

4 HUMAN RESOURCE MANAGEMENT IN CHINA

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INTRODUCTION

Japanese direct investment in China increased rapidly in the 1990s, although the value of Japanese direct investment actually used started to decline in the second half of the decade. Especially investments of manufacturing industries expanded in the 1990s. As Japanese firms established their subsidiaries in China, they employed various management forms, including human resource management. This chapter examines human resource management of Japanese subsidiaries in China, including recruitment methods and human resource development based on the interview survey conducted by the author in Beijing and Shanghai in November 1997.¹ Various aspects of Japanese direct investment in China are also examined along with brief profiles of nine Japanese subsidiaries. This is followed by an investigation of recruitment methods and human resource development of different types of employees by nine Japanese subsidiaries.

DESCRIPTION OF JAPANESE DIRECT INVESTMENT IN CHINA AND PROFILES OF NINE JAPANESE SUBSIDIARIES

BRIEF DESCRIPTION OF JAPANESE DIRECT INVESTMENT IN CHINA

Japan's direct investment in North America and Europe declined in the 1990s, but in Asia it started to increase in 1991. One of the specific characteristics of Japan's direct investment in Asia is that the share of the manufacturing industry in Japan's direct investment in Asia is larger than that in other areas. After the strengthening of the Japanese yen starting in Autumn 1985, Japan's direct investment in Asia of its manufacturing industry increased first in the Asian NIEs, then in ASEAN 4 (Malaysia, Thailand, Indonesia and Philippines) and finally in China.

¹ In this paper, the author uses the case studies of nine Japanese subsidiaries discussed in Itō (1998b).

In 1990 and 1991, Japan's direct investment in China was the second largest FDI, after Hong Kong, in terms of the actually used value (see Table 4.1). In 1992 it was the third largest, after Hong Kong and Taiwan, and in 1993 the fourth largest, after Hong Kong, Taiwan, and the US. Since 1994 Japan's direct investment has been between the second and the fourth largest FDI in China. In terms of both value and number, however,

Table 4.1: Actually used foreign direct and other investment by country or territory (unit: million US\$)

	1990	1991	1992	1993	1994
Hong Kong	1.881,00	2.405,25	7.507,07	17.274,75	19.665,44
United States	455,99	323,20	511,05	2.063,12	2.490,80
Japan	503,38	532,50	709,83	1.324,10	2.075,29
Singapore	50,43	58,21	122,31	490,04	1.179,61
Taiwan			1.050,50	3.138,59	3.391,04
Germany	64,25	161,12	88,57	56,25	258,99
Korea			119,48	373,81	722,83
United Kingdom	13,33	35,39	38,33	220,51	688,84
France	21,06	9,88	44,93	141,41	192,04
Thailand	6,72	19,62	83,03	233,18	234,87
Total	3.487,11	4.366,34	11.007,51	27.514,95	33.766,50
	1995	1996	1997	1998	1999
Hong Kong	20.030,37	20.677,32	20.632,00	18.508,36	16.363,05
United States	3.083,01	3.443,33	3.239,15	3.898,44	4.215,86
Japan	3.108,46	3.679,35	4.326,47	3.400,36	2.973,08
Singapore	1.851,22	2.243,56	2.606,41	3.403,97	2.642,49
Taiwan	3.161,55	3.474,84	3.289,39	2.915,21	2.598,70
Germany	386,35	518,31	992,63	736,73	1.373,26
Korea	1.042,89	1.357,52	2.142,38	1.803,20	1.274,73
United Kingdom	914,14	1.300,73	1.857,56	1.174,86	1.044,49
France	287,02	423,75	474,65	714,89	884,29
Thailand	288,24	323,31	194,00	205,38	148,32
Total	37.540,48	41.745,48	45.277,01	45.462,75	40.318,71

Sources: *China's Almanac of Foreign Economic Relations and Trade* (various issues, in Chinese).

China's Almanac of Foreign Economic Relations and Trade, 1999 (in Chinese), pp. 288–292.

China Statistical Yearbook, 2000 (in Chinese), pp. 606–608.

the direct investment of Japanese firms in China was the second largest in 1992. It was the highest in term of value among Asian countries in 1996 and the second highest in 1997. This underscores the importance of the direct investment of Japanese firms in China, for both Japan and China.

An examination of the direct investment of Japanese firms in China by industry illustrates the specific characteristics of Japanese FDI in China. The manufacturing industry dominates Japanese investment in China; its share in total direct investment of Japanese firms in China was 59 per cent before 1989 and about 70 per cent in term of accumulated value in 1993. The number of local establishments of Japanese manufacturing firms in China increased rapidly in the 1990s, and their share of the total number of local establishments of Japanese manufacturing firms in China has exceeded 80 per cent since 1993. Textile and electrical and electronics industries are the most important among the various manufacturing industries, and both increased rapidly in the 1990s. Table 4.2 shows that industries such as machinery, electrical and electronics, and transport equipment were important in terms of value in 1996, with the electrical and electronics industries becoming most important in 1997. The major reasons why Japanese firms made direct investment in China may be the relatively low labour cost in China, the changes in the international strategies of Japanese firms in terms of international division of labour and the future prospects of China's market.

It is also worth examining commerce. Although the number of local subsidiaries of Japanese commerce firms is not large, their increase continued until some time in the second half of 1990s. This may have been caused by the introduction of foreign firms in the commerce sector as part of an effort to reform the Chinese marketing sector. On the other hand, the direct investment of Japanese service firms, including the hotel industry, which was important in 1980s, declined in the 1990s. In the case of the hotel industry, since the hotels served mainly foreigners and did not have much difficulty with foreign currency, they made a large amount of direct investment in China in the 1980s.

