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**The Management of Employment Relations in Chinese Automotive  
Industry: A Perspective of Global Value Chain**

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## Section I Setting the Scene

The automotive industry was the key manufacturing industry in the twentieth century, which was once called by Peter Drucker(1946:149) as ‘the industry of industries’ (Dicken, 2007:278). Its significance was derived from its scale and its linkages to many other manufacturing industries and services (Dicken, 2007:278). The automotive industry has been leading the way in innovation in employment conditions for industrial relations and the economy as well in many countries (Kochan et al., 1997). The demise of Fordism and the success of lean production methods indicated that changing production technology calls for corresponding changes in Employment Relations and Human Resource practices (HRM thereafter).

Traditional Research Paradigm focused on the management of employment relations and HRM in the Assemblers (e.g. Marsden et al., 1985, Snell and Dean Jr., 1992, MacDuffie, 1995, Kochan and Lansbury, 1997, Kochan et al., 1997, Blanpain et al., 2008, Huang, 2009). Some analysed the diffusion and implementation of lean production and associated employment patterns in different national contexts, in order to identify the emerging new paradigms of employment relations (e.g. Kochan and Lansbury, 1997, Kochan et al., 1997). It surrounded one debate of whether the employment relations was in transformation in industrialised and industrializing economies and what factors explained these changes.

Nonetheless, **collective actions in the Honda suppliers in China direct our attention to the suppliers and global value chain.** Why collective actions occurred in the suppliers, rather than the assemblers? If we assume the collective action is the result of worse employment relations management, how the employment relations practices work in the suppliers, in comparison with the assemblers? What factors influences the variations in employment relations practices among suppliers and assemblers? The aim of this paper is to explore and compare the management of employment relations in China’s automotive assemblers and suppliers, with a particular focus on the new trends of HRM practices and development of ER since 2008.

The main research questions cover five broad themes, that is, staffing arrangements, skill formation, pay and fringe benefits, working time, as well as communication and participation. Specific questions are proposed as following:

(1) How is the job market for the Chinese automotive industry?

(2) How is the change of external labour market for the Chinese automotive industry since 2008, the crucial year when financial crisis broke out and China passed the Employment Contract Law? How did the case companies respond to such change of labour supply and the change of management-employee relations?

(3) How is the salary determined in the case companies? What are the rules or standards when setting different components of payment (e.g., basic pay, bonuses, benefits, payment adjustment) in the case companies? How is the application of performance related payment systems in the case companies?

(4) What impacts does the change of minimum wage bring to the case companies?

(5) How is the change of employment relations in Chinese automotive companies during the transition from the traditional “iron rice bowl” to the new contractualization of employment relation system?

(6) How does such change of employment relations influence the internal labour market within the company (e.g. employee recruitment, employee turnover rate, internal promotion opportunities, company-specific knowledge or skills formation etc.)?

(7) How does the change of labour legislations, especially the launch of the new Labour Contract Law, impact on the employee’s labour contracts and employment relations in the case company?

(8) What role does trade union play in the managerial decision-making on the employment relations issues in the case companies?

## **Section II The Development of China's Automotive Industry**

The automotive industry is essentially an assembly industry, which involves an enormous number of various component companies (Dicken, 2007:292). This section documents the development of automotive manufacturing sector and component sector in China. It shows that despite the rapid growth of China's automotive industry, the domestic component sector remains at the low end on the value chain and produces labour-intensive or low-value added parts.

### **China's Automotive Manufacturing Sector**

China has drawn world's attention as it grew to be the world's largest market for automotive. China surpassed the United States as the world's largest automotive market with sales of locally-produced vehicles rising 17.7 per cent to 6.1 million units in the first six months of 2009 (Business Week Online, 12 July 2009). The expanding Chinese automotive industry sets out the desire of Chinese leadership to develop large business groups (*jituan gongsi* or *jituan qiye*) which can represent the image of China as a rising economic power (Thun, 2006).

The automotive industry in China has become a flag-ship industry and key driver of economic growth in this country. In 2007, the automotive industry contributed 7.92 per cent of China's GDP, a growth of 0.8 per cent from the previous year. Complete vehicle manufacturing represented more than 50 per cent of the gross production value of the Chinese automotive industry.

The automotive industry was one of earliest industries open to global competition and foreign investment after China started economic reform in the late 1970s. Investment by companies from the US, Germany, France, and, to a lesser extent, Japan, has been pouring into the Chinese automotive industry since the initiation of 'open door' policy in the late 1970s. The first major manufacturing joint venture, the Beijing Jeep Joint Venture, was founded between the state-owned Beijing Automobile Industry Corporation (BAIC) and the American Motors Corporation (AMC) in January 1984 (Gallagher, undated, Harwit, 1995). Since the mid-1980s, automotive multinational corporations (MNCs), such as Daimler-Chrysler, Toyota, Ford, GM and Volkswagen, started to invest as joint ventures with local automotive enterprises in China. After 20 years of development, almost all local motor factories have developed some relationship with automotive MNCs (APFC, 2005). Up to 2007, there have been 15 top automotive MNCs, and 100 top automotive accessory MNCs had invested in China (AMRC, 2007).

