance, increase satisfaction and loyalty, offering training and development opportunity, and finally keeping employees in their job.

2.2 Employee motivation and employee retention

There are many issues related to the effectiveness of employee retention within the HRM field. With the development of the knowledge economy, employee motivation has already become an important tool to retain employees. Bartol and Martin (1998) discuss the causal relationship between employee retention and motivation. These authors believe that motivation is a power that energizes employee's behavior, satisfies their needs and retains employees at their workplace. Lord (2002) states that motivation serves an important function in retaining employees and improving their productivity. Whitley, Cheung and Quan (2000) claim that to maximize retention means maximizing the number of employees who want to stay in your organization rather than those who choose to leave your organization.

The analysis and research of staff incentives is important for improving business productivity and organizational competitiveness. There are many ways to implement employee motivation and one of the most important and easy ways to motivate employees is remuneration (Lawler & Jenkins, 1992). Also remuneration management is an important activity of HRM. Motivation is the core and objective of management (Chen, et al., 1997). Incentive remuneration is an effective way to motivate employees which is widely used by many organizations. Rational and effective remuneration system can effectively motivate employees' enthusiasm, initiative, and reward the desired employee behaviors, stimulate the employees to play the best potential for organizations to create greater value, thus achieving the purpose of retaining employees.

Gomez-Mejia, Balkin and Cardy (2001) claim that if an organization puts employee retention on their business strategic objectives, then it is impossible to compensate employees lower than the market rates.

Compensation can be used as an important means for motivating employees' high performance and to reinforce organizational effectiveness (Dutta & Kleiner, 2000). Phillips and Fox (2003) believe that the meaning of compensation is much more than the labor income, which to some extent represents the value of employees' contribution, indicates organizational recognition for employees, and even personal capability and career development prospects. Compensation management is the prerequisite to maintain a business relationship between the employer and employees. Bergmann and Scarpello (2001) believe that the nature of business is to keep employees through signing the employment contract in order to establish a contractual relationship. Effective compensation management ensures the survival and development of both companies and employees, and is a necessary requirement to fulfill the labour contract. 'Incentive' function is the core function and most important goal of compensation management.

2.3 Job satisfaction and employee retention

Allen et al. (2003) believe that even though the job satisfaction and employee turnover are not the absolute causal relationship, as an organizational leader or management who should minimize staff dissatisfaction, thereby reducing turnover. Job satisfaction is usually caused by the difference between individual job expectations and the actual work situation.

Deery (2008) claims that employee satisfaction is able to play a key role to affect the success of organizational performance. No employee satisfaction, no customer satisfaction. Only with the employee satisfaction, the customer can get good service and satisfaction; employee satisfaction can significantly increase the organizational benefits and efficiency. Also, the companies with high employee satisfaction are normally have

low mobility rate, this can reduce the operational cost due to the lower employee turnover rate. The employee with a higher degree of satisfaction will throw themselves into the work with greater enthusiasm, creating greater efficiency, higher productivity, and more profits.

Pfeffer (1998) notes that the external incentives like pay and income can stimulate employees' creativity and improve their satisfaction. But Mitchell et al. (2001) believe that the work environment, career development, leadership and other internal motivation factors rather than monetary factors can really inspire the employees' loyalty and creativity. The combination of stimulating incentives such as personal motivation, team motivation, organization and non-monetary incentives should be used in order to keep the key staff on board.

Butler and Waldroop (2001) believe that the implementation of motivation is for impacting the achievement of employee's individual needs and then increase employees' work enthusiasm, guide their behavior in business operations. The material requisite is one of the basic needs of employees. Chiu et al. (2002) claim that the changes of employee pay level can deliver the organizational goals, develop strategies and even transmit the management intentions to employees timely and effectively. For example, pay raise means the employees' performance have been recognized by the organization; the adoption of merit pay system, or increase the merit pay (or bonus) proportion means the companies encourage the competition between employees or departments; use yearly salary system means the organizations prefer employees to work long term for the enterprise. Compensation management can be used as an accessory means to transfer business information to the employees multi-directionally (Stone, 2008).

2.4 Career management and employee retention

Another factor is career management and employee development. As the world economy continues to evolve, the enterprises are facing more intense competition in the

international market. The market competition is not determined by traditional business aspects such as production scale, variety and quality, customer service, technological innovation, but focuses on how to attract and retain qualified personnel and use them efficiently (Johnson, 2000). Companies have to front up toward the important issue of retaining employees. Many companies are facing employees' turnover problems, which has become the organization's most intractable problems. The career management and employee development provide us with a good idea to solve this problem.

Chiang et al. (2005) believe that the important factors regarding the employee retention are broad professional development and the achievement of self-realization. Self-promotion is an important indicator of employee career development as it means the employee's value has been recognized. Training can enhance employees' skills and also lay the foundation for employees' future promotion. Both of these HRM methods are often used when the organizations to do the career development and personnel management, also these are effective tools for retaining employees. There are many causes of employee turnover, for example, unsatisfactory treatment, less of opportunities to play the expertise, no development chances, etc. But one important reason among them is that the organizations lack the effective consideration of employee development and neglect the employee career management (Al-Emadi & Marquardt, 2007).

Retaining talented employees, and encouraging people to maintain a high degree of dedication and loyalty, are affected by many factors. Horwitz et al. (2003) state that these factors can play an active role in HRM, such as good career development prospects, more open corporate culture, comprehensive management system, competitive salaries and benefits. On the contrary, Tutuncu and Kozak (2007) believe that some factors can cause employee turnover like the organizations lack of transparency, employees do not understand the business strategy and conflict between staff and leadership. These factors lead to negative results such that the employees reduce the trust and satisfaction of business, and they do not want to stay in the organization.

One of the important aspects of employee retention is to achieve a condition that employees are aware of their career development pathway and direction (Chen et al., 2004). Enterprises can fully develop human resources through the employees' career design and then to create an efficient working environment and atmosphere of attracting and retaining employees (Hsu et al., 2003). Many employees chose to leave because they were in despair of career development. The best way to solve such problems is to build a good career development plan within the organization. This career development includes both the promotion of employees in management positions, and the enhancement in the professional and technical fields. The needs of employees become more diversiform than before, such as a sense of accomplishment, personal value fulfillment, and so on. These requirements can be fully met within the career development function. Glen (2006) notes that purely economic rewards cannot always satisfy employees, sometimes they pay more attention to work in the sense of achievement and personal development opportunities. In this case, in order to better motivate employees, organizations need to help employees determine and design their own career development, satisfy their needs, and further help them to achieve their career goals.

Huang et al. (2006) found some factors related to employee retention through their study. They illustrate that some companies treasure, understand and develop employee personal interest, continue to provide employees with challenging tasks, and creating opportunities and conditions for their growth, development and encouraging them to participate in management. This kind of organizations normally places emphasis on employee career design, such businesses definitely often make staff satisfaction, and to be effortless to retain and attract talent employees. Barnett and Bradley (2007) claim that the career development and employee retention have a close relationship. For enterprises, the implementation of employee career planning and development is actually an effective process of internal human resources development, it can enable employees whom with different abilities, qualities and occupational interests to find out their own pathway to improve, leading to the employees choose to stay in this

organization eventually, thus contributing to the stable, sustained and rapid development of this company.

2.5 Corporate culture and employee retention

Another factor that cannot be ignored is the corporate culture or organizational culture. Organizational culture is a system that can be used to regulate and manage employees' attitudes and behavior (Hofstede, et al., 1990). It is not an external restraint management system that is imposed by the organization; but on the contrary, employees absorb the organizational values and norms as their own values and norms of behavior, and then use these values and norms to guide their behaviors and actions. The reason why some employees work hard is that these organizations normally create and possess a strong cohesive organizational culture (Lee & Yu, 2004).

Deery and Shaw (1999) believe that the key point of retaining employees is to make the values of individual employees consistent with organizational culture. In the organization, if the employee's values and organizational values are inconsistent, there will may be conflict, and even lead to termination or turnover. Similarly, if the values of employees are consistent with organizational values, then the employees will feel involved and happy. The organizational culture is not just a struggle slogan or employee code of conduct, but the potential rules that can affect the employees' manner of speech and behavior (Detert, et al., 2000). On the one hand, the enterprises should hire the employees who know how to adapt themselves with corporate culture. On the other hand, managers should closely control corporate culture, including: how employees think about the current corporate culture; what employees expect of the culture; what is the difference between the reality and employees' expectation; under this current corporate culture, whether this enterprise can become high-performance organization.

2.6 Employee participation and employee retention

Employee involvement can illustrate the employee's values and importance.

Involvement can influence job satisfaction and employee engagement as the worker may feel more involved in the job through the process of dealing with other people at work. Guimaraes (1996) believes that a key aspect of employee retention is to enhance the management strategies and organizational performance.

Dewettinck and Ameijde (2008) state that affective commitment is an important factor that can affect employees' loyalty. Also Griffeth et al. (2000) write that affective commitment factors can make a great impact on employees' job satisfaction and organizational commitment and their relative predictive strength.

The middle management or supervisors play a key role in this process. Lambert et al. (2001) claim that direct work environment leaders or supervisors are able to increase employees' job satisfaction levels, and to ultimately lower employee turnover, that means the middle management plays a vital role to retain employees. When the employees evaluating their organization, the middle management or lower-level managers are always placed in the focus of discussion as in the employees' point of view, the middle management can represent the organization. That is, the reason to attract employees to join the organization is the company itself, including the enterprise level factors such as salaries, organizational reputation, the development prospects; but the employees decided to leave the companies usually because of the emotional factors such as working under their superiors with bad moods and unpleasant feeling. If employees are considered worthless for the organization just because the supervisors' improper words or actions, it will result in the raising of employee turnover rate. Thus, the middle managers or supervisors play an important role in employee retention.