An examination by provinces shows that the most important destination of Japan's direct investment in China was Liaoning in the second half of 1980s, and the top five provinces and municipalities were Liaoning, Shanghai, Guangdong, Jiangsu and Shandong in 1991. The top seven shares of Japan's direct investment in China by province were Liaoning, Guangdong, Shanghai, Beijing, Jiangsu, Hainan and Shandong in terms of total values during the period between 1987 and 1991, and these shares were 29.0 per cent, 14.4 per cent, 11.6 per cent, 9.8 per cent, 8.2 per cent, 5.9 per cent, and 5.8 per cent, respectively. In contrast, the top seven shares of all foreign direct investment in China by province were Guan-

Table 4.2: Japan's direct investment in China by industry (units: million US\$, %)

	1996			1997		
	Value	Share	Growth Rate	Value	Share	Growth Rate
Food	184	7,3	27,8	96	4,8	-47,8
Textile	188	7,5	-60,1	223	11,2	18,6
Timber Processing, Pulp	39	1,6	-45,1	29	1,5	-25,6
Chemical	87	3,5	-38,3	131	6,6	50,6
Steel and Non-Steel	180	7,2	-50,0	147	7,4	-18,3
Machinery	283	11,3	-40,9	189	9,5	-33,2
Electric and Electronics	395	15,7	-57,3	422	21,2	6,8
Transport Equipment	249	9,9	-35,5	100	5,0	-59,8
Other manufacturing	199	7,9	-60,4	176	8,9	-11,6
Manufacturing Total	1,804	71,9	-48,2	1,513	76,1	-16,1
Agriculture, Forestry, and Fishery	4	0,2	-63,6			
Mining and Quarrying	5	0,2	-37,55	1	0,1	-80,0
Construction	59	2,4	-33,7	65	3,3	10,2
Commerce	129	5,1	-50,6	101	5,1	-21,7
Banking and Insurance	20	0,8				
Searvices	254	10,1	41,1	146	7,3	-42,5
Transportation	-	0,8	-59,2	26	1,3	30,0
Real Estae and Others	173	6,9	-37,1	107	5,4	-38,2
Non-manufacturing Total	665	26,5	-25,3	447	22,5	-32,8
Branches	41	1,6	-60,2	26	1,3	-36,6
Total	2,510	100,0	-43,9	1,987	100,0	-20,8

Source: JETRO Investment White Paper, 1999, p. 163.

dong, Fujian, Jiangsu, Shanghai, Shandong and Liaoning in terms of total values during the period between 1987 and 1991, and these shares were 35.4 per cent, 10.9 per cent, 8.9 per cent, 5.8 per cent, 5.4 per cent and 3.9 per cent, respectively. The main characteristic of Japan's direct investment in China by province was that it was concentrated in the Liaoning province in the second half of 1980s and that its shares in Guangdong and Fujian were not large. Japan's direct investment in China shifted to East China, including Shanghai and Jiangsu, in the 1990s and Guangdong in the second half of the 1990s. The percentage of Japan's direct investment in China by province thus changed in the 1980s and 1990s.

PROFILES OF NINE JAPANESE SUBSIDIARIES IN BEIJING AND SHANGHAI

The enterprise survey conducted by the author in Beijing and Shanghai in November 1997 was a part of a JITCO project concerning the training of overseas Japanese subsidiaries.² Nine Japanese subsidiaries are described in detail: three Japanese subsidiaries (A, B, and C) in Beijing and six Japanese subsidiaries (D, E, F, G, H, and I) in Shanghai, among the various Japanese subsidiaries surveyed by the author. Japanese subsidiaries A, B, D, H, and I belong to the electrical and electronics industries. Japanese subsidiaries C and G are part of the textile and apparel industry. Japanese subsidiaries E and F are in the transport equipment industries and produce parts for automobiles and motorcycles. As Table 4.3 shows, all nine Japanese subsidiaries were established in 1991 or later, and five of them were established in 1993 or later. Two of the nine Japanese subsidiaries have more than 1000 employees, four of them have between 600 and 900 employees, and the remaining less than 200 employees. Four of nine Japanese subsidiaries are wholly owned, and the remaining five have capital shares of between 40 per cent and 55 per cent.

The number of company A employees is about 890 (November 1997), including 18 Japanese staff in administration and technical divisions, and no Japanese staff in personnel management and marketing divisions. The number of company B employees was a little over 1400 in November 1997 and 929 in January 1996. Company B employees in 1997 amounted to 393 males and 1035 females, and their average age was 24 years old. Of these employees, 57 were university graduates and 76 junior college graduates.

Table 4.3: Profiles of nine Japanese subsidiaries

	Year of Establishment	Number of Employees	Japan's Share of Investment
A	1991	890	51,00%
B	1993	1,367	50,00%
C	1992	675	43,70%
D	1993	624	100,00%
E	1992	1,250	100,00%
F	1992	170	40,00%
G	1995	131	100,00%
H	1993	660	55,00%
I	1996	69	100,00%

² See Itō (1998b), pp. 82–122.

The number of company C employees was 675 in November 1997, with 120 employees in the head office and store and 555 employees in its own factory.

The number of company D employees was 624 in November 1997, of which 20 were males and 604 females. The average age of employees was 24.3 years old. The number of non-production staff was 35, including nine male employees, and 13 administration staff, of whom 3 are male employees. The number of company E employees was 1250, of which 870 are female workers, 1100 employees in the first factory and 150 employees in the second, located a 15 minutes' walk from the first factory. Company F employs 170, including 35 university graduates. The average age of the employees is 29 years old. Its workers are either junior high school or senior high school graduates.