## **China's Automotive Components Sector**

In comparison with the rapid growth of China's automotive assemblers, China's domestic automotive component sector was relatively small and segmented(KPMG, 2009:2). It was estimated by JD Power that China in 2008 had 5,000 officially registered components manufacturers and 15,000 unregistered ones(KPMG, 2009:5). Nevertheless, the output of China's component sector, according to the JD Power Report, reached merely one-fifth of the US's total, and one-twentieth of the world's total by value(KPMG, 2009:2). Furthermore, it remained at a relatively low position on the value chain(KPMG, 2009:2). The assemblers continue to import key components and knowledge-intensive parts and components, or outsource from international suppliers with operations in China. The parts purchased from the domestic suppliers tend to be labour-intensive or low-value added ones (Holweg et al., 2005:36-37). It demonstrates that domestic automotive components suppliers had low research and development capacity(KPMG, 2007:9). They attached much more importance to the promotion of low-end capacity rather than the increase of quality standards. They made low investment in research and development. In accordance with the report published by just-auto.com, majority of Chinese suppliers invested no more than 2 per cent of their annual budget to R&D, compared to a global norm of 5-10 per cent(KPMG, 2007:9).

China's automotive component sector suffered lower revenues than their European, American and Japanese counterparts(KPMG, 2009:23). The total components sector remained only around two-thirds of the revenue of complete vehicle sales in China, compared with one or two times revenue of complete vehicle sales in Europe, America and Japan(KPMG, 2009:23). This difference was attributed to two factors: first, the after-market in China has not yet taken shape; and second, many of the higher-end automotive components and systems in cars produced in China were still outsourced from overseas, especially from Japan and Germany(KPMG, 2009:23).

Automotive components makers in China are confronted with intensifying competitions from new international suppliers and pricing pressure from automotive assemblers (KPMG, 2005). Foreign companies account for seven of the ten largest component suppliers operating in China (KPMG, 2009:12). So far, Automotive suppliers in China can be classified to four groups(Holweg et al., 2005:36). The first group is composed of the leading independent automotive component groups, such as the Hangzhou-based Wanxiang Group. These large domestic groups rely on themselves for production technology and management, take advantage of economies of scale, and are relatively competitive internationally. The second group includes suppliers affiliated with domestic large SOEs, such as, Changchun FAW Faway Automobile Components Company Limited. The predecessors of these suppliers were the components division of the large SOEs. The second group of suppliers are viewed less competitive and derive their advantage in securing business from their links with large SOEs. The third group comprises small components makers, which have neither

economies of scales nor R&D capabilities, and mainly target at the aftermarket. The fourth group of suppliers is composed of joint ventures of international suppliers, or their wholly controlled subsidiaries. This group is featured by advanced production technology and R&D capabilities (mostly abroad). These international suppliers have often formed joint ventures with local suppliers, for example, Delphi and Visteon, but some are independent, such as Bosch and Valeo. These suppliers not only provide parts to the domestic automotive makers in China, but also export a significant proportion of their production. (Holweg et al., 2005:36)

**Table 1: Automotive Components Suppliers**

|                             | <b>Group One</b>   | <b>Group Two</b>  | <b>Group Three</b>  | <b>Group Four</b>   |
|-----------------------------|--|---|---|---|
| <b>Corporate Governance</b> | Leading independent part and component groups  | Supplier affiliated with local big SOEs   | Small part manufacturers  | Joint ventures of international suppliers or their wholly controlled subsidiaries     |
| <b>Features</b>             | Self-reliant strategies for technologies and management; economies of scale; internationally competitive | Less competitive, their affiliation to large SOEs as their key advantage in securing business | No economies of scales and R&D capabilities, largely focused on supplying the aftermarket | Advanced production technology and R&D capabilities (mostly abroad).                  |
| <b>Companies</b>            | Wanxiang   | Changchun<br>Faway  | Most China's suppliers  | Joint ventures, e.g. Delphi and Visteon; independent suppliers, e.g. Bosch and Valeo. |

Note: This table was drawn mainly based on the report by Holweg, Luo and Oliver (2005), with minor modifications.

## Section III Research Design

Given the objectives and questions of this exploratory research, we choose multiple-case studies research methodology. This section illustrates the data collection and case companies' profile.

### 3.1 Data Collection

This research chooses the automotive industry in China to research. The researcher paid on-site visits to three case companies in August and September 2011: one auto assembly company jointly established by Chinese and European auto giants, and its two associated car parts suppliers, among which one is privately-run company and the other one is a European supplier's wholly controlled subsidiary. The data collection involves the method of in-depth interviews. Semi-structured interviews were conducted with HR managers, compensation director, HR specialists, senior management, workshop directors, engineers, trade union official, technicians, foreman, and front-line workers (full-time contract workers and temporary agency worker) (See Table 2). Additionally, we also use company documents and published material to triangulate data collection to enhance the accuracy of the data.