2.7 Summary

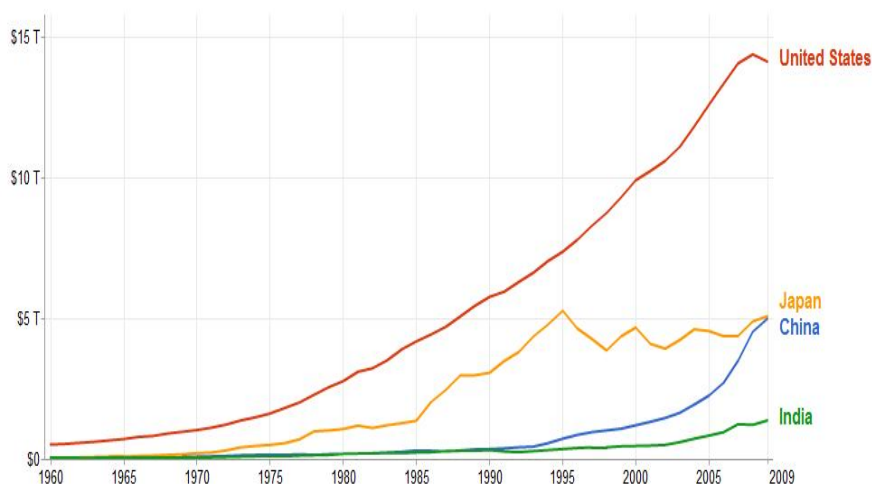
This chapter has reviewed many articles which illustrate how employee retention is an important and unique HRM issue. Through the identification and review of prior work for this dissertation, many articles outline the strategies of effective employee retention. The major factors of employee retention that are widely discussed include the

importance of management understanding the current situation of organizational culture; the leadership of line managers should be known by the organization through a variety of management methods, and improving it continuously. The commitment of job enrichment initiatives, training and development opportunities, the improvement of career planning and development system, so that it will further improve personal growth, and employees will be seeking to develop within the organization. The improvement of work-life balance in order to satisfy employee needs. The provision of an attractive package of financial rewards and employee benefits, and further improve employee satisfaction.

Chapter 3 The development of state-owned enterprises (SOEs) in China

Since the reform and opening up in the late 1970s, the People's Republic of China (PRC) has been the world's fastest-growing major economy, with consistent growth rates of around 9 percent, and created an incredible miracle in the world economic development (Cai, 2010). Figure 3.1 describes the economic development of four major economies in the world since the 1960s. From this figure we can see that China's economy is developing rapidly especially in the 21st century. China is not only seeking to shake off the problem of 1.3 billion people's poverty, but is advancing toward the grand goal of building a well-off society (Wu, 2003). The booming Chinese economy is becoming one of the world's economic development engines.

Figure 3.1 GDP growth (United States, Japan, China, India)



Sources: World Bank, World Development Indicators, 2011.

It has been recognized that China's economy, society and other aspects have achieved an unprecedented development. HRM was experiencing a thorough change from the labor and personnel management system under a planned economic policy to a modern

HRM system under the market economy. Before the 1980s, China was in the labor and personnel management stage under the traditional planned economic system (Zhu & Campbell, 1996). Since the late 1980s, the concept of HRM was gradually introduced into China, but the HR practices did not apply on a large scale, which was consistent with the management system of the Chinese social economic situation at that time.

In the late 1990s, the practices of modern HRM began to be widely implemented in China's SOEs (Cooke, 2005). But at that time the situation of Chinese business management systems and labor market economic systems were not able to effectively support the establishment and improvement of modern HRM rules and regulations. Since 2000, along with major changes in the external environment, China has been further deepening HRM which is moving towards an international, market-oriented, professional, knowledge-based character (Wilson & Segal, 2005). The concepts like 'people-oriented', 'human resources are the primary resources' have become a general cognition in Chinese companies. As a source of national competitiveness, human resources have been raised to the national strategic level.

In China, SOEs have occupied a dominant position since the establishment of PRC in 1949. Compared to the SOEs, the private business and small business have gradually been developing and growing only after the implementation of economic reform and opening up in the late 1970s (Li & Matlay, 2006). Therefore, the study of Chinese HRM can focus on the SOEs and observe their personnel management system and development process. This dissertation will explore the development of SOEs and HRM practices in China in general and analyze the changes of employee retention practices in China's state-owned petroleum companies in particular.

The following contents will be included in this chapter:

- From 1949 to 1978 – Soviet-style centrally planned economy; the establishment of China's SOEs; the 'iron rice bowl'; superfluous employees. Case evidence - workers were the masters of Fushun Refinery No.2.

- From 1978 to 2000 – Market-oriented mixed economy; the reform of China’s SOEs; the ‘private-owned advancing with the state-owed deteriorating’; downsizing for efficiency. Case evidence - employee downsizing in Fushun Petrochemical Company.

- From 2000 to 2010 – The adoption of western-style management systems; the SOEs’ capitalization; employee turnover. Case evidence - the employee turnover in Jilin Petrochemical Company.

Table 3.1 shows the explanation of some Chinese nouns that will be discussed in this chapter.

Table 3.1 The glossary of special nouns in China

<i>Nouns</i>	<i>In simplified Chinese</i>	<i>Meaning</i>
Cultural Revolution	文化大革命	It was a socio-political movement that took place in China from 1966 to 1976. It aimed to enforce socialism in the country by removing capitalist, traditional and cultural elements from Chinese society. Ten years’ turmoil period resulted in widespread factional struggles and economic recession.
Dang’an	档案	It is a Chinese word meaning personal record system. Normally it records the performance and attitudes of citizens of China.
Five-year plan	五年计划	It includes a series of economic development initiatives: the detailed strategies for economic development, growth targets, reforms and improvements. The plan established for the entire country.
Great Leap Forward Campaign	大跃进	It was a Chinese economic and social campaign from 1958 to 1961. It aimed to use China’s vast population to rapidly transform the country from an agrarian economy into a modern industrial economy. The unrealistic strategy ended in catastrophe.
Guanxi	人际关系	Guanxi is a Chinese word refers to personal relationship networks of informal social bond that individuals carry expectations and obligations to facilitate exchange of favours among them.
Hukou	户口	This term is used in China for the household registration system. Normally it divides the people into ‘Agriculture household accounts’ and ‘Non-agriculture household accounts’.
Iron rice-bowl	铁饭碗	A system of unified job allocation, guaranteed life-long employment and cradle-to-grave welfare

Source: Developed by MBus research student Ming Sun (2011).

3.1 From 1949 to 1978

3.1.1 The comprehensive establishment of China's SOEs laid the foundation of Chinese industry.

After the establishment of PRC in 1949, the government has to face the problems of how to establish the industrial system and start the process of industrialization based on the weak foundation that was destroyed by the Chinese civil war between 1946 and 1949. This is one of the priorities Chinese government has to take. In the case of no capital accumulation, China's industrialization process went a completely different pathway compared to the United States and Europe (Lin et al., 2001; Wen, 2009). The first group of SOEs was derived from the confiscation and takeover of private capital and businesses (Chun, 2008). The establishment of SOEs followed the government policies and leaders' values at that time, was driven by the political orientation (Carl, 1987). The Chinese Government believed that the contradiction between capitalist ownership and socialist ownership was irreconcilable. The construction of SOEs was highly valued because it was treated as an important means of establishing a socialist society.

The SOEs fulfilled the research and production tasks in accordance with a professional division. Every enterprise has a strong administrative management character. Although there is no competition between SOEs, each of them has to bear a 'pressure' that is exerted by the central government. In a sense this could ensure SOEs' organization and efficiency under the planned economy. China started the process of industrialization in 1950s and spent the relative short time to complete the funding of the industrial system frame compared to some European countries (Putterman & Dong, 2000). By the end of 1950s, the SOEs have already become the main body of the Chinese national economy (Lin et al., 2001).

In addition to the political orientation factor, the establishment of SOEs was also

improved by external force - the national 'five-year plan'. In accordance with the first 'five-year plan', the SOEs were the main force of the country's economic development (Yuan, 2005). In September 1954, the dominant position of the state-owned economy was formally established by China's first Constitution (Xinhua News Agency, 2011). The roles and functions of SOEs have been clarified and set down in the form of law. The overall establishment of China's SOEs laid the economic basis of socialist public ownership, and completed the accumulation of state assets.

From 1949 to 1978, China's SOEs were guided by government long-term plans and they kept a relatively high efficiency to contribute to the national economy. Based on the first 'five-year plan', the Chinese government continued to implement the 'second five-year plan', 'third five-year plan', 'fourth five-year plan' to ensure that the layout and professional division of the state-owned factories was reasonable. In addition, the industrial development of this period was affected by the construction of national defense industry to some extent (Zhao et al., 2002). Before 1978, Chinese planned economy had achieved remarkable success, for example, the oil industry and chemical industry formed a quite large scale in order to meet the domestic demand (Shen, 1988).

The SOEs gradually became the main body of the national economy along with the official start of socialism construction (Wen, 2009). Before 1978, China's SOEs were operated by the form of the factory system (Rawski, 1988). In 1957, China had a total of 1.2 million SOEs that operated strictly in accordance with unified plans developed by the state (Lin et al., 1995). The produced products were arranged by the government for distribution and allocation. As China implemented a planned economic policy, so the distribution of SOEs followed a rational match between the program and specialization, and finally built a relatively completed framework of China's modern industrial system, laid a foundation of Chinese industry (Lin et al., 2001). Compared to today's industry standard, this kind of business model was low-grade and inefficient. But such a planned economic business model created the preconditions for the SOEs' fast development after the 1978 reform and opening up, and facilitated the improvement of Chinese industrial competitiveness.

3.1.2 Labor and personnel management.

Hassard (et al., 2010) noted that the labor and personnel management was consistent with the country's political and economic situation after the establishment of PRC. They claim that in the early days of PRC establishment, the economic development level was not high. The construction of heavy industry could solve employment problems. If the companies were allowed to make the decision about how many workers they need, it would create serious unemployment throughout the community, and eventually lead to social instability. The authority of labor and employment management controlled by the unified government departments rather than the companies would help the form of close coordination between labor allocation and the planned economic system. From the early stage of PRC establishment to mid-1950s, the labor and personnel management in SOEs was developing smoothly. Hussain and Zhuang (1997) described the characters of HRM before Chinese economic reform in 1970s. During this period China absolutely abolished the feudal labor contracting system, workers known as masters of their factories; implemented the 'low-wage, but high employment rate' policy; reformed the remuneration system in 1952 and 1956; introduced the Soviet economic system as a model, established a set of socialist labor and personnel management systems in the SOEs. The results were quite positive.