The number of company G employees is 131, including 27 male workers and 104 female workers. There are 4 managers and 8 supervisors. The only Japanese member of the staff is the president of the company. The five engineers are either university or junior college level graduates, while the general workers are mainly junior high school graduates, whose ages are 18 and above. Some of the workers are senior high school graduates. Company H has a staff of 660, the average age being 22 years: for female workers 20 and male workers 32. A lot of workers are transferred from the state-owned enterprise, their local partner. The staff is made up of regular employees and dispatched workers, and the salary of the regular employees is much higher than that of the latter. Company H has to pay the welfare expenses for the regular employees but not for the dispatched workers. There are 150 regular employees who work in production as engineers and managers, and the contract period is between one and three years. In September 1997, company I had 69 employees, of which 41 were male and 28 female. The average age of the employees is 23 or 24 years old, and the average age of the general workers is about 21. There are two regular Japanese employees, and, because of the time needed to establish the company, seven to eight Japanese engineers (pressing, production technique for cutting, moulding, maintenance, production and guidance) are working in Shanghai temporarily. The staff of company I are local and mainly university graduates.

RECRUITMENT OF STAFF AND WORKERS AT NINE JAPANESE SUBSIDIARIES

This section examines the recruitment methods by ownership structure and according to general workers and staff, engineers, and managers.

RECRUITMENT METHODS BY OWNERSHIP STRUCTURE

In the case of joint ventures, employees were recruited with the help of their local partners when their companies were set up. In the case of wholly-owned subsidiaries, employees were recruited either with the help of local government or a state-owned dispatching company. Many Japanese subsidiaries rank experience as the most important criteria for recruitment. After the establishment of the Japanese subsidiary, hiring is done whenever necessary.

Company A is involved in a joint venture business, the local partner of which is in charge of recruitment of employees, including university graduates and students with graduate school degrees, who can change their family registration. En (2001) states that this role is one of three major advantages guaranteed by the local partner to company A.³ The general workers are contracted workers from outside Beijing and are supposed to go home after five years. In the case of company A, the educational levels of more than 500 workers are above that of senior high school graduates, and group leaders and technicians are junior college graduates. 170 engineers are highly qualified, having graduated from institutions such as Qinghua University and Beijing University. Although these engineers are excellent in terms of educational level, Japanese engineers still have the edge in terms of experience.

Company C is also part of a joint venture business. When it was set up, they recruited 555 employees recommended by their partner. Of its 555 employees, 300 have already been replaced. The local partner is a state-owned enterprise with twelve factories and 13,000 employees. They transferred a part of their employees to company C in order to reduce redundancy. Later, the trade union and employees of company C began to question this practice.

Company F is also a joint venture business. When it was established, they hired 40 experienced workers who came from state-owned enterprises or were unemployed. When they decided to hire, they recruited staff with two to three years' experience. Now they recruit new workers when necessary. They do not hire temporary workers, but use over-time if production is temporarily increased.

Company H is a joint venture and is located in the Budong district of Shanghai. It employs some 500 dispatched workers from a state-owned employment agency. The contract period for the dispatched workers is one year, and they are paid a monthly salary. The dispatched workers are from the rural areas of Shanghai.

³ See En (2001), pp. 156–7.

Company D is a wholly-owned Japanese subsidiary. For the recruitment of general workers, they have no difficulties since they have files of about 200 applicants recommended by their own employees. Annually, they hire a couple of university graduates. The local government supports their recruitment. At the beginning, with the permission of the local government, they tried to recruit 20 workers by advertising in wall newspapers and local Television (TV). Over 100 workers applied. They decided to employ 23 female workers, most of whom were high school graduates. Engineers, however, are scarce in the area.

Company E is also wholly-owned by its Japanese parent company. Their recruitment method is to hire recent graduates. With students from technical schools, it is possible to hire them as trainees for about half a year before graduation. In the case of general production workers, company E may recruit them by asking the labour department of the local government to advertise for them in wall newspapers, TV, and so on. They may participate in the local human resource market held by the personnel department of the local government for direct recruitment twice a year.

Company G is also a wholly-owned Japanese subsidiary. Two Chinese managers were hired in Japan as foreign students and were transferred to Shanghai. Initially they hired 80 employees. They recruited their employees and managers from Shanghai. The general local workers were recruited by putting notices in front of the main gate of their company. After interviewing the candidates, they made final decisions about hiring. To find the remaining staff and engineers, they advertised in Shanghai. Since then, they have recruited workers only as they were needed. General workers (apparel) are seldom recruited from the local area. They cooperate with the local township government and hire graduates from a textile school. The workers live in local farmers' houses.

The capital of company I is also wholly-owned by the Japanese company. Company I hired 11 employees: seven to eight engineers between the ages of 25 and 40 years with some experience, as well as interpreters, drivers, and workers in charge of customs. They do not have annual recruitment campaigns. Recent university graduates have had difficulties in finding a new job, because of a large number of redundant workers in the state-owned enterprises. The above-mentioned seven to eight engineers came from state-owned enterprises. They decided to work for company I because they felt that they could not use their ability fully in their previous work and were not satisfied with their salaries.

RECRUITMENT METHODS FOR GENERAL WORKERS

It is easy for Japanese subsidiaries to recruit general workers. When periodically recruiting recent junior or senior high school graduates, the high schools usually provide support. If the Japanese subsidiaries ask schools for trainee students before graduation, they may pay schools some of money for their students. They may also recruit contract workers through a state-owned employment agency.