The questions of the Interview Scheme cover five broad themes:

- Staffing arrangements
- Skill formation
- Pay and fringe benefits
- Working Time
- Communication and participation

**Table 2: Interview Statistics**

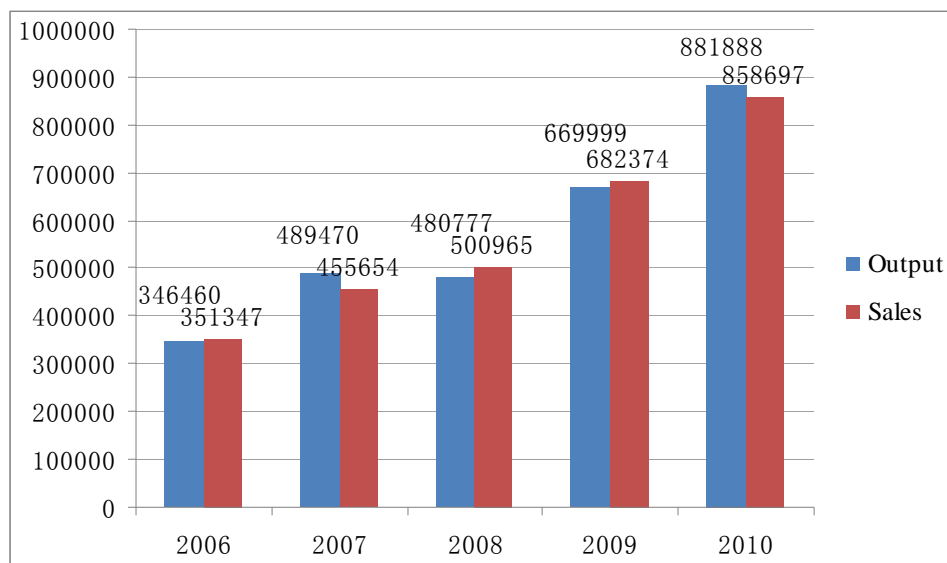
|                     | <b>Sino-European Auto Co</b>  | <b>Supplier A</b>   | <b>Supplier B</b>  |
|---------------------|---|---|--|
| <b>Ownership</b>    | Sino-European joint venture   | Private company   | European supplier's wholly controlled subsidiary                               |
| <b>Interviewees</b> | <ul style="list-style-type: none"> <li>■ Compensation Director</li> <li>■ HR Specialist</li> <li>■ Trade Union Official</li> <li>■ Two Engineers</li> <li>■ Section Director</li> <li>■ Assembly-line Foreman</li> <li>■ Assembly Workers</li> <li>■ Temporary Agency Worker</li> </ul> | <ul style="list-style-type: none"> <li>■ Deputy General Manager</li> <li>■ Workshop Director</li> </ul> | <ul style="list-style-type: none"> <li>■ HR(Administration) Manager</li> </ul> |

### 3.2 Case Companies Profile

#### *Sino-European Auto Co*

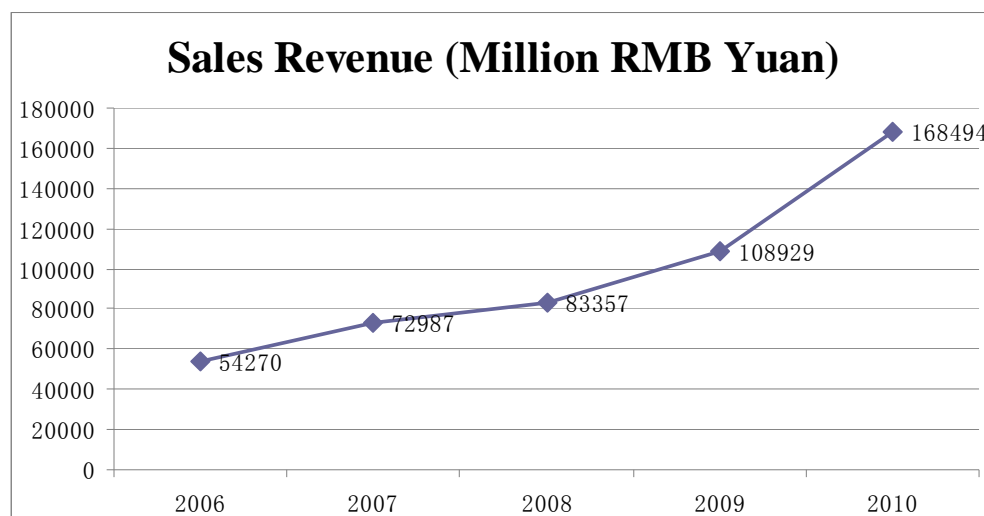
The Sino-European Auto Co is a large passenger car manufacturer jointly founded by Chinese and European automotive giants in early 1990s, with share investments of 60% and 40% respectively. The Company is the first company to localise the production of premium cars, the first one to set up a sales network for premium car brand, and ranks the highest regarding sale volume and car population of premium cars, the first one to have one million premium cars sold in the Chinese car market. The Company has two manufacturers, one located in the Northeastern China and the other in the Midwestern China. Until the end of 2010, the Sino-European Auto Co has more than 15,000 employees, including about 100 expatriates. The Sino-European Auto Co produced eight hundred and eighty thousand cars in 2010, with an increase by 31.63% than 2009. The total sales revenue of 2010 reached up to 168.5 billion RMB yuan, increased by 43%.