The employee salary structure of SOEs was set down by the state (Child, 1994). From 1954, the payroll management was concentrated in the central government's labor department. 1956 the national wage reform conference decided to develop a unified wage standard; the wages of state-owned enterprises, employee classification, promotion and upgrade system were drawn up by the central government, and local government and enterprises had no rights to change. The extraction and distribution of employee payment had an unconcerned relationship with the enterprises' benefits, that is, whether the enterprise is profitable, employees were able to get the same amount of wages and other business benefits (Dong & Putterman, 2000).

In 1958, Chinese labor and personnel management system has been seriously affected by the Great Leap Forward Campaign. The Great Leap Forward was an economic and social campaign under the planning economic system. This public campaign lasted three years from 1958 to 1961, which aimed to use China's vast population to rapidly create a modern communist society through the process of rapid industrialization, and collectivization (Wemheuer, 2010). Within this period, there was an excessive increase in the number of employees in SOEs. It resulted in the invalidation of the employees capacity quota system; the egalitarianism was popular and the piecework reward and incentive system were abolished. The remuneration system - distribution according to work also has disappeared. And then from 1961 to 1966 was another period of healthy development, labor and personnel management system has been restored and developed, the non-production and redundant workers has been reduced, the SOEs were restored piece-rate wage system and incentive system, the labor productivity has been greatly improved (Zhu, 2005).

From 1966 to 1976, China has experienced a decade of the Cultural Revolution turmoil period. The Cultural Revolution was a social political movement that aimed to enforce socialism in China by removing capitalist, traditional elements from Chinese society, and improve Maoist ideology in China (Shinn, 2010). The movement disintegrated all levels of political institutions and social norms largely evaporated (Tang, 1986). During this period, the labor and personnel management have been seriously damaged, and all reasonable rules and regulations have been negated, the numbers of business people surged up, further more the egalitarianism distribution way became more serious.

As a supplementary part of employee income, the welfare distribution was also an important part of employment management system in China (Selden & You, 1997). Within a high-employment low-wage employment circumstances, the SOEs must pay certain benefits and social services in addition to the money in order to protect the basic livelihood requirements of employees and their families, these kind of life grants include housing, health care, education. The SOEs fulfilled both productive functions like employee employment guarantee, and the non-productive functions like providing

social services, and meanwhile the government controlled both those activities, so it was inevitable that there was no clear line between the functions of the government and enterprises (Li & Putterman, 2008).

At this stage, personnel management was closely linked to Chinese long-term planned economic system. The personnel record system (Chinese word is Dang'an, see Table 3.1) is an archival system that used in the political and managerial context (Wang, 1998). Normally it records the citizens' personal information like the educational background, physical record, study and work performance, and attitudes as well. It is one of the important means used by the Chinese government to control its people (Stephens, 1998). These records are usually kept by the company's ministry of personnel or the local archive bureaus, and recording the person's information start from primary school until retirement.

One of the management systems with Chinese characteristics is the household registration record, also called Hukou (it is a Chinese word meaning household registration regulation, see Table 3.1). In June 1955, the instruction of regular household registration system establishment was issued by the Chinese State Council (Laquian, 2005). The regulation illustrated that all the national cities, towns, rural household registration system should be established and started a unified urban and rural household registration work. Since the implementation of 'Chinese Household Registration Regulations', the Chinese government has begun to restrict and control the free movement of people within this country (Luard, 2005). It was the first time to explicitly separate residential areas into urban household and rural household parts. 'Agriculture household accounts' and 'non-agricultural household accounts' were totally different two kinds of residence status according to the people's social welfare, employment and education treatment. The biggest negative impact of this household registration system was the weakening of the free movement of economic factors – the labor force, hindered sustainable economic development. Secondly, it impeded the process of urbanization, and formed the institutional obstacles for the agricultural modernization and rural population transformation (Waddington, 1999).

Overall, the personnel management of this period was characterized by a number of factors. The government was responsible for employment, not the SOEs. Labor distribution relied on administrative allocation; the recruitment had to implement the national recruitment plans. The law of value didn't work; wages and benefits were undertaken by the country. Labor was not allowed to move freely, independent enterprises didn't have authority to dismiss employees who can be hired but cannot out, or even only promotion, the demotion or removal didn't exist. In the planned economy, the SOEs did not care about the employee retention as the movement of persons was subjected to strict policy restrictions, the employees can neither choose the employer optionally nor move with freedom between enterprises (Lu, 1989); the advantage of human resources was completely ignored, and the employees' enthusiasm, initiative have not been aroused. In SOEs, the departments of personnel of this period were essentially a symbol, and functioned as the company's logistic department that was fully serving and doing the businesslike work under the requirement of national policy without practical significance (Zhu, 1998).

3.1.3 Case evidence: The 'iron rice bowl' - workers were the masters of Fushun Refinery No.2.

Fushun is a city in Northeast China. Figure 3.2 is a map of China which shows the geographical location of Fushun city. It is a nationally important heavy industrial base for petroleum, chemical, metallurgy machinery and construction material industries (Fushun Municipal Government, 2011). The Refinery No.2 is one of the largest SOEs in Fushun. Figure 3.3 shows the development history of Fushun Refinery No.2. It was built in 1939. The commercial production of the shale oil was the main technique of 'eastern refinery' (the predecessor of Refinery No.2) that was built by the Japanese. After World War II, the production was ceased. In 1954, the Refinery No.2 began its production and in 1959, maximum annual shale oil production increased to 780,000 tonnes (Qian et al., 2003). In 1998, it was transferred to the direct control of China National Petroleum Corporation (CNPC) from China Petrochemical Corporation

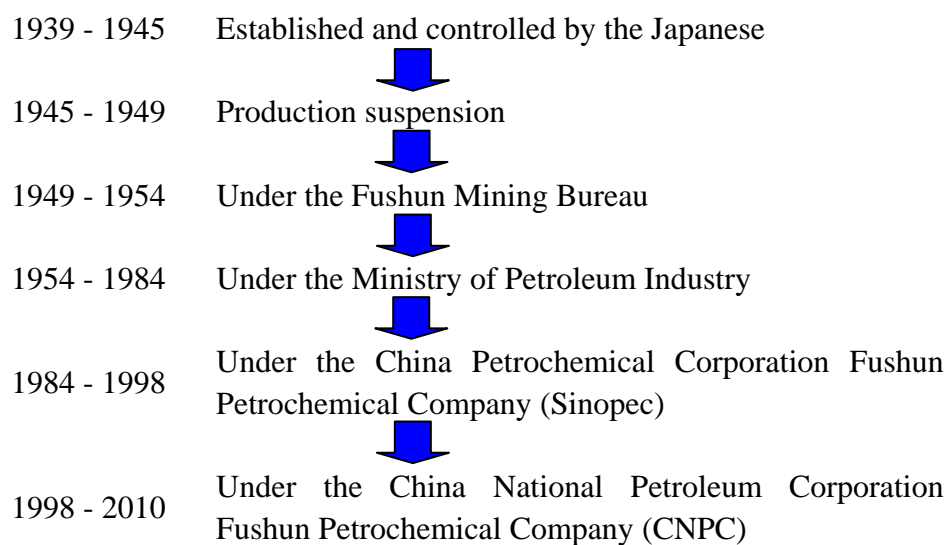
(Sinopec) due to the SOEs' reform strategy. The Refinery covers an area of 5.95 square meters and its main processing crude oil is from Daqing oil field and the processing capacity is 5 million ton per annum (Wei, 1996).

Figure 3.2 The geographical map of China



Source: MBus research student analysis (2011).

Figure 3.3 The development history of Fushun Refinery No.2



Source: About Fushun Refinery No.2, 2010

Under the planned economy, Refinery No.2 implemented the traditional personnel

management. Before the reform and opening up, the employment was an unified labor deployment system that means the factory did not have rights to select the wanted workers, and the senior management was selected and deployed by the higher authorities, businesses hired workers in accordance with the places arranged by higher authorities; Typically, the workers were enjoyed the lifelong hiring system; there was no performance assessment system; the established national unified wage standards that means the implementation of egalitarianism; the factory has its own hospitals, nurseries, residential housing, schools, refectory, cinemas and other welfare and social security departments; personnel management was mainly a simple file management and data statistics. Typically, this kind of employment pattern is called 'iron rice bowl'. The 'iron rice bowl' is a Chinese term used to describe a lifelong secure job or position, as well as the steady income and benefits (Ding et al., 2000; Warner, 1997). Normally, people considered to have an iron rice bowls job if they are working for the military, the government or civil service, as well as the SOEs (BBC News, 1999).

There is a close relation between the Refinery No.2 and my family. My grandfather, Sun Zhiyuan, started work in this factory since 1948 until retirement (total of 39 years, 93,600 hours). And both my father, Sun Keqin (43 years, 103,200 hours), and my father's brother, Sun Kejian (39 years, 93,600 hours), were employed by the same factory until retirement. My grandfather, my father and my father's brother think that the factory is their home, it is impossible to change the job. They were entitled to enjoy the promised permanent employment, the job security and cradle-to-grave welfare. They don't need to worry about income as the level of wages is not related to job performance. As the family members, all the children in my family were educated in the factory kindergarten and school; our housing is provided by the factory; the influence of the factory can be found everywhere in our lives. That's why some scholars believe that within this period, the Chinese workers were the masters of the factory and the working class was the company's owner (Sun, J. 2000). China's SOEs did not have to worry about the employee turnover problem as the workers were the enterprises' masters. In fact, employee retention as an important aspect of HRM did not appear in SOEs within this period.