An examination of the recruitment methods for recent junior high school graduates revealed that company B recruits junior high school graduates in cooperation with four junior high schools, and pays 100 yuans per graduate to each school. A junior high school educates a student for three years and selects a specific number of students to send to the company. The company pays 600 yuans to students during the trial period, of which 200 yuans are paid to the junior high schools. They do not recruit otherwise because of the high costs of advertising. An explanatory meeting for job applications is held every month. In addition, there is a human resource village, where companies can choose from about 40 to 50 applicants, paying 400 yuans for a stand where working conditions are explained and interviews made. After the final managerial level interview, they make a hiring decision. In company B, the probation period for new employees is three months maximum, and they hire about ten employees (about one per cent of their total employees) monthly. The contract period for each worker is one year.

In 1998, company C recruited about 20 recent graduates recommended by four textile and apparel schools in Beijing. Japanese managers of company C consider five per cent of their employees to be redundant. Almost no employee has quit, because once a general worker quits a company, he or she does not have many reemployment opportunities. In Beijing, young people are not eager to work in the apparel industry, and as a result the average age of their employees in 1997 was 34 years old. There were so many unemployed workers in Beijing in 1997 that companies were not allowed to recruit new workers from outside the city. In men's apparel, acquired skills are important, and a minimum of one year's experience is indispensable. Thus, it is easy for the industry to keep the high quality of their products if employee turnover is low. On the other hand, this practice raises production costs.

Company I hired ten general workers using labour contracts (dispatched workers and human resource dispatching contracts) through a developer company. They hired 50 workers by labour contract. The contract period for a general worker is usually two years, although some

prefer one-year contracts. The contract period for staff is three years. In the case of company H, the contract period is one year, and the salary is paid to the dispatched workers monthly.

RECRUITMENT METHODS FOR STAFF, ENGINEERS AND MANAGERS

In general, it is often said that foreign subsidiaries, including Japanese subsidiaries, have difficulty in recruiting personnel in China.⁴ They may recruit the necessary office staff and engineers in various ways, such as distributing pamphlets to universities, providing scholarships to universities, using a human resource exchange centre, and so on. If a company is located in the suburbs of a major city, it may be difficult to recruit because qualified people may prefer to work in the urban areas instead of suburban areas.

To recruit students from outside Beijing, company B had to change the students' family register so they could stay in Beijing. This was only possible if the students had achieved an excellent grade at graduation. If the recruitee quits a state-owned enterprise, company B is willing to pay a fee (for example, 10,000–20,000 yuans) to a particular state-owned enterprise, and after that the recruitee is able to leave the state-owned enterprise. If company B recruited a student from school in 1992, they paid 5000 yuans to the school.

Company C hired about ten university graduates for management and accounting who did not help Japanese managers and other staff and workers when they were busy with their work and asked those university graduates to help their work. Those university graduates were hired through the contract with universities and had to work for company C for a minimum of one year. If they quit within a year, they had to pay a penalty to company C. Chinese employees see themselves as being recruited for a particular job not for a specific company and not for a different job.

Company E gave a scholarship to Shanghai University and had an opportunity to recruit students there on a priority basis. Company F recruited by advertising in newspapers and by using information provided by a human resource exchange centre, which provides this information at a low price. When a company decides to hire a worker through a human resource exchange centre, it pays a particular fee for each worker hired. They renew their contract every two years. In the case of company G, local managers and engineers command very high salaries. The com-

⁴ See Ma (2000), pp. 100–2.

pany has difficulties in hiring managers from the local area, because of the scarcity of this type of human resource.

Company H recruits fresh university graduates as engineers by providing public relation pamphlets to universities. The response is usually over one hundred applicants. Students start looking for opportunities in November, and company H examines the students on 1 December. Five students were then selected, and two or three of them started to work for the company. They also hire recent junior college or university graduates as engineers and other engineers when the need arises.

Company I participated in a human resource market in a park on Saturdays and Sundays, where companies rent booths. The fees vary depending on the location (600 or 700 yuans per booth). A job seeker pays one or two yuans to enter the park. More than half of visitors looking for jobs are already job holders. Companies may recruit workers, putting their recruitment advertisements in newspapers (a general newspaper and a human resource newspaper). They usually make a final decision about hiring after two interviews.

PROFILES OF EMPLOYEES OF JAPANESE SUBSIDIARIES

Ten percent of contracted workers leave company A annually because their contracts have expired. On principle, after a period of five years, they must return home as they are not allowed to continue to stay in Beijing. The employees seldom quit company A because of contract obligations.

Company C has only one local division director. In order to localise management, the company needs to let local employees influence their ways of thinking. Chinese employees tend to place a higher priority on individualism than on the company. When this company was established, they tried to change their employees' ways of thinking and get them to stop using the penalty and incentive pay system. They re-introduced the penalty system two years later and changed their system from an absolute equity system to a rational equity system. Six years have passed since company C built its factory. The equipment is the same as in Japan but labour productivity is only 80 per cent of that in the Japan factory. When this factory started, 12 Japanese instructors were sent from Japan, and only three Japanese instructors are working there now. The paper patterns of this factory are made by computer in Japan. At the moment, they are not using computers for making paper patterns in China, and for the future they are thinking of introducing computers for this purpose. In company C, they can achieve the same quality of products as that of Japan in terms of technique, but they cannot do planning and research. In the

men's apparel industry, materials and design change every season, but they have difficulty adjusting production to these changes. They plan to prepare manuals as working guides and to divide the work into more narrowly and clearly defined parts.

In company D, resignations are rare but employees have been dismissed for failing to comply with company rules. For example, one worker was fired immediately for eating while working on the production line.