**Figure 1: Output and Sales of Sino-European Auto Co, 2006-09 (Units)**





**Figure 2: Sales Revenue of Sino-European Auto Co, 2006-2010**



Source: Company Brochure

### *Supplier A*

Supplier A employed 319 workers, 23 managers and 61 senior technicians during the time of researcher's visit. The Company was awarded the TS16949 Automotive Quality Certification for automotive supply chain in 2004. It is the First Tier supplier of the Sino-European Auto Co, producing the products of heat insulation, sound absorption and auto interiors. Supplier A did not set up the Human Resource department but an administration office in the company.

### *Supplier B*

Supplier B was solely founded by a European supplier in 2005, with total investment of around 100 million RMB yuan. It had around 200 employees. Its parent company is a worldwide operating plastics group with about 6,000 employees at 54 locations in 20 countries. Its two divisions are High-Performance Plastics and Automotive Plastics. It concentrates on processing quality plastics into semi-finished products, components and systems for a wide range of industrial uses. The Automotive Plastics Division produces plastic parts for the automotive industry, which include technologically sophisticated products made of polymer materials and natural fiber plastic composites for the engine compartment, the underbody and the interior.

**Table 3: Case Company Profile**

|           | <b>Sino-European Auto Co</b> | <b>Supplier A</b> | <b>Supplier B</b>                                |
|-----------|------------------------------|-------------------|--|
| Ownership | Sino-European joint venture  | Private company   | European supplier's wholly controlled subsidiary |
| Location  | North-east                   | North-east        | North-east                                       |

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|                        |                         |             |            |
|------------------------|-------------------------|-------------|------------|
| Year of<br>Foundation  | Early 1990s             | Early 1990s | 2005       |
| Number of<br>Employees | 18000 (full-time, 2010) | 403         | 200 (2011) |

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## **Section IV Employment Relations and HRM Practices in China's**

### **Auto Assembly and Components Companies**

This section explores four broad themes of employment relations practices, that is, staffing arrangements, skill formation, pay and fringe benefits, as well as communication and participation.

#### **4.1 Staffing Arrangements**

##### *Sino-European Auto Co*

Sino-European Auto Co employed full-time contract employees, temporary agency workers, student interns and expatriates. Around 45 per cent of them were temporary agency workers and interns. Employees at Sino-European Auto Co were engaged mainly through local technical schools and universities. Specifically, 70 per cent to 80 per cent of newly recruited employees were assembly-line workers graduated from local technical schools, while 15 per cent to 20 per cent were engineers and managerial staff with a bachelor, master or even doctoral degrees from the Project 211 Universities. Assembly-line workers at Sino-European Auto Co were employed mainly via a temporary work agency before 2009. Nevertheless, the Company has ceased to engage new temporary agency workers since 2009, along with the increase in the number of student interns. Nearly all the newly recruited assembly-line workers were on the full-time contract. This change was attributed to the Company's strategy of training new employees for its new factory located in the Midwestern China. In addition, Sino-European Auto Co employed a small number of experienced workers. Nevertheless, there was no fixed recruitment system for experienced workers in the Company since the recruitment was determined by the availability of talents resources in the automotive industry.

Successful candidates for the job openings of engineers and managerial staff were required to have an outstanding record in the Project 211 Universities, evidence of English language ability, and most importantly relevant majors. As for experienced workers, working experience is most important criteria for recruitment.

*Length of labour contract period* for white collar workers, such as engineers and managerial staff, were five years, whereas assembly-line workers were on two or three years' fixed-term contract. After renewing a fixed-term contract twice, employees at Sino-European Auto Co were eligible to enter into indefinite employment relationship with the Company. It was estimated that those on indefinite contract accounted for 50 per cent of employees at Sino-European Auto Co.

Turnover rates at Sino-European Auto Co were very low, with assembly-line workers below 1 per cent as well as engineers and managerial staff below 0.01 per cent. Such low turnover rates were attributed to competitive remuneration package, company's reputation and relatively high cost of mobility.

It was reported that product market downturn did not lead to mass layoffs at Sino-European Auto Co. The 2008 financial crisis did not exert any significantly negative impact on China's automotive market and the financial performance of Sino-European Auto Co, so that the Company did not downsize its workforce and even demand for labour. It was only in 2004 when the China's market for automotives was turbulent, Sino-European Auto Co reduced job openings and gave its workers days off but did not initiate layoffs. This was attributed to the shortage of skilled labour in China's automotive industry and the steady increase in the demand for labour at Sino-European Auto Co.

#### *Supplier A*

Workers at Supplier A were composed of old workers in the company before restructuring, graduates from technical schools as well as migrant workers. The qualification for workers at Supplier A's workshops were relatively basic: possession of ability to work, no criminal record, and senior high school diploma. Supplier A employed workers mainly from local technical schools. It also engaged migrant workers, who already possessed working experience at other suppliers, from the surrounding rural areas. The migrant workers accounted for about 10-15 per cent of workers at Supplier A's workshops. The average age of workers at Supplier was between 40 and 50. Applicants for technical, research and development positions needed to have bachelor's degree and work experience.

*The length of labour contract period* for those in R&D department was three years or five years, while ordinary workers were on one year or three years fixed-term contract of employment subject to the importance of the jobs. Old workers in the company before restructuring, about one third of workers, have entered into the indefinite employment relationship with Supplier A. Supplier A did not use temporary agency workers due to the high expenses.