3.2 From 1978 to 2000

3.2.1 State-owned enterprises were pushed into the market, 'the private-owned advancing with the state-owned deteriorating'.

Chinese economy was embarked onto a market-oriented track from 1978 market-based economic reforms and opening up policy. After that, China's economy has undergone tremendous changes. Whether it's based on GDP growth rate, or the increased range of trade share, China by far is one of the most dynamic economies in the world. From 1979 to 2004, China's GDP achieved an average annual growth rate of 9.6 percent (State Statistical Bureau, 2005). This record is rare in the world economy. After 30 years of growth, China's GDP rose to 40.12 trillion US dollars in 2010 (Statistics of China, 2011), has become the second largest economy.

The industrial reform commenced from the late 1970s and early 1980s (Wen, 2009). Prior to the reforms, Chinese industrial sector dominated by SOEs that constrained and controlled by the State Council and local planning (Donald et al., 1994). Since the 1980s, the Chinese government has adopted a series of reform policies in order to enhance the production of SOEs' industrial sector and improve its productivity through the progressive marketization and gradual institutional change. The economic reform and opening-up policy has created favorable conditions for the SOEs' reform, and the large-scale SOEs' industrial reform started from the early 1980s (Hassard & Sheehan, 1997; Herston, 2008).

Although in the 1980s China was still a planned economy, but the proportion of products that were controlled and dominated by the government planning has decreased significantly. In the mid-1980s, the Chinese government began to allow SOEs to share the profits; this means a significant portion of corporate profits that can be dominated by the enterprises themselves (Xu & Zhuang, 1996). This stage formed a 'dual pricing' system. The products produced under planning were sold in accordance with the

government planned price. The unplanned products that produced by the employees' creativity and innovation were allowed to sell higher than planned prices in the free trade market. This kind of production model inspired the employees' enthusiasm for production (McMillan & Naughton, 1992).

Through the policy adjustment of 'decentralization', the SOEs achieved a lot of production autonomy which means the production scheme and program can be adjusted by enterprises themselves according to the changes of market demand. In accord with this was that the local government had more freedom than before as the constraints exerted by the central government has been gradually eliminated (Garnaut et al., 2006). The local government encouraged local small businesses and private enterprises to grow up and develop in order to promote the local economy. The non-state enterprises in industrial sector expanded rapidly after economic reform, the private and small business has become another main force of China's industrial growth (Guo, 2003). From 1979 to 1992, the number of township enterprises was increased in more than 26.6 percent annual average growth rate, the share of contribution to industrial growth increased from 10 percent in 1980 to about 42 percent in 1994, while the share of industrial output with the SOEs were declined compared to the growth of non-state enterprises (State Statistical Bureau, 1995). This is also known as 'the state-owned deteriorating with the private-owned advancing'. The market competition was promoted by the non-state enterprises and private companies appearance, development and growth, has played an important role to improve the operational efficiency of SOEs (Xinhua News Agency, 1999).

In 1990s, China's SOEs experienced an industry-wide loss awkward predicament, they were relying on the bank credit and arrears for survival (Hussain & Zhuang, 1997). China's SOEs bear a heavy burden as they normally take into account the social welfare of workers, social security of retired workers, and other social functions (Byrd & Lin, 1990). So in the market competition the SOEs were at a disadvantage position compared with private enterprises. With the deepening reform of economy, SOEs' profitability deteriorated rapidly in the late 1980s, the average profit margin continued

to decline (Hannon, 1998).

In order to fundamentally solve the survival and profitability problems of SOEs, since 1994, the Chinese government proposed a series of reforms, like the establishment of modern enterprise system, the improvement of the employment system and social security system, and SOEs' strategic restructuring and privatization policy (Meyer et al., 2002). Due to the pressure of market competition, the SOEs have to pay more attention to the corporate profit which was put as the first important business target. Table 3.2 is the results of a research which shows the target selection of China's SOEs. 45.4 percent SOEs pursue profit as their first important business goal, and 24.7 percent choose the organizational development, 2.6 percent SOEs regard the employees' income increase as their first business goal, and 17.5 percent for completing the national plan, 9.8 percent for increasing the market share. Generally, the increase of profits is the first important business objective of SOEs in China.

Table 3.2 Target selection of China's SOEs in 1990s (%)

<i>Target Selection</i>	<i>First important</i>	<i>Second important</i>	<i>Third important</i>	<i>Average importance</i>	
Profit	45.4	28.7	12.1	34.28	1
Organizational development	24.7	29.7	20.2	25.62	2
Increase workers' income	2.6	18.2	51.0	15.87	3
Complete National Plan	17.5	7.8	6.0	12.35	4
Increase market share	9.8	15.6	10.7	11.88	5

Sources: Ma, J. (1992).

3.2.2 Human resource management (HRM) in China.

HRM as a new discipline emerged in the early 1980s in the United States; it was the frontier of management research in America (Mathis & Jackson, 2010). However, in the mid-1980s, the Chinese people found the concept of HRM very strange or even thought HRM was personnel management (Lu & An, 1991). In 1990s, the personnel management in China was still an administrative command-style management under the

planned economy (Nyaw, 1995). At that time, workers were the main body of production relation, and were not considered as the same basic elements such as land, capital and other productive resources. People's understanding of HRM was still resting on the stereotype that employees were the targets of management and control. The work of personnel department was only personnel assessment, payroll, personnel records management and other routine clerical work. Labor management mainly relies on administrative allocation approach, and lack of effective job evaluation, the implementation of labor contracts was mere formality, the lack of effective incentives and competitive employment mechanism (Holton, 1990).

After the 'cultural revolution' turmoil period, China's focus shifted to economic construction, labor and personnel management backed into the right track. From the mid-1990s, China began to explore how to manage the human resource in practice, the HRM theories and practices have been applied to business and government personnel management work (Warner, 1995). More and more companies were trying to use HRM strategies to improve their recruitment, training and development, performance appraisal, compensation and other aspects of personnel management. The SOEs' ability of HRM has been improved to some extent (Ngo et al., 2008).

The labour and personnel management developed rapidly during this reform and transition period. SOEs were developed the work quota management, quota capacity management, personnel training, technical titles evaluation, personal responsibility and other labor and personnel management system. The SOEs expanded the autonomy of labor recruitment, employment forms presented various diversifications, and the employment contract system has been adopted widely (Zhu, 1995; Zhu & Campbell, 1996). The labor force entered the market and participated in the fair competition. As the market economy developed rapidly, the restrictions on the flow of people have been broken. The two-way selection method was used for staff recruitment, the companies can choose the right people, job seekers can also select employers in accordance with the wishes of them (Lee & Warner, 2004). Enterprises were allowed to close down and dismiss employees. Social security has gradually evolved from 'job security' to

‘unemployment insurance’ (Lee & Warner, 2006). The sense that personnel as a resource was recognized by national policy and business managers.

Part of SOEs implemented the annual salary system to increase incentives of entrepreneurs, strengthen business activities, and to some extent limit the scope of entrepreneurial salary income (Xu & Zhuang, 1996). The performance-based payment method was used by many enterprises, such as Fushun Petrochemical Company. However, the enterprise pay system reform largely remained in the distribution reform aspect, the real salary management system was still not established, job analysis, performance appraisal system, pay system has not set up (Child, 1994). As this period was still the early days of market development, there were still many shortcomings of HRM, for example, the vague system of property rights lead to complex internal corporate management responsibilities, the internal management mechanism of SOEs was institutional tendency. Table 3.3 is a research result which indicates that there were more than three fourth SOEs still have the problem of redundant employees, in which, 17% Chinese SOEs’ actual employment with 30% higher than the optimal employment level.

Table 3.3 Redundant workers in China’s SOEs, 1994 (%)

Actual employment relative to optimal employment level	Enterprises
More than 30	17.0
20 to 30	16.2
10 to 20	26.8
5 to 10	24.6
About right	12.0
Too low	3.4

Sources: The World Bank (1996).

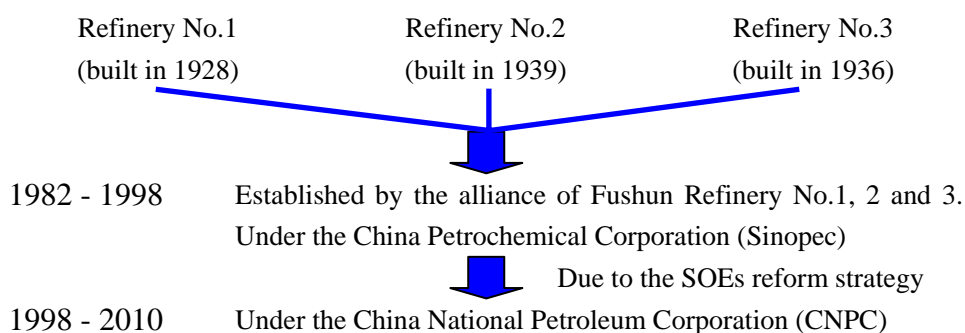
Since China’s SOEs reform was still in the implementation phase before 21st century, as an integral part of enterprise management, the labor and personnel management still locked into historical limitations. The SOEs have not yet completely out of the impact of the planned economy, especially in the HRM area (Benson & Zhu, 1999). Many

SOEs still followed the traditional transaction-based personnel department function, but do not truly fulfill the HRM function.

3.2.3 Case evidence: Employee downsizing in Fushun Petrochemical Company.

Before the establishment of Fushun Petrochemical Company in 1982, there were three refineries in Fushun city namely Refinery No.1 (built in 1928), Refinery No.2 (built in 1939), and Refinery No.3 (built in 1936). According to China’s SOEs development strategy, Fushun Petrochemical Company was established by the alliance of three Refineries (see Figure 3.4).

Figure 3.4 The development history of Fushun Petrochemical Company



Source: About the Fushun Petrochemical Company, 2010.