In company E, managers are university graduates, and supervisors are graduates of senior high school at least. The average age of the employees is 19.5 years. The educational structure is 55 per cent junior high school graduates, 42 per cent senior high school graduates or its equivalent and above, 2 per cent junior college graduates or its equivalent and above, 1 per cent university graduates. 60 per cent of workers on the production line are junior high school graduates. Workers with junior high school graduation and below may have difficulty with calculations. The company feels that the workers have slightly better attitudes and abilities than comparable Japanese workers. The subsidiary uses its parent company's qualification system of nine levels, and about three hundred employees hold one of these nine levels. They use Japanese in the managing staff meetings in which local managers also participate. They have a wage system which encourages the workers to continue to work for their company. The traineeship period lasts half a year. They have a labour contract system under which after three years they renew the contract.

Workers at company G have to have a work permit if they are not from Shanghai. Each company has a limit of the workers allowed from outside Shanghai. When they hire a worker, the trial period for each worker lasts three months, and the contract period is for two years. In company G, since the workers above a certain age have the tendency to think like the typical workers of state-owned enterprises, they prefer to hire the younger workers. The state-owned enterprises also tend not to release young workers. Those who are not young have difficulty in going along with economic reform and the open policy in China.

Company H is interested in hiring young employees because the older workers have experienced the planned economy and have difficulty adjusting to the market economy, although workers below 40 are better than those over 40. The production workers at company H are mainly junior or senior high school graduates, with a small number of junior college graduates. The engineers are either junior college or university graduates.

SPECIFIC RECRUITMENT METHODS OF NINE JAPANESE SUBSIDIARIES

The Japanese subsidiaries can be divided into two groups: joint venture businesses and wholly owned. In the first group, employees were recruited with the help of their partners when they established their company in China. In the second group, they recruited their employees with the help of the local government or using a state-owned employment agency. Many Japanese subsidiaries place emphasis on experience as the main criterion for hiring.

The employees can also be divided into two categories: general workers and other staff, including engineers and managers. In general, Japanese subsidiaries have little difficulty recruiting general workers, probably because there is an abundant supply in China. When periodically recruiting recent junior or senior high school graduates, Japanese subsidiaries may work in cooperation with high schools. If they ask schools to send their students as trainees before graduation, they may pay schools part of the money for their students. They may also recruit contract workers through a state-owned employment agency. Other staff, engineers and managers are recruited in various ways such as distributing pamphlets to universities, providing scholarships to universities, using a human resource exchange centre, and so on. It should be noted that if a company locates in the suburbs of major cities, it might be difficult to recruit staff and engineers, because the highly trained often prefer to work in urban areas. Companies may also utilize human resource markets held in parks for recruiting skilled personnel.

HUMAN RESOURCE DEVELOPMENT OF NINE JAPANESE SUBSIDIARIES

According to Koike (1989), the efficiency of Japanese manufacturing firms is highly valued because the workers are trained to respond to changes and problems arising on the production lines. These skills are attained mainly through on-the-job training (OJT), with the workers participating in appropriate off-the-job training (OFF-JT).⁵ Itō (1998a) states that Japanese top managers place emphasis on training, especially, OJT and continuous in-house training.⁶ In this section, we describe the human resource development of nine Japanese subsidiaries, including training, technology transfer, wage determination and personnel evaluation.

⁵ See Koike (1989), pp. 152-9.

⁶ See Itō (1998a), pp. 147-50.

GIVING THE EMPLOYEES OPPORTUNITIES TO OBTAIN DEGREES

Companies A and B give their employees opportunities to obtain degrees. Company A asks faculty members of Tsinghua University to come to their company to give lectures at the graduate school level, thereby enabling a group of employees to obtain an MS.⁷ The lectures are held after regular working hours. The employees have three years to earn the degree. All the educational costs for obtaining the degree are borne by the company. If employees fail to obtain MS, they have to reimburse the company. The employees also learn Japanese in order to read Japanese documents, and the company provides Japanese training courses to recent school graduates twice a week.

An employee in company B without at least a junior college diploma will not be promoted to a managerial position. Thus, the Japanese managers are thinking of demanding that section leaders and above obtain at least a junior college diploma. If they fail to get that diploma, they have to pay half of the educational costs. If they stay at the company after studying for a junior college diploma, company B will provide the support to them. The total costs of one million yuans (fourteen million Japanese yen) for the employees to obtain a junior college diploma, a two-year study course, are borne by the company. Under this educational system, company B asked the correspondence university to educate just over one hundred and twenty employees on Mondays, and its employees were able to obtain a junior college diploma two years later if they passed the national examination.

TWO STAGES FOR TRAINING EMPLOYEES BY GROUP

Since their founding in Shanghai, companies D and I have two stages for training employees. When company D was established, they had only four Japanese on the staff (the president, one in quality control, one in manufacturing and one in technology). They had difficulty communicating with their first 23 employees because of language differences, and, as a result, instructed them using gestures. The second group of employees they hired were trained by the first group, who also helped the Japanese instructors as interpreters. Daily, for one and half years after 3 pm, the president taught finance to the administrative staff.

⁷ En (2001) provides detailed information of the education and training system of company A and shows that company A put its emphasis on the skill formation of production line workers. See En (2001), p. 159.

In company I, Japanese staff instructed and taught 11 local staff members and engineers from the initial hiring, who, in turn, instructed and taught general workers. As a result of the training, the local employees were in a position to prepare metal frames for production.

GROUP-BY-GROUP TRAINING PROGRAMMES

Companies B, E, and F have group-by-group training programmes. Company B spends the largest amount of money for education and training per employee in their group of companies in China. This company has basic management training, management philosophy education and financial knowledge training for management. For general workers it has safety and sanitation education, quality improvement training, ISO 9001 and ISO 14000 education and 5S education. Company B does its training planning at the beginning of the year.