Due to the poor working conditions at the shop floor, Supplier A has been confronted with the difficulty in attracting eligible workers. As the consequence, the shortage of migrant workers occurred since 2008 did not exert much impact on the Company. The turnover rate remained at a high level, for example, with 94 per cent in the first half of 2011 in one Supplier A's workshop. It was reported that the changes in the automotive market did not have any significant impact on the number of employees at Supplier A.

#### *Supplier B*

The number of employees at Supplier B increased steadily from around 10 in 2005, the year of its foundation, to 200 in 2011. Workers at Supplier B possessed degrees or

diploma from universities, technical schools and vocational schools. 80 per cent of workers in the workshops were recent graduates. Qualifications for successful candidates covered relevant majors, gender, job descriptions and the outcomes of selection tests. The applicants for the administrative positions in office must have working experience and were usually not recent graduate. Supplier B encouraged internal recommendation, but the applicants recommended were employed as long as they went through the tests.

The workers at the workshops were on two to three years fixed-term labour contract, whilst the length of labour contract period for administrative staff ranged from one year, three years, to five years. The conclusion of one year contract was much related to company's demand, planning and employees' willingness. All the departmental managers entered into indefinite employment relationship with Supplier B. Only 10 per cent of administrative staff, who demonstrated high loyalty to the company and outstanding performance, were on indefinite contract of employment. Although migrant workers accounted for a large proportion of workers in the company, Supplier B has not hit by the shortage of migrant workers predominant in the Southern China. Like Supplier A, Supplier B did not use temporary agency workers for production at the shop floor level. The turnover rate kept at a low level, though it climbed from with 1 per cent to nearly 2 per cent recently.

In comparison with the two suppliers, employees at Sino-European Auto Co had a higher level of job security. The contract of employment was relatively longer at Sino-European Auto Co than those at the two suppliers. The outcomes might be the fact that turnover rate was lower at Sino-European Auto Co than the suppliers. A large number of temporary agency workers were employed at Sino-European Auto Co, whilst the two suppliers did not engage temporary agency workers at the workplace level due to the high expenses for temporary work agency service. The shortage of migrant workers and the financial crisis in 2008 did not exert any significantly negative impact on the case companies and their demand for employees, against expectations.

**Table 4: Staffing Arrangement at the Three Case Companies**

|                        | <b>Sino-European Auto Co</b>  | <b>Supplier A</b>  | <b>Supplier B</b>   |
|------------------------|---|--|---|
| Staffing               | Full-time employees, temporary agency workers, student interns, and expatriates | Full-time employees                                      | Full-time employees   |
| Contract of employment | white-collar: 5 years;<br>blue-collar: 2 or 3 years                             | white-collar: 3 or 5 years;<br>blue-collar: 1 or 3 years | white-collar: 1, 3 or 5 years;<br>blue-collar: 2 or 3 years |
| Turnover               | Very low, can be ignored  | Very high  | Low   |

## 4.2 Skill Formation

### *Sino-European Auto Co*

Induction training for full-time contract employees took place at three levels at Sino-European Auto Co, that is, company, workshop/department and group levels. The training was off the job, with the length ranging from one year for university graduates to half a year or one year for assembly line workers. Contents of training at the company level covered the introduction of knowledge on products, language (German, English, and Spanish), operation skills, as well as overseas training for the new managerial staff.

The off-the-job induction training was contributed by different departments. Specifically, Human Resource Department played a role in the planning, coordination and supervision of the training. The user departments delivered specific knowledge of their departments. Training Centre at Sino-European Auto Co delivered general knowledge on production technology. The purpose of training was to improve the ability of conducting multi-tasks. No incentive was awarded for participating in this compulsory training.

Apart from induction training, graduate trainees in engineering were required to spend a period of training 'round the shops' before moving into the engineering departments. Through production and operation training, they were able to understand product manufacturing processes, technology and operational processes, as well as the requirements for product quality, technology and operation.

The off-the-job training for assembly line workers also took place at the group level, with a focus on production skills. At the shop floor, training for assembly workers took the form of one to one tuition programme chaired by the experienced operators who possessed comprehensive skills in the group. Workers started to work only after going through the assessment. Those failed in the assessment would be shifted to other jobs, which was very rare. It was a multitask training, with the aim of meeting the requirements of shift works. The whole period of training took two or three months. Monetary incentive was awarded to outstanding workers on a regular basis. The amount of incentive was determined by the contribution of workers, but with the maximum of 200 RMB yuan per person.

The training for temporary agency workers consisted of two parts: training provided by temporary work agency and by Sino-European Auto Co. Training at temporary work agency took place on three to four occasions, with each occasion lasting for one morning. Training was delivered by the temporary work agency staff, with the aim of familiarising workers with the status quo of automotive industry. Thereafter, temporary agency workers were trained by Sino-European Auto Co. Trainings for agency workers were separated from those for full time contract employees. Until entering the group at the shop floor, training contents for temporary agency workers

were the same as that for full-time contract workers.

After assembly line workers were taken in, they received on-the-job training, which was usually much focused. High-skilled talents at the shop level were kept up-to-dated with the knowledge of new technology, material, equipments and advanced production skills. Sophisticated skilled workers, at five levels of beginner, medium, advanced level workers, technician, and advanced technicians, were given continuous intensive training of theoretical knowledge and practical operation skills. Skilled workers were trained to improve skills level, with a focus on operational skills and standard operation. Foremen were trained to improve management and operation skills. It was reported that the incentives to participate in the training were their career progression and demands of production technology development at the shop floor.