Fushun Petrochemical Company is the ‘cradle’ of China’s oil refining industry. It possesses an important status and influence in Chinese petroleum and petrochemical industry. Since the establishment of China, Fushun Petrochemical Company has totally refined crude oil 324 million tons, and produced 43.5 billion Chinese Yuan (6.8 billion US dollars) in profits and taxes. The products of Fushun Petrochemical Company have been used in the operation of China’s first artificial satellite, the first trip of Chinese Antarctic scientific expedition (CNPC, 2011a).

After Chinese reform and opening up, Fushun Petrochemical Company as a large SOE, its personnel system was changed with the external environment. The main purposes of

economic reform in this period were around the devolution of power to stimulate the organizational and personal enthusiasm. SOEs have the rights to determine their own institutional and staffing, to recruit the right talent, to discipline or dismiss employees who with serious violations of rules and regulations. In 1985, the Chinese State Council issued 'the notice of salary system reform in SOEs' which provided the guide for the remuneration system reform. The enterprises' total wages were linked to their economic efficiency, and the wages of workers can be changed in proportion to the level of economic efficiency, the state no longer arranged corporate wage adjustment. Fushun Petrochemical Company has adjusted its income distribution mode and implemented the system that included wages and bonus, which has played a stimulating role to improve employee motivation (Yang & Sun, 2003).

In the late 1990s, due to the impact of market competition and state policy factors, the contradiction of social function and management system become increasingly prominent in Fushun Petrochemical Company (Sun, Q. 2000). In 1998, this company got a loss of 780 million Chinese Yuan (122 million US dollars). In 1999, Fushun Petrochemical Company implemented a new business strategy of restructuring in order to solve the operational problems. This strategy included a series of reforms such as abandoning the old management system, improving the operational mechanism and conducting new organizational model in order to reach the objective of reducing the number of employees and increasing operating efficiency (Li, 2002). For example, before this reform, the company's management institution consisted of 5,400 employees, after restructuring, reducing the management team to 3000 (Sun, Q. 2000).

During this period, employee retention wasn't a problem for many SOEs such as Fushun Petrochemical Company, and enterprises were normally just concerned about the issue of how to reduce the number of employees. In some developed countries such as America and Europe, the research and theoretical exploration of employee turnover has gone through a long evolution and got very rich achievements. Many scholars conducted the in-depth research of intentions or causes of brain drain, and produced some employee turnover models with very broad impacts, such as Steers and Mowday's

(1981) model which offers a conceptual framework of organizational commitment that can be seen as a mediator. However, the management has a strong dependence on the environment; China is totally different from the Western industrial countries' economic, social and cultural background (Ralston et al., 2006). China is a big country with rich labor resources. By the large environmental impact of Chinese social and economic reform, the economic benefits of SOEs continued to decline, and SOEs did not have the ability to take on the job seekers as before, which resulted in a grim employment situation. The employment status in this period was supply exceeding demand; the 'downsizing and staff efficiency' became the theme of the SOEs' reform (Warner, 2008). Since many SOEs were downsizing in this period, so how to reduce the number of employees has been put in the central of business management strategy and the employee retention has not been given adequate attention by SOEs in China.

3.3 From 2000 to 2010

3.3.1 SOEs began to accelerate the process of capitalization.

China's SOEs had some operational problems such as heavy losses in 1990s. This was not only related to the survival of SOEs, but also affected the social stability. In addition, China's WTO accession in 2001 brought new challenges to SOEs (An, 2002). In order to adapt to the situation, Chinese government conducted a series of reforms such as secondary business separation and social function separation, in order to relieve the overcrowding and social burden problems (Wen, 2009). The reformed SOEs caught up with China's rapid economic growth since the 21st century. SOEs began to conduct a series of reforms that included the corporate merger and reorganization which accelerate SOEs' capitalization process and improve their profits.

Compared to the non-state enterprises that concentrated in downstream industry, the SOEs got the absolute privileges of resources capitalization and hold almost all of the upstream industry which means the SOEs especially the central enterprises controlled the vast majority of natural resources (Dong & Putterman, 2000). Also the SOEs

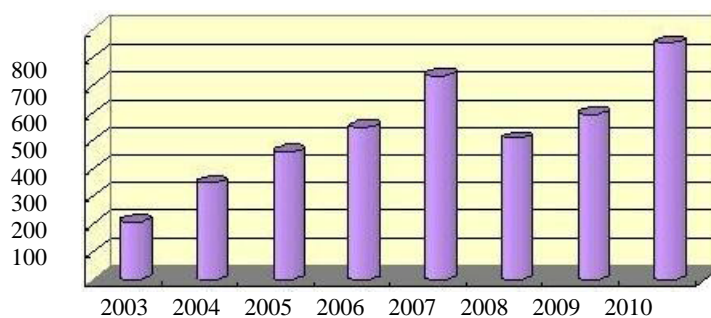
occupied the market pricing. Wang (2003) believes that China's SOEs have the pricing and resource monopoly in many industrial areas such as oil production, natural gas, coal, iron ore, nonferrous metals, telecommunications, postal and other areas, so they could obtain the excess profits through the process of capitalization. In addition, normally the SOEs possess a large number of occupied lands for development due to historical reasons; this also contributed a lot of profits for SOEs. The representative SOEs in China such as PetroChina, Sinopec have already entered into the world's top ten most profitable companies list (CNN Money, 2010). Compared to private enterprises, the number of employees in SOEs continued to decline from 67 millions in 1980 to 33 millions in 2003. The business efficiencies of SOEs improved obviously, SOEs' net profits increased from 200 billions in 2003 to 850 billions in 2010 (see Table 3.4 and Figure 3.5).

Table 3.4 Employment by Enterprise Ownership (in millions)

	1980	1990	1995	2000	2001	2002	2003
Total employment	423.6	647.5	680.7	720.9	730.3	737.4	744.3
State Units (Institutions, government departments, Universities, and SOEs)	80.2	103.5	112.6	81.0	76.4	71.6	70.6
SOEs	67.0	73.0	76.4	43.9	39.5	35.3	33.4
Private Units	0.8	6.7	20.6	34.0	36.6	42.7	44.1

Sources: *China Statistical Yearbook & CEIC database, 2003.*

Figure 3.5 The net profits of China's SOEs (2003-2010, in billions)



Sources: *The Overall Conditions of the SOEs' operation in 2010. State-owned Assets Supervision and Administration Commission of the State Council, China, 2011.*

3.3.2 Strategic HRM is the driving force to achieve sustainable development goals.

Since the late 1990s, the reform of personnel management in China has been experiencing a systematic deepening with the state increasingly giving the emphasis to HRM. Facing the challenges of employment relations, the Chinese government had to break the 'iron rice bowl' after its WTO accession in 2001, the SOEs has fundamentally changed the understanding of HRM functions and the abilities to conduct the effective HR practices have been improved (Zhu & Warner, 2003).

After 2000, the Chinese labor market was developing very quickly; the labor laws were gradually improved; the enterprises have the rights to recruit employees, more and more enterprises emphasized on HRM practices. HRM has become an important part of business management, the HRM functions were transiting from the traditional personnel administration functions to a strategic HRM functions. With the profound changes in basic management ideology, human resource was seen as a core resource for the business development; the people-oriented thinking has been widely recognized. Under this background, the employee's assessment, performance evaluation and salary incentive system as a management model that has been utilized by many SOEs (Feng, 2002).

Since the appearance of new phenomena such as business competition, the technology development, and the unpredictability of the future, more and more enterprises recognized that the essence of business competition is the competition of talents and top-class professionals (Li, 1994; Jiang, 2002). The reform and opening up of personnel policy accelerated the flow of employees between enterprises, and led to the management challenges for enterprises (Zhu & Dowling, 2000). The SOEs began to pay more attention to the personnel movements; how to retain business talent has already become a focus of attention. Corporate management has realized the importance of retaining talent staff. Thus, HRM has been elevated to the corporate strategic level and the HRM activities were clearly linked to the direction of the business.

After the adoption of strategic HRM by SOEs, the HRM ability began to be gradually improved from the pursuit of quantity to the pursuit of quality (Cooke, 2008). The focus of management gradually shifted to the employee performance management; to establish a modern pay system; to integrate corporate human resources and allocate them rationally; through the improved training project to strengthen staff skills and performance. In this stage, the SOEs gradually formed a business concept of treasuring talents, developing talents, motivating talents, and this promoted the HRM to a new level (Lamond & Zheng, 2010).

On the other hand, the 'iron rice bowl' philosophy still existed in many SOEs that have to keep surplus employees due to social and political pressures (Warner, 1997; Lewis, 2003). Also even though the reform and labor market operated more flexibly, HRM is still with bureaucratic and rigid characteristics, the politics impacts on all HRM activities, and the employee retention is really an inevitable problem (O'Connor et al., 2011).

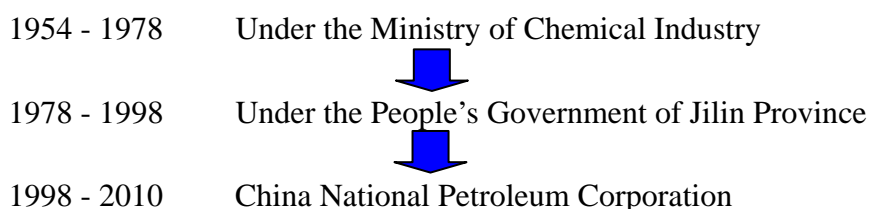
3.3.3 Case evidence: the employee turnover in Jilin Petrochemical Company.

China's rapid development has brought the emergence of the knowledge economy that caused a shift in the HRM field; one of the distinct aspects is the freeing up of the labor market (Taylor, 2005). This created the conditions for the orderly flow of human resources. More and more employees in SOEs are attracted to the foreign company in order to get higher income, better working conditions, the opportunities for training and development, and so on (Au, 1992). But also brought the employee retention challenges for SOEs. Jilin Petrochemical Company used to face such problems.