In company E, the candidates for middle management are university graduates and above, and their training is in development, quality control, manufacturing control, production control, assets control and sales management. Professional engineers are junior college graduates and above, and the training includes designing model framing, programming, production analysis and inspection. The training for production engineers is in maintenance of model framing, CNC (Computer Numerically Controlled) operation and the operation of specific equipment. The training period for production line supervisors ranges from a half year to one year, and training includes coiling machine operation and plastics technology.

In company F, the education and training committee is in charge of matters related to education, and it revises the textbooks for training once a year, adjusts the various matters associated with training, and examines the actual situation of human resource development in the company once a month. The education and training committee makes the training plan for personnel in production, including theoretical training, production site on-the-job training, and office work training. The education and training committee also gives new employees an introduction to their company, and in the case of press workers, makes company F's original textbook including such safety matters as helmet.

TECHNOLOGY TRANSFER

We examined the technology transfer of companies A, B, C, and E. Company A carries out its training programme on the basis of necessity. The workers receive training at the Japanese headquarters, factories and subsidiaries in Japan. They send some workers to Japanese subsidiaries in

Singapore for training. In addition, they also send engineers from Japan to give training in technology and management.

Company B has its own independent training using instructors from Japan with training for employees after regular working hours, without overtime pay. The participants of this training can later be promoted to section chief or deputy section chief. The number of participants is 22. In addition, students are offered actual work experience in this company, with the student's school receiving half of the payment.

For the apparel factory workers of company C, seven workers were sent to Japan and received about two months of technological assistance in a partner Japanese company. Japanese top store managers of the company taught the system of their headquarters in Japan as a training for store workers for two weeks. After that, Japanese instructors were dispatched to Beijing to teach their store workers, but since there are differences between Japan and China in areas such as culture, customs and ways of thinking, Japanese managers still have many issues to resolve. They do personnel evaluations every half a year in Japan but every month in Beijing. Penalties and bonuses reflect this evaluation. The company does a working analysis and time analysis to assist the personnel evaluation and classifies the degree of difficulty and toughness of a job. At the beginning, their employees were against this evaluation system but by 1997 had accepted it.

In the factory work of company C, it is difficult to standardize sewing work because of the differences in materials and models, and it is difficult to differentiate workers' salaries. They currently use the value of production as the index for personnel salary evaluation. For store employees, they use the sales value as the index for salary evaluation. Absenteeism is also a factor.

In company E, training of local management personnel consists of sending just over two hundred employees to Japan for training and for learning, a practice they plan to continue. The training periods in Japan are one year for managerial candidates (university graduates and above), one year for the engineers in charge of technology development (junior college graduates and above), half a year for supervisors (senior high school graduates and above), and half a year for professionals (senior high school graduates and above).

OTHER ASPECTS OF HUMAN RESOURCE DEVELOPMENT

There are various aspects of human resource development of Japanese subsidiaries in China. For example, Japanese managers of Japanese subsidiaries in a particular industrial zone may have monthly workshop meetings for researching methods of human resource management.

Company C places more importance on labour management than on technology guidance. The employees' attitudes and motivation have a large impact on labour productivity. This company has job rotation, and does job promotion and demotion annually.

Company E had been in operation for three years. Job rotation was considered a future issue. The managers and manager candidates expected that professional engineers would be shifted every three to five years, on principle. The purpose of job rotation is to increase flexibility, to avoid wrong practice, to divide authority, and human resource development. Since company E started operations in 1993, the maximum number of years that employees worked for the company was four years. They experienced some job hopping, with fluctuation rates in 1996 and 1997 of ten per cent and a projected 14 per cent, respectively. They expect that future job separation rates will be somewhere between 20 per cent and 25 per cent. The contract period for a general worker is three years, but one to two per cent of the workers with a labour contract will quit before.

At the beginning of company F's operations, all the managers (section chief and above) were Taiwanese, but they have made efforts at human resource development of local employees. Thirty employees remain among the 40 employees hired originally. They seldom refuse to renew labour contracts, but occasionally some employees refuse to renew labour contracts.

The basic part of education and training of company G is on-the-job training (OJT). In addition to classroom training, they provide training on various types of sewing machines and various types of clothes, in order to enhance skills. They provide basic skills training, but the skill of using sewing machines is basically obtained through experience. Their target for quality inspection workers is to train them for all stages of quality inspection. Company G gives employees opportunities to learn jobs beforehand, and for the purpose of quality control, also after starting them. They have recruited a local on-the-job training specialist. The employees of company G quit only because of their family matters, homesickness and so on. In company B, no employee had left the company because of marriage or child birth but some had changed jobs, especially those in charge of trade.

Company H experienced some difficulties with the disappearance of paper, garbage disposal and other differences in living habits. Company I provides the employees basic training during their three-month trial period.

WAGE DETERMINATION AND PERSONNEL EVALUATION
IN JAPANESE SUBSIDIARIES IN CHINA

This section briefly examines the labour market situation in Shanghai in 1997. According to the Japanese top manager of company E, in the autumn of 1997, the state-owned enterprises did not have enough capacity to hire an additionally large number of workers because of the reform of state-owned enterprises. The demand for workers was not large enough to cover the supply on the labour market, and the hiring companies had the advantage in recruitment over the job seekers. As a result, wage increases slowed, the rate of increase expected to be below ten per cent in 1997.⁸ It is said, however, that the wage rate for fresh university graduates from excellent universities in Shanghai is more than 2300 yuans. Price increases are also stabilizing. There is an abundant supply of general workers but a lack of skilled human resources in Shanghai. Especially university graduates have a tendency to move toward urban areas, which implies a brain drain from local suburban areas. The declining size of the young population influences how parents educate their children; they now tend to spend more money on their children's education, which is improving the average educational level. This means that companies may have difficulties in recruiting general workers in future.