#### *Supplier A*

Induction training for blue-collar workers lasted seven days at Supplier A. The first three days training was off the job, covering corporate culture, company management systems and rules, workplace organisation methodology (that is, 5S Management), compensation and benefits, as well as car products. In the rest four days, blue-collar workers were under the supervision of experienced workers to conducted practical operation. The probationary period for blue-collar workers was one month.

Supplier A conducted on-the-job training to the blue-collar workers when launching new products. White-collar employees were trained on software and on TS16949 Automotive Quality Certification for the automotive supply chain. Workshop Directors were also trained with a focus on the quality of products. No incentive was rewarded for participation in the training.

#### *Supplier B*

New employees received at least two weeks' general training and professional training, within which they spent one week time in the off-the-job training. Production workers were required to be evaluated once a year. Those who failed in the evaluation were then trained by the company. Workers, who still could not satisfy the company's requirements after training, were shifted to other jobs or even sacked, which rarely happened before.

As seen from the evidence above, Sino-European Auto Co spent much more time on employees' induction training than the two suppliers, though the length of training programme for different groups of employees varied. Contents of training programme were much more comprehensive at Sino-European Auto Co than the two suppliers. Employees at Sino-European Auto Co after taking up their jobs received on-the-job training with various focuses and purposes. The consequence might be that employees at Sino-European Auto Co performed better in their career progression than those at the two suppliers. It may partly explain why the turnover rates were so low at Sino-European Auto Co.

**Table 5: Skill Formation in the Case Studies Companies**

|                              | <b>Sino-European Auto Co</b>  | <b>Supplier A</b>   | <b>Supplier B</b>                               |
|------------------------------|---|---|---|
| Length of Induction Training | ½ or 1 year for full time; 3 to 4 occasions for TAWers, and the same with full time after employed. | 7 days for Blue-collar: 3 days off-the-job; 4 days practical operations | Two weeks, among which one week for off-the-job |
| On-the-Job Training          | Frequent with various purposes  | Seldom  | Seldom  |
| Contents of Training         | Comprehensive   | Simple  | Simple  |

### 4.3 Compensation and Benefits

#### *Sino-European Auto Co*

Job Ranking System at Sino-European Auto Co was a sequence of fifteen job grades, with assembly line workers on 2-5 grades, ordinary managerial staff on 6-8 grades, directors on 8-10 grades, junior managers on 10-12 grades, and senior managers on 13-15 grades. It is worthy noting that there was no overlap between pay ranges for job grades. Pay differences in every two adjacent grades remained at 15 per cent. The determinants of compensation were job values, individual capacity and performance.

**Table 6 : Current Job Ranking System**

| <b>Job Ranks</b> | <b>Groups</b>  |
|------------------|--|
| 1                | Replaced Workers   |
| 2-5              | 2: Warehouse Workers<br>3: Operators<br>4-5: Technicians |
| 6-8              | Ordinary Managerial Staff                                |
| 8-10             | Directors  |
| 10-12            | Junior Managers  |
| 13-15            | Senior Managers  |

The components of pay for assembly line workers at Sino-European Auto Co included job-based pay, output bonus, company's performance-related pay, overtime pay as well as employees incentives. Seniority pay was remained in this Sino-European joint venture, with 10 RMB yuan for every one year of service. Job-based pay, company performance-related pay and output bonus accounted for 50 per cent, 20 per cent, and 30 per cent of worker's monthly salary income respectively. In addition, double monthly salary was rewarded during the year subject to the company's sales. Workers



were rewarded overtime pay. Workers took one day off every two weeks due to the fact that the products of Sino-European Auto Co were highly demanded by the market.

Sino-European Auto Co adjusted pay levels every year. The determinants of wage increases included company's financial performance, company strategy, wage levels in the auto industry, CPI index, as well as local wage increases guiding line (*gong zi zhi dao xian*).

The components of salary for temporary agency workers included job-based pay, bonus and overtime pay. The amount of job-based pay remained the same for the full time contract workers and temporary agency workers in the same job grades. Only bonus earned by temporary agency workers was 30 per cent less than full time contract worker.

In short, the salary packages at Sino-European Auto Co were market competitive, ranking around 80 percentile among the automotive assembly companies in China. Apart from salary packages, Sino-European Auto Co provided with their employees extensive fringe benefits, including free working meals, dormitory, pension, interest-free housing loan and paid holiday. The entitlement of paid holiday was set by the length of service, with 5 working days for those worked for above one year but less than ten year, 10 working days for more than ten years but less than twenty years, as well as 15 working days for no less than 20 years.

#### *Supplier A*

The components of wage packages for workers at Supplier A included piece rates, time-based pay, attendance pay, as well as incentive determined by workers' suggestions and performance. Piece rates accounted for about 98 per cent of worker's monthly wage income, with time-based pay for 2%. Annual bonuses were distributed twice in July and December, with the amount ranging from more than one month salary to two months salary. Paid holiday was not provided by Supplier A.