Jilin Petrochemical Company is a large integrated oil and chemical production company which produces a set of products such as oil refining, olefins, synthetic resin, synthetic rubber, and synthetic ammonia. Jilin Petrochemical Company is located in Jilin City in Northeast China. Figure 3.2 shows the geographical location of Jilin City. It is the first

large-scale chemical industrial base built by the Chinese government within the ‘first five year plan’ period. The company started construction in 1954 and put into operation in 1957. From 1978, the company was managed by Jilin Province. In 1998, the Jilin Petrochemical Company was placed under the management of China National Petroleum Corporation. Over more than 50 years’ development, Jilin Petrochemical Company as the pioneer of China's chemical industry has been sending more than 50,000 technicians over the petrochemical enterprises in China under the planned economy system, paid total profits and taxes 27 billion Chinese Yuan (about 4.22 billion US dollars), obtained more than 700 achievements in scientific research, and transferred 36 technology patents (CNPC, 2011b).

Figure 3.6 The development history of Jilin Petrochemical Company



Source: The brief introduction of Jilin Petrochemical Company, 2011.

Against the background of China’s economic reform and market competition in 1990s, the Jilin Petrochemical Company has experienced significant losses. In 2001, Hong Kong ‘Economic Times’ and other media gave ‘the first big loss of H shares’ title to Jilin Petrochemical Company, as from 1997 to 2001, the Jilin Petrochemical Company has experienced five consecutive years of huge losses, the cumulative loss was 8 billion Chinese Yuan (1.25 billion US dollars). The enterprise economic downturn would inevitably lead to the decline of employees’ treatment and incomes, and even affect the staff development and livelihood security. In these objective conditions, a considerable number of highly educated, skilled technical personnel have to choose to leave, even though the specific numbers are unknown, but according to reports, the employee turnover of Jilin Petrochemical Company was very serious (Zhou, 2004). As a typical SOE in China, the employee turnover in Jilin Petrochemical Company was not only caused by its own economic benefit factors, but also due to the changes in Chinese

economy and society which created the objective conditions for the free movement of employees. The instability of employees has an impact on production security. There were a series of explosions which occurred on November 13, 2005 in Jilin Petrochemical company due to the employee's misoperation (People's Daily Online, 2005). The explosions killed six workers and thousands of residents had to evacuate.

Although the Jilin Petrochemical Company has already recognized the importance of talented employees for business survival and development, and developed, implemented the invigorated human resources strategy, committed to play a huge potential of human resources, the employee retention is still a problem that cannot be ignored.

3.4 Summary

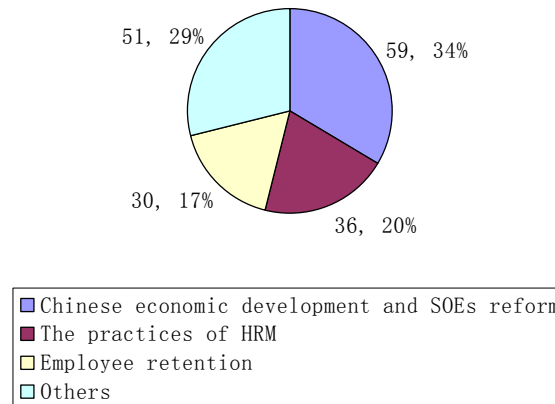
This chapter has examined the development of SOEs in China. In this chapter, the development of China's SOEs has been divided into three stages according to China's social and economic development characters. From 1949 to 1978, the Chinese economy was a Soviet-style centrally planned economy. The employment in SOEs was characterized by the 'iron rice bowl' system. Fushun Refinery No. 2 as a case study which illustrated the characters of employment in this period. The period from 1978 to 2000 is the reform and opening up stage. Chinese economy was characterized by the market-oriented mixed system and employment downsizing for efficiency had been adopted by SOEs. The case study of employee downsizing in Fushun Petrochemical Company has been used in this chapter for illustrating this character. From 2000 to 2010, the western-style employment system was widely adopted by SOEs. The case study of employee turnover in Jilin Petrochemical Company indicated that the employee turnover was caused by the labour flexibility and free labour market. The three-stage research and literature review will facilitate the analysis and understanding of employee retention in China's SOEs.

Chapter 4 Research methodology

Creswell (2003) defines research methodology as a highly intellectual human activity used in the research of nature and matter, and the data is collected, analyzed and interpreted for specific manner. For this dissertation, a literature review will be used as the main method to analyze employee retention in Chinese SOEs. Literature review aims to review the critical points of current knowledge including substantive findings as well as theoretical and methodological contributions to a particular topic (Dellinger, 2005). The purpose of a literature review is to make the systematic and comprehensive description or comments for the research results, problems and new trends of research subject within a given period (Machi, 2009). The literature review is based on the process of collection, reading, collation, analysis, and identification of many relevant research literatures. The effective literature review has to meet two requirements, one is to collect a variety of research perspectives, and then to do a comprehensive analysis and classification, and the other is to describe and review the perspectives of literatures based on the author's point and practical experience.

This dissertation involved a series of research papers, journal articles and studies that met the criteria and requirement of the dissertation. This dissertation reviewed a total of 176 articles: 96 journal articles, 53 academic books, and 27 from magazines, published Chinese SOE cases. Among these articles, 59 were concerned with the Chinese economic development and SOEs reform, 36 related to the practices of HRM, 30 regarding the specific topic of employee retention, and 51 discussed other factors linked to the research topic such as employee commitment, career planning and development, compensation strategy, employee motivation, corporate culture (see Figure 4.1). More than 70 percent of these articles were published in the last 10 years.

Figure 4.1 The number and proportion of articles



In order to choose and assess the relevant papers, the research student limited research activities to review those papers focused on China's economic growth, the development of China's SOEs, and the HRM and employee retention in SOEs. These journal articles were restricted to the scholarly nature that means the peer-reviewed journal articles were mainly used. In addition, the sources of this dissertation also include academic books, monographs, magazines, and published Chinese SOE cases. In order to research the essence and facts of employee retention practices in China's SOEs, desk research, documentary analysis and secondary sources of Chinese SOEs dealing with employee retention were utilized.

In order to provide an in-depth, longitudinal identification of employee retention in China's SOEs, the employee retention practices of China's state-owned petroleum industry have been used as case studies for this dissertation. Case study research is an intensive analysis of an individual unit stressing developmental factors in relation to context (Dul & Hak, 2008). Thomas (2011) believes that the case studies are studied holistically by methods that can provide an analytical frame of a class of phenomena. The petroleum industry is an important part of Chinese SOEs. According to a report issued by Chinese State-owned Assets Supervision and Administration Commission (2011), the petroleum and petrochemical SOEs achieved net profit of 270.54 billion Chinese Yuan (42.6 billion US dollars) in 2010, accounting for one-third of the Chinese

SOEs' income. China's state-owned petroleum companies are closely linked to the social and economic development. The reform and improvement of their management, including employee retention practices, can represent the characteristics of China's SOEs. Therefore, the China's state-owned petroleum industry was used as a case study for this dissertation in order to explore the practices and effects of employee retention in China's SOEs. Many sources such as journals, enterprise annual reports, magazines and news papers relative to China's SOEs have been used for the case study. In addition, the research student's grandfather, father and uncle were employed in a China's petroleum SOE (Fushun Refinery No.2) in total for approximately 121 years (grandfather was employed for 39 years, father for 43 years, and uncle for 39 years). The anecdotal information from family members has also been used.

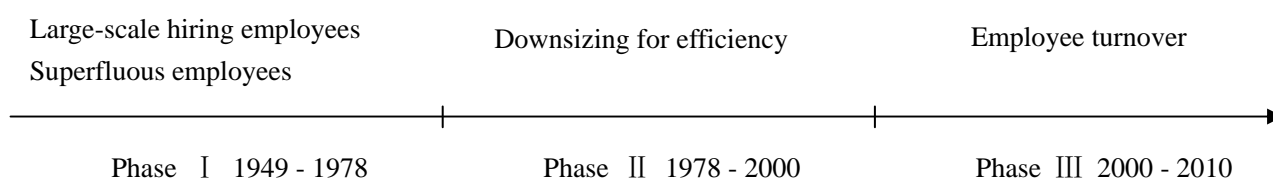
This dissertation distinguishes the research in three levels. The first level is the macro level that focuses on the social and economic development characters of China; many historical events are also involved. The second level researches the practices of HRM, especially the practices of employee retention within this period. The third level is the micro level that provides a case study related to the research topic. In addition, this dissertation follows the time sequence that is divided into three stages according to China's social and economic development characters.

Chapter 5 Findings and discussion

There are two important time-points in contemporary China. One is the economic reforms and opening up in 1978. Since the introduction of market-based economic reforms, China has become one of the world's fastest-growing major economies. Some of the advanced western-style management methods such as SHRM were used by SOEs since the 1978 great change. Another one is a new millennium. In the 21st century, China's social and economic development has entered a new phase. Employee retention has become a strategic issue for SOEs in accordance to the deepening of reform.

Through the literature review of China's social and economic development stage and the SOEs' HRM characters, the employee retention in Chinese SOEs can be divided into three interrelated phases (see Figure 5.1). The first phase, before the market-based economic reform and opening up in 1978, many China's SOEs have the unrealistic, large-scale recruitment system. Second phase, after the country's reform in 1978, SOEs have to cut payroll to improve operational efficiency due to the superfluous employees. Third phase, entered the new stage of the 21st century, the employees resign the job on their own initiative and choose their ideal company optionally, also they are encouraged to move freely between organizations, the HRM, especially the employee retention in China's SOEs is characterized by the distinct three stages.

Figure 5.1 The development of employee retention in China's SOEs.



Source: The analysis by MBus research student Ming Sun (2011).

Before China's economic reform and opening up in 1978, the employees obtained

consistent treatment in all SOEs, that means their wages and benefits were undertaken and allocated by the country, not enterprises (Selden & You, 1997). Also in the planned economy system, the movement of employees between companies was not encouraged by national law (Hay et al., 1994). Employee retention was not a problem for SOEs at that time.