In company A's wage system, the monthly salary for university graduates is 3000 yuans (annual income divided by twelve). The salary payment system is a modified version of the Chinese payment system. The average ratio between the basic salary and the bonus (performance evaluation, determined by personnel evaluation) is one to one. The ratio between the basic salary and the bonus is somewhere between 0.5 and 1.5. The bonus is the equivalent of five months of basic salary and is paid every three months (January, before the Chinese New Year, May, and October). The basic salary depends on seniority, while the bonus is determined by a worker's performance evaluation by the company. The personnel evaluation is done by employers, including Japanese staff, every half year.

In company B, the average monthly salary of a general worker was 850 yuans in 1996 and was scheduled to increase to 906 yuans in 1998. The salary of a 23 year-old worker was 381 yuans as basic salary, 172 yuans as wages attached to a post, 150 yuans as wage based on job evaluation,

⁸ However, Ma (2000) states that employees with higher education are scarce in China and, as a result, the wage differential between staff and general workers is expanding, where office staff are more likely to have a higher education than general workers. See Ma (2000), pp. 163–4.

giving an overall total monthly salary of 906 yuans in 1998. The monthly salary for a worker on a three-month probation period is 80 per cent of the normal monthly salary. Quite a few quit during the probation period because of job hopping. Originally, the ratio between the basic salary and bonus was 1 to 0.5. Company B pays the bonus monthly because income tax is imposed monthly on individual income. The bonus differential determined by the personnel evaluation ranges between a maximum of plus 40 per cent and minus 40 per cent. The personnel evaluation of company B is not open, but they show the explanation in the salary specification. Since workers show their salary specifications to each other, the personnel evaluation is considered to be open. The personnel evaluation was done every three months in 1994 and has been done monthly since January 1995. The personnel evaluation is done on a relative basis consisting of ranks, A, B, C and D. Every January and July, personnel ranking is carried out.

In company C, the ratio between the fixed salary and bonus is 1 to 0.2 and above, and in 1998 this ratio was scheduled to be 1 to 2 and above. The purpose of this change is to keep only the employees who qualify for this change in the compensation system. In company D, the salary of workers who are senior high school graduates is 700 yuans per month and a bonus the equivalent of a two month salary per year. The bonus includes 15 per cent efficiency pay, and a productivity evaluation of each worker is done monthly.

Company E's wage consists of 50 per cent basic salary (service allowance, seniority wage, wage determined by age) and other allowances. The bonus is the equivalent of six months' salary and is paid to employees twice a year: in the month of the Chinese New Year and on the first day of August. Various types of allowances are determined differently. The personnel evaluation for a pay raise is done once a year in January. The average salary of a general employee is 785 yuans.

Company E takes the qualification system, education, seniority, Japanese language ability, experience, qualification of custom clearance, and various qualifications of a national level into consideration for personnel evaluation. They make every effort to collect objective data and make very careful personnel evaluations. The bonus is adjusted every three months. They adjust personnel evaluation for the non-production line employees once a year. The results of personnel evaluation are open to the employees. Company E strictly imposes penalties on employees who break the company's rules. The names of those who infringed the rules, the nature of the infringement and the penalty are open to the employees. According to company regulations, one investigation report (a written apology in Japan) means that only a 0.7 bonus ratio is paid to a particular

employee, two reports mean a bonus ratio of 0.49 and three reports lead to disciplinary dismissal. The other systems of personnel evaluation include the award system on the company's anniversary day, the Japanese qualification system, expert system, the training system in Japan, support system for housing (only for production line chiefs), official travel allowance (by position), the kaizen and proposal systems, least absence and non-absence allowances, and so on.

In company F, the average wage rate is higher than those of nearby companies in the same industry. They have distributed a certain percentage of the profit to the employees since the end of 1997 (7 per cent in 1997). This included the special bonus to two employees whose suggestions made a big contribution to production cost reduction and bonus distributions to the other employees. They make basic wage adjustments annually in May. The adjustment depends mainly on the levels of education and skill (experience) and not much on seniority factors.

Company F gives employees a paper examination (about one page) on knowledge of 5S and 6S, and evaluation leads to three levels of qualification. Current ability evaluation are made every half year and consist of aggregating daily operation results, examining rates of finished products and the inferior products ratio, and paper test results. This evaluation leads to different bonuses among various employees. The amount of bonus for production line employees is the equivalent with one month's basic salary, and that of a section chief is the equivalent of 2.5 month's basic salary. The evaluation affects the pay raise, but in general it is almost the same among various employees, with some adjustment following basic points given to three levels of qualification. Personnel evaluation in company F is done using a personnel evaluation table which evaluates each item with a maximum of one hundred points, classifying these scores into five levels. The personnel evaluation table consists of ten items including achievement, ability and attitude. The motto of the personnel evaluation is "Openness, Fairness and Justice".

In company G, the basic factors of wage determination for office workers and staff are qualification, position and allowances for factors such as inflation. The wage of a general worker consists of basic salary, non-absence allowance and piecework payment, and it also includes a skill allowance, which is a supplement to piecework payment for the purpose of developing multi-sided skilled workers. The bonus is paid twice a year, and the amount depends on the company's and the individual worker's achievements. Company G had not started a personnel evaluation in 1997 but planned to introduce one in future. This company utilizes a penalty system, but Japanese managers have some difficulty implementing a penalty system in China. Their employees know the

salary of their colleagues since they share this information with each other.