Supplier A did not witness wage increases for ordinary employees in the past few years. The wages of some workers were even lowered to maintain the same level of profit within the context of rising price of material and energy. The wage was unilaterally determined by the management since union was not set up in the company. The wage level at Supplier A was at 50 percentile among the companies in the automotive components sector. The working environment was very poor at Supplier A.

#### *Supplier B*

Supplier B employed the job-plus-performance payment system. The components of pay included base pay, job-based pay, performance pay, and attendance bonus. Before implementing this payment system, the European investor did not encourage the use

of complicated payment systems so that base salary was the solely component of the wage package at the time. Nevertheless, such a simple payment systems was reformed thereafter due to its weakness in motivation.

Performance pay at Supplier B accounted for 10 per cent of worker’s monthly wage income. The HR manager at Supplier explained the reason for such a low proportion of performance pay: employee performance was unable to be further enhanced to a certain level due to the high level of mechanization. Jobs were classified into Grade A, B and C according to workers’ skills and labour intensity. Pay differences between two adjacent job grades were 200 to 300 yuan. Technicians were at Grade A, the top grade for workers, with pay levels ranging from 3,000 to 5,000 yuan. Few promotion or demotion was initiated among these three grades. The job-based pay for administrative employees was set according to their ranks. The lowest salary for administrative employees was 2,000 yuan per month. Year-end bonus was distributed, with the amount of one or two months’ salary.

Pay increases, more precisely increases in base pay, were determined in accordance with company’s performance and management estimates towards the market. Local commodity prices and minimum wage levels were not considered by Supplier B as the main determinants of wage increases.

Among the three case companies, Sino-European Auto Co had higher average salary levels than the other two suppliers. This may reflected the same picture of wage distribution and differences in China’s automotive assembly sector and components sector. Pay increases in the three case companies were unilaterally determined by the management, without the involvement of trade unions. In comparison with the private Supplier A, workers at Sino-European Auto Co and foreign-invested Supplier B enjoyed greater wage security, with relatively low proportion of performance pay in the salary packages. Sino-European Auto Co and Supplier B increased employees’ salary every year, whilst the private components maker Supplier A even lowered workers’ wages to remain the same level of profit.

**Table 7: Compensation and Benefits in the Case Companies**

|                | <b>Sino-European Auto Co</b>            | <b>Supplier A</b> | <b>Supplier B</b> |
|----------------|---|-------------------|-------------------|
| Payment System | Job + Performance; Full-time vs. TAWers | Piece Rates       | Job+Performance   |
| Benefits       | Extensive                               | Limited           | Ok                |
| Pay Adjustment | Every year                              | No                | Yes               |

#### **4.4 Working Time**

##### *Sino-European Auto Co*

The Workshops of Sino-European Auto Co used a three-shift system (8-hour shifts),

with day shift from 8am to 4:30pm, the first night shift from 4:30pm to 1am, and the second night shift from 1am to 8am. Normally workers at Sino-European Auto Co worked for eight hours a day. The exception was the workers on the second night shift, with less than eight working hours. Lunch break at Sino-European Auto Co was 30 to 40 minutes. Workers did overtime frequently and had only one day off every two weeks. Workers were rewarded double overtime pay when working during the weekend.

Temporary agency workers worked 2 hours longer a day than full time contract workers at Sino-European Auto Co. They worked 10 hours a day and had their work shifted every two weeks.

### *Supplier A*

Workers at Supplier A were only able to take two days off each month and worked an eight-hour shift. Day shift lasted one week, while night shift for two weeks. Day shift was from 7:30am to 4:30pm, while the first night shift from 4:30 pm to 12:00pm, and the second night shift from 12:00pm to 7:30am. Workers on the day shift took 10 minutes break in the morning, 40 minutes lunch break and 10 minutes break in the afternoon. Night workers had continued to work for 16 hours and then rest for 32 hours.

**Table 8: Working Schedule at Supplier A**

| <b>Day Shift</b>                     | <b>Night Shift</b>                               |
|--------------------------------------|--|
| Before 7:30 come to the job, 5S      | Before 16:30 team briefing, and then dinner time |
| 7:40 team briefing                   | 17:00 start working                              |
| 9:30-9:40 rest break                 | 20:00-20:10 rest break                           |
| 11:30 lunch time                     | 23:20 night meal                                 |
| 12:00 resume the work                | 00:00 start working                              |
| 14:00-14:10 rest break               | 02: 40—03: 00 break                              |
|                                      | 5:40 breakfast                                   |
|                                      | 6:10 start working                               |
| 16:15 stop working, 5S               | 7:20 stop working, 5S                            |
| 16:30 team briefing and off the duty | 7:40 team briefing and off the duty              |

### *Supplier B*

Supplier B extended workers' working time sometimes according to the orders. Workers also had to work overtime during the weekend. Supplier B had three work shifts, with day shift from 8:30am to 5:30pm, the first night shift from 5:30 pm to 1am, the second shift from 1am to 8:30am. Workers on the day shift took a lunch break of 30 minutes. The workers changed their work shifts every one week.

Overall, workers in the three case companies very frequently worked on weekends due to the strong demand in China's automotive market. Workers in the case companies worked an eight-hour shift. The exception is the private company

Supplier B, with night workers continuing their work for 16 hours.