After the economic reform, even though the oil industry development got national attention, but in the context of increasingly fierce market competition, the oil industry's profitability and market competitiveness were challenged, the problems of redundant workers and inefficient operation were very prominent drawbacks, the SOEs had to take measures to reduce employees and improve operational efficiencies (Hassard et al., 2006). The issue of employee retention was not seen as a strategic problem by SOE's during this period.

With China's continuous development of market economy, the multinational companies continue to enter the Chinese market; their large income, excellent benefits and working conditions have a strong appeal to the employees in China's SOEs, especially for the talented employees. The superiority of state-owned petroleum companies such as providing free housing, medical security, education have vanished. As the Chinese government encouraged the orderly flow of talent that created the objective conditions for high-quality talent with the freedom to choose their ideal jobs. Employee turnover is the real problem that these companies have to face. Therefore, employee retention has become an important business strategy that has been paying more attention by SOEs. The HRM strategies should be developed for retaining, motivating existing employees (Qu & Cai, 2011).

The results from the process of literature review can be seen that the real market competition is the talent competition. HRM plays an increasingly important role in the process of production and operation. The review of the literature shows that HRM can deeply impact the organizational efficiency, profitability, and the sustainable development (Akhtar et al., 2008). Even after nearly twenty years of enterprise reform,

China's SOEs are still conducting the traditional personnel management that has been deeply affected by the traditional outdated planned economy system.

This chapter will discuss the factors that influence effective employee retention:

- The reform of personnel management lags behind the economic reform, failed to establish an effective employee development system that adapted to the requirements of modern enterprise management system.
- SOEs still take the traditional personnel management manner.
- SOEs still lack of effective incentives, effective corporate culture and management philosophy.
- Other factors such as the geographical distribution of state-owned petroleum companies, the employee values also influence on the employee retention.

5.1 The broad overview of HRM strategy in China's SOEs.

As it can be seen from the preceding analysis in chapter three, the SOEs didn't fit the HRM into the business development strategies, they lack a unified HRM strategy be in harmony with the organization's overall aims. The vast majority of China's SOEs are still in the traditional and inefficient personnel management stage, have not implemented the changes to the strategic HRM, and unable to respond adequately towards the rapidly changing external environment. As the China's super-large SOE, the HRM in China National Petroleum Corporation (CNPC) also has these problems. Since the formation of the employment system under the planned economy has not fundamentally changed, the CNPC characterized by superfluous employees, low productivity, employees cannot be fired out but only enter into the company due to the employment policy at that time. The CNPC's market competitiveness has been weakened, and the long-term development has been affected as well (CNPC, 1999).

The manner of HRM is still administrative, mandatory, static management styles that are powerless to the increasingly fierce competition of human resource and fast-changing environment. Many HRM practices in China's SOEs do not have the business insights (Wang, 2011). It is a state of passive management of employees, cannot adjust their policies and systems in a timely manner according to the company's actual situation. This kind of management is difficult to play a function of employee utilization and retention. For example, the research student used to work for a Chinese state-owned oil company for 11 years, two of the research student's colleagues won the postgraduate study admission in 2003 but they had to quit their job because this company did not allow employees to simultaneously study and work even though they can make a greater contribution to the company after they finish the study. On the other hand, the same company had to recruit dozens of university graduates without any work experience every year. The company lost the employees with sufficient professional experience.

Another disadvantage is the inefficient allocation of human resource and the waste of professional personnel. Many SOEs have the problems that the allocation of human resource is illogical, the positions exist by the employees, superfluous employees and many employees don't have the opportunity to display their talent and ability (Hassard et al., 2010; Sheehan et al., 2000). In a contemporary economic development phase of China, the state-owned oil companies as the large SOEs normally can afford higher competitive treatment for employees with strong competitiveness. The 1980s was the rapid growth period of state-owned oil enterprises. Many companies recruited a large number of highly educated employees in order to fulfill the recruitment task that allocated by the government (Sheehan et al., 2003). Also in order to meet the needs of organizational overall development, and resulted in the excess of professional personnel. The improper use of human resource by SOEs would result in a large number of highly educated human resources useless and wasted. For example, at the company that the research student used to work, there was an employee who had a bachelor degree majoring in law. This young graduate was placed in the refining production line as an

operator for many years without any work related to the law, and then he resigned from the job.

China's SOEs still lack effective career planning and development means. The employee career planning and development processes involve the contents of occupational life, professional development pathway, and the alignment of employees' interests and skills, and the organizational requirements (Coetzee, 2006). Career planning and development involves the employee's work experience that enriched by a range of activities and behaviors (Stone, 2008). The healthy organizational development is resulted in the combination of employee career planning and organizational career management. This means that the employees' careers must be developed strategically so that the organizational development goals can be understood by the employees and the desired employee skills can be obtained by the organization, and then creates an efficient working environment. According to a survey, more than 90 percent of HR managers believe that the comprehensive career planning and development program has the positive influence for retaining employees (Directioneering Survey, 2006). If the SOEs lack the effective strategic business management and employee career planning, the employee can never understand the career opportunities, the employees' career aspirations will never be stimulated and their career goals are unclear. Facing the temptation of other better development opportunities, the employee turnover will be inevitable.

Within a market-based economy condition, the market competition will result in the flow of personnel because human resources are an important resource (Lee & Warner, 2006). The advantage factors of state-owned petroleum companies to attract employees join are disappearing, such as free housing, health care, employee pension and other welfare benefits. Compared with foreign and private enterprises, the remuneration strategy of SOEs is not flexible; the incentive function is not obvious. The SOEs lack the effective incentive mechanism is another factor of employee turnover that can be obtained from the literature review. The remuneration egalitarian distribution is still a relatively common phenomenon in China's SOEs. It will produce two kinds of demand

if employees feel unfair and unbalanced: either to request for additional compensation, or to reduce the work input. As the remuneration management in China's SOEs is still ineffective, and lack of objective and reasonable means of performance evaluation, so if employees believe that they are being treated unfairly, they will choose to leave.

State-owned petroleum companies have not abandoned the traditional employment system (Warner, 2008). For example, the HRM lacks reliability; the fair competition employment mechanism that meet the requirements of modern enterprise system has not been established; to assign a job in accordance with seniority; do not have the effective employee recruitment, selection, training and development system; employee appraising and performance management lack the necessary supervision; the internal human resource market has not yet formed; the allocation of professional employees is not reasonable, high-level personnel shortages and wastage co-exist; the employees' structural contradictions are prominent. Meanwhile many employees in SOEs engaged in the same kind of work for quite a long time, like my relatives worked for the same company as same position for more than 40 years, there were no challenge and vitality for their career. As the companies did not pay attention to the intended employees' internal flow to fulfill workers' potential and enrich work meaning, the employees therefore cannot carry out a high performance standard with the positive, creative and enterprising spirit.

5.2 The challenge of employee retention in SOEs linked to multinational corporations and private enterprises.

Within the context of the knowledge economy era, human resource as the carrier of knowledge and technology has a significant influence to the business operation and management (Cooke, 2005). Many enterprises regard employee development and management as the core task of business sustainable development in order to strengthen its leading position in the industry. For example, Hewlett-Packard Company (China) is one of the well-known multinational companies in China. In its practice of HRM, the company paid more attention to employee career planning, established different career

development direction for employees according to their different qualities, needs and personality characteristics, and provided related positions and training programs to promote employee development (Hewlett-Packard Development Company, 2011). The private enterprises also have a strong attraction for talent. The Haier Group is one of China's leading private enterprises. Its incentive mechanisms have accumulated a wealth of human resources for the company's rapid development, and the distinct employee development culture promotes strong creative energy for the business sustainable development (Haier Group, 2011). Compared to Hewlett-Packard and Haier, the state-owned petroleum companies have a weak practice in the employee career planning and development, therefore, employee turnover is not a surprising issue.

In China, the implementation of market-based economic reform and opening up policy, and the formation of the socialism market structure provide a relaxed and advantaged social environment for the flow of employees. Along with the economic globalization and the acceleration of China's market economy, the Chinese central government and local governments have issued a series of policies to promote the formation of talent market-oriented pattern. It is possible for the people to choose their satisfying job and company (Tsui & Lau, 2002). With the establishment of a variety of ownership and economic organization, and the deepening of opening up process, the market competition in China increasingly fierce, many multinational oil companies and private enterprises have introduced preferential policies to attract talent. Its tempting remuneration and flexible employment mechanism provided more choice for the employees in state-owned petroleum companies, especially for the professional staff. It is undeniable that the enterprises operating in China have been engaged in the 'talent wars' (Sun & Wang, 2011). The multinational corporations and private enterprises demand for high-level personnel objectively caused the employee turnover in SOEs.

5.3 The geographical distribution of state-owned petroleum companies impacts on employee retention.

Petroleum companies have a complete industrial chain, from oil exploration, petroleum

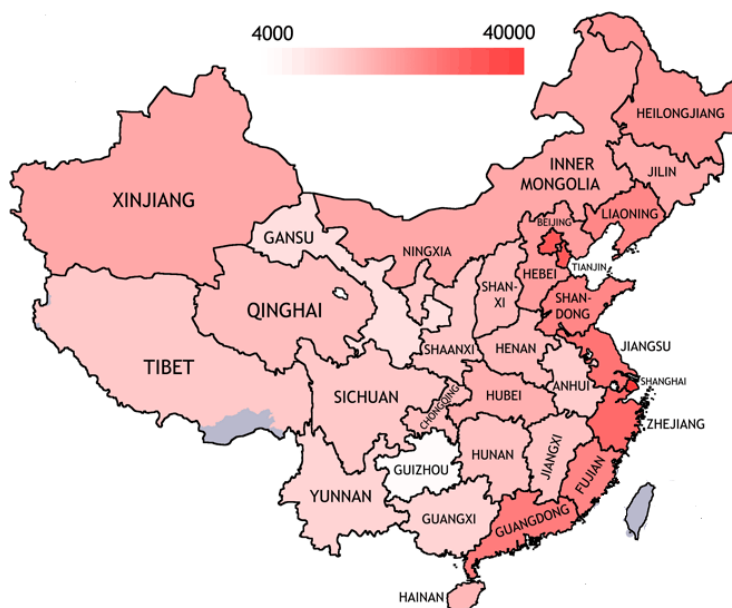
refining, fine chemicals, to product sales; the whole industry chain involves a large number of employees, technology complexity, and wide geographic distribution. China National Petroleum Corporation (CNPC) is China's largest state-owned oil company and playing a dominant role in the oil and gas industry in China (CNPC, 2011c). Figure 5.2 indicates the distribution of CNPC's refineries. The major refineries of CNPC are located in economic underdevelopment areas or inner cities, such as Daqing, Harbin, Jilin, Fushun, Lanzhou, Yinchuan, Urumchi, etc. The level of economic development in these areas is not high compared with the coastal areas according to the GDP Per Capita. Figure 5.3 shows the GDP Per Capita in Chinese coastal provinces were higher than inner provinces. China's SOEs have to take the task of maintaining social stability (Putterman & Dong, 2000), therefore, the state employees' income distribution has to align to the area per capita income levels in order to reduce the income gap in the same area, which determines the employees in the refineries of CNPC have the relative low-income compared with coastal areas.