In company H, the regular production-line workers are graduates of junior high school, senior high school and even junior college. The company divides them into ten ranks, and many of them are placed between rank five and eight. Their average monthly wage is 900 yuans. The company determines the ranks on levels of education and experience. The total housing allowance, pension and medical funds is equivalent to 50 per cent of the monthly salary. Employees pay five per cent of their salary for housing, with the company paying 15 per cent of their salary as a housing allowance. The regular workers occasionally do the same work as the dispatched workers.

The engineers of company H were recruited as fresh graduates of junior college and university, but the company occasionally also recruits engineers with experience. The salary for recent graduates is somewhere between 2200 yuans and 2300 yuans, and 3000 yuans if they have experience. The main reasons why their employees quit are either the wage rate or the commuting distance. The monthly salary for dispatched workers is somewhere between 600 yuans and 700 yuans. Company H pays 50 yuans for each dispatched worker to a national labour service company.

The dispatched workers of company H come from the rural areas of Shanghai. The company pays them a bonus twice a year, which is the equivalent of two month's salary. As pay-in-kind, the company provides the equivalent of 150 yuans in meals to the dispatched workers. Pay raises and promotions are given once a year and five per cent of the dispatched workers are promoted to regular workers. The company rents apartments for dispatched workers from other rural areas.

In company I, one out of eleven first-term employees quit during the trial period. One employee quit over dissatisfaction with the wage level but did not really understand the local wage level at the time.

SPECIFIC CHARACTERS OF HUMAN RESOURCE DEVELOPMENT
OF NINE JAPANESE SUBSIDIARIES

Companies A and B spent a lot of money helping their employees obtain degrees, paying for the costs if the employees were successful. If not, the employee must pay the costs. In companies C and D, Japanese staff taught their first-term employees, and these employees taught the second-term employees along with Japanese staff. Company B paid Japanese instructors to teach their employees. In company E, training was provided to particular groups of employees such as candidates for managers, professional engineers, production engineers and so on. Company F set up a

committee for employee education and training which is in charge of making plans and providing training to various types of employees. In company G, the emphasis is placed on on-the-job training. Company I provides basic studies and training to new employees during their trial period. Thus, each Japanese subsidiary makes efforts to provide training to their employees.

With respect to wage determination and personnel evaluation, Japanese subsidiaries pay a wage that consists of basic salary and bonus. The basic salary is determined by seniority, position, education, skill and other allowances. The bonus is determined by personnel evaluation. The ratios between the basic salary and the bonus may differ among various Japanese subsidiaries. Following the income tax system in China, Japanese subsidiaries tend to pay the bonus monthly, but the ways of conducting personnel evaluation may differ among various Japanese subsidiaries in terms of period, and the effects of personnel evaluation on bonus may also differ among them. The ways of paying a bonus to employees may also differ among them. For example, the bonus is paid to an employee mainly monthly or every three months, and the personnel evaluation determining the bonus is done monthly, every three months, or once a half a year, depending on the company. At the end of 1997 in our interviews top Japanese managers of subsidiaries in Beijing and Shanghai reported that many Japanese subsidiaries were about to raise the share of bonus in total wage compensation, putting more emphasis on personnel evaluation for determining the bonus. In some companies, they use the penalty system. Japanese top managers should expect that their employees know the salary of their colleagues. One company gave dispatched workers opportunities to be promoted to regular workers (company H).

CONCLUDING REMARKS

In this chapter, we examined human resource management in nine Japanese subsidiaries, focusing on recruitment, training and wage compensation. We showed the difference in the recruitment methods for two groups: joint venture businesses and wholly-owned subsidiaries. We showed that the first group recruited employees with the help of their local partners when they established their companies. We also showed that the second group recruited their employees either with the help of local government or a state-owned dispatching company. Thus, when first establishing their company in China, they seem to need help from some local organisation or institution for recruiting workers. We learned that many Japanese subsidiaries put emphasis on experience as the criterion for hiring. The author visited Japanese subsidiaries in Shanghai at

the end of 2000 and learned through interviews with top Japanese managers that they put even more emphasis on experience in 2000 when hiring local employees than in 1997.

We also showed the difference in recruiting two groups of employees: general workers, on the one hand, and office staff, managers and engineers, on the other. We learned that, in general, Japanese subsidiaries do not have much difficulty recruiting general workers and that when periodically recruiting recent junior or senior high school graduates, Japanese subsidiaries are more likely to have cooperations with the schools. We also showed that Japanese subsidiaries use various means of recruiting office staff, managers and engineers. This evidence confirms that there is an abundant supply of general workers in China but that skilled workers may be in short supply.

With respect to training, we showed that each Japanese subsidiary is making major efforts to provide training to their employees in various ways. For example, some companies encourage their employees to obtain degrees, other companies organise in-house training for employees.

With respect to wage determination and evaluation, we showed that, in general, Japanese subsidiaries pay their employees a basic salary and a bonus. The basic salary is determined by seniority, position, education, skill and other factors, while the bonus is determined by personnel evaluation. We showed that such practices as the ratios between the basic salary and the bonus, ways of conducting personnel evaluation, effects of personnel evaluation on bonus, and ways of paying bonus to employees may differ among various Japanese subsidiaries.

This study showed the human resource management of nine Japanese subsidiaries in Beijing and Shanghai in November 1997. But human resource management of other Japanese subsidiaries may differ, depending on the areas, periods, types of industry and so on. Examining these differences in practice is a subject for a further study.

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