Figure 5.2 The distribution of CNPC refineries in China



Source: CNPC company profile, core business, 2011.

Figure 5.3 GDP Per Capita in China 2004 (in USD)



Source: China Statistical Yearbook & CEIC database, 2005.

In addition, the oil companies characterized by relatively difficult work conditions, higher risk factors, and labor-intensive production. By the influence of government economic reform policies, the original advantages of employee benefits and interests have gradually lost. Obviously, the employee retention is affected by the poor working and living conditions, lack of development opportunities, and low income.

5.4 The relationship between state-owned oil companies' corporate culture, management philosophy and employee retention.

Corporate culture is the values and criterion to guide and regulate business behavior and employee performance (Singh, 2004). Oil companies should actively promote people-oriented work environment and pursue the harmony between employees and the enterprise. Companies rely on advanced corporate culture to keep employees only if the company establishes people-oriented corporate culture (Lund, 2003). Effective corporate culture can form a hard-working, enterprising, harmonious, and equality atmosphere in the organization, and create a strong community. Employees choose to work in a business because they believe that business management can help them achieve their career goals. If the business does not provide opportunities for employees

to display their abilities, the staff will not have satisfaction, and the employees' loyalty for the enterprise will be reduced. Ralston et al. (2006) claim that there is a social-cultural influence based organizational culture in China's SOEs that is consistent with the desires of Chinese government. The employee retention also affected by the complex personal relationship in SOEs. The decisions in SOEs are often made by personal interests according to Guanxi – the personal relationship (Li & Madsen, 2011). In addition, the SOEs in China still have to endure the political pressure that put on by the Chinese Communist Party. Such as the Party are partly responsible for managing SOEs; the employees have to be loyal to the party; the honors of 'model worker' and 'labour hero' with strong political overtones; the management members are required to be Party members; the job promotion depends on the corporate committee's decision (Au, 1992; Cooke, 2008). The political influence may affect employee retention as some employees prefer the organizations that without social and political tension.

5.5 Employee commitment and employee retention.

The generation that has grown up after China's reform and opening up impacted by the market economy environment. For the young generation, the ideology is increasingly opening up and the market awareness is obvious (Fladrich, 2006). Career and employment concepts have totally changed and resulted in the reduction of loyalty to the enterprise (Gu et al., 2010). The change of work and the job mobility have become an unsurprising issue and normal behavior choices. The average age of employees in CNPC was 38 years old in 2006 (PetroChina Company Limited, 2007), so most employees in CNPC are affected by the market-oriented economic and social environment. If these employees feel the existing benefits and incomes are too low and unfair, or the working conditions and the environment are difficult to play their abilities and strengths, cannot meet the needs of self-worth, they will choose to leave the enterprise. In addition, Yu and Egri (2005) found that the employee affective commitment is positively related to the organizational consistency and strategic alignment of HRM systems. They think that the hybrid SOE HRM system produced lower employee commitment compared to the high-performance based HRM system in

joint venture enterprises. Therefore, within the SOEs context, the enterprise benefits, employee income and interests, and the personal value fulfillment, have a great influence for employee commitment, and further more, employee retention.

5.6 Summary

This chapter analyzed the development of employee retention in China's SOEs and summarized the factors that influence effective employee retention. Through the overview of HRM strategy in China's SOEs, the employee retention in China's SOEs is affected by many internal factors such as employee motivation, corporate culture, management philosophy, employee commitment. Also it's affected by external factor such as business geographical distribution. There are undoubted similarities between the literature review and the findings in case studies. So there is evidence of these factors which should be linked to the improvement of employee retention.

Chapter 6 Conclusion

This dissertation evaluates and identifies the employee retention practices in China's SOEs. In this dissertation, the literatures of China's economic development phrases and the SOEs management features are reviewed; it also analyzes the literature on employee retention in Chinese organizations in general. The employee retention practices of state-owned petroleum companies have been used as a case study to analyze the chief factors of employee retention in Chinese SOEs, especially in the petroleum company. In doing so it has touched on various HRM practices such as motivation, organizational hierarchy and restructuring in Chinese SOEs.

This dissertation has illustrated that the dramatic development of China's economy since the market economic reform and opening up policy introduced in 1978. China's social development has facilitated the appearance of the knowledge economy since China's open door policy in the 1970s. In China, the SOE is a legal entity created and funded by the government to undertake commercial activities on behalf of its owner. The SOEs are important driving forces for China's economic development, but they are not operated efficiently. Even though China's SOEs possess 3.7 trillion US dollars in assets, the profits gained by SOEs in 2010 only 129 billion US dollars (The Economist, 2011). The employees in SOEs are not labour, but capital, and can be regarded as creators and contributors of national wealth. The employees, especially in the SOEs, are found to be affected by their organization's strategic practices such as SHRM, employee-involved activities and decision making. But SOEs are still facing the challenge of management efficiency and employee retention, especially to keep the professional and talented staff.

The research of employee retention in China's SOEs has great significance. After the successful listing in the domestic and foreign stock market, China's state-owned petroleum companies as the representative of Chinese large SOEs have moved towards

the international market. Facing fierce competition in the market situation, human resources are an important factor in the organizational development, survival and competitive power improvement. The sustainable development of China's state-owned petroleum companies is restricted by the issue of employee retention.

The literature reviewed in this dissertation illustrates that the problem of employee retention has been recognized by SOEs. But how to solve this problem effectively, when China's SOEs can solve this problem, are the issues that are worthy of research. The problems that faced by Chinese state-owned petroleum companies can be used by other state-owned enterprises as an inspiration. I hope that this real situation has stimulated interest in other SOEs in China by researching HRM practice especially the employee retention in state-owned petroleum companies. In order to retain employees, the SOEs could establish the modern enterprise management system; build strategic HRM that is in harmony with the business strategic objectives. Also the HRM system should focus on these factors such as the fair and impartial employee promotion pathway, effective career planning and development, employee motivation, people-oriented organizational culture. Continuously searching talent, attracting talent, and then implement the strategic HRM activities to retain qualified personnel, and boost the organizational competitive advantage, finally promote the business sustainable development.

Employee flow as a phenomenon is closely linked to employee retention. Sometimes, employee turnover is not a bad thing. SOEs must have the applicable HRM strategy to attract, retain the right people, especially experts and professionals, but also should have a perfect management means for dealing with the issue of employee turnover, that is, those who are not conducive to business development, don't demand by organizations, and should leave the enterprise smoothly and without impediment. Currently enterprises are more concerned about how to enhance the attractiveness such as business scale and reputation to attract talent, relying on enterprise management, development potential, remuneration and other factors to retain talent (Melvin, 2001; Deery, 2008). But there is one factor often ignored, namely, how to deal with those employees who have decided to resign. In fact, in a market economy, to try to control employee's resignation is often

impossible. An effective HRM strategy should be in harmony with the business strategic goals and further improve the employees' quality (Zheng et al., 2006). Dealing with employee resignation, if the employees desired by the organization, the companies should strive to retain them and analyze the reasons of employee resignation, to provide a scientific basis for improving HRM strategy, especially employee retention; if the employees are not needed by the organization, the employee flow can be used reasonably for optimizing organizational structure and improve the employee quality.

There are some limitations in this dissertation inevitably. In China's SOEs, the research in HRM field, especially in the area of employee retention is relatively weak. During the process of literature review collection and, the research student found that only a few documents and literature related to the employee retention topic in Chinese state-owned petroleum companies - an important part of China's SOEs. Thus, these companies maintained an uncertain and cautious attitude towards the sensitive topics such as employee turnover and data disclosure. The research student can only get the information sources from a small number of journal articles, enterprises annual reports, and news reports. But this affects the accuracy and reliability of the study.

Although there are some limitations in this research, this dissertation outlines some of the key issues of employee retention faced by the state-owned petroleum companies in China. With the changes in times and social economic development, the relationship between employees and enterprises becomes looser. From several decades ago employees usually work for a company until retirement, to now the employees are free to replace the occupation as a pursuit of job satisfaction, from the 'life long system' to 'contracting system', the employees and enterprises have been transformed into a contractual relationship. The employees flow and mobility will worsen the enterprise's operating costs and increase the difficulty of management. How to analyze the change of relationship between employees and enterprises, and how to cultivate a culture of employee loyalty is the important issue China' SOEs have to face. This definitely will be put as the point and direction of further research.

This dissertation started with the description of China's economic growth. It's undeniable that China has been the fastest growing economy for many years since the economic reform in 1978 and has become one of the economic superpowers in the world. Correspondingly, many literatures told us that China's SOEs have distinct weaknesses in the HRM field currently. China's social reality and SOEs' development have led to a need to adopt the strategic thinking of HRM. How to link SOEs' HRM behavior to the organization's strategic business objectives and fit the needs of employee retention are the strategic issues China's SOEs have to face. The continued economic growth of China will benefit from the adoption of more effective employee retention practices by SOEs.

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