#### **4.5 Communication and Participation**

##### *Sino-European Auto Co*

Sino-European Auto Co implemented downward communication, non-representative consultation and representative consultation machineries, but without true employee participation. The trade union at Sino-European Auto Co was confined to the role of organiser and coordinator. The degree of employees influenced over the results of decision-making was subject to the attitudes of management.

Downward communication at Sino-European Auto Co involved team briefing, newsletter, magazine, TV, etc. Non-representative consultation contained employee satisfaction survey and 'employee emotion barometer' survey. Questions in the 'employee emotion barometer' survey covered three parts: the first is employee perceptions towards company product brand, corporate image and public image, as well as employees' relatives and friends perceptions towards company products and image; the second was the problems associated with cooperation between employees and line managers, between employees and peer colleagues, between employees and their subordinates; the third is whether employees felt happy to work for the company. All the employees at Sino-European Auto Co filled in this survey. The survey results were showed in three colours: green colour represented that employees' emotion was very good, yellow colour indicated employees' emotion was ok, and red colour identified some problems with employee emotions.

Task-based involvement at Sino-European Auto Co was composed of the Quality Audit System, a system to improve and promote product quality, and Quality Management Circles, PDCA (plan, do, check, and action). Employees participated in the processes of quality circles, inspecting the flaws with products by the last circle, rectifying the problems, and then repairing. Through team briefings prior to and after work, line managers and employees clarified current flaws and strictly control the quality.

Upward feedback schemes included suggestion schemes (with incentives), intranet and General Manager's hotline. It was reported that the General Manager's hotline was most effective in dealing with employees' complaints and grievances.

Sino-European Auto Co recognised the status of trade unions from the day of its foundation. Nevertheless, the role of trade union in the process of company's decision-making was limited. The trade union at Sino-European Auto Co played a major role as an organiser and coordinator: organising entertainment activities, such as collective wedding ceremonies and company open days for employees' relatives, assisting the Company in conducting some surveys, visiting some sick workers on behalf of the Company as well as organising charity events. Temporary agency

workers were allowed to participate in the company's activities organised by the trade union.

Employees at Sino-European Auto Co had chances to understand company's rules and disciplines, through company's manual on rules and disciplines as well as intranet. The company manual was modified in accordance with the regulations and demands of shareholders.

#### *Supplier A*

Communication and participation schemes at Supplier A were characterized by communicative involvement. Supplier A did not have trade union. The information was communicated to employees mainly via notice boards at the workplaces and various meetings, such as team briefings in the morning and afternoon, production meetings on every Tuesday, General Manager's meetings on every Friday, and so on. The upward feedback scheme at Supplier A was Employee Inspection Council. The meetings of Employee Inspection Council, joined by managerial employees of different department, workers and line managers of workshops, took place every four months to half a year. The main tasks of this council were to bring together employees' suggestions and report them to the General Manager's meeting. The focus of issues raised by the Employee Inspection Council was on company's canteen sanitation and commuting.

#### *Supplier B*

Employee participation in Supplier B's decision-making was confined to communicative involvement, that is, upward and downward communication between the management and employees, non-representative consultation, such as, employee satisfaction survey, as well as task-based involvement including suggestion scheme. In recent years, however, the decision-making at Supplier B was under greater influence of foreign-investor's headquarters.

Downward communication schemes involved e-mails, notice boards, phone calls from the company office to the head of department and then from the head of department to their employees.

Employee satisfaction survey was conducted once a year. The questions in the survey were fixed since 2010 to facilitate the analysis of whether the issues raised in the past year have been resolved and whether the situation has been improved.

Supplier B had procedures of continuous improvement and induced constructive suggestions from workers. The Company implemented suggestion schemes to bring together employees suggestions. The employees who put forward suggestions were rewarded marks. The marks were determined by the value of suggestions, with one yuan for one mark. The marks can be accumulated in exchange for the prize of the same value.

Supplier B had set up the trade union in the company in line with China's national legislation and policies on the establishment of trade unions in the foreign-invested companies in China. It was reported that the trade union at Supplier B did not work well. The chair of trade union was the Director of one department. The functions of trade unions were more undertaken by the HR department, such as organising employees' entertainment activities.

Three case companies implemented different types of employee participation schemes to involve their employees. They included downward and upward communication, non-representative consultation, task-based involvement and representative consultation machineries. Nevertheless, the true employee participation scheme, that is joint decision regarding pay determination, was not established in these companies.

**Table 9: Communication and Participation in the Case Studies Companies**

|                                  | Sino-European Auto Co | Supplier A | Supplier B |
|----------------------------------|-----------------------|------------|------------|
| Communicative Involvement        | ✓                     | ✓          | ✓          |
| Non-representative Participation | ✓                     |            | ✓          |
| Task-based Involvement           | ✓                     |            | ✓          |
| Representative Consultation      | ✓                     |            |            |
| Representative Participation     |                       |            |            |
| Trade Unions                     | Yes                   | No         | Yes        |

## **Section IV Summary and Conclusion**

This research was concerned with the evolution of the human resource management and employment relation practices in China's automotive assembly and components companies, with a particular focus on the new trends of HRM practices and development of Employment Relations since 2008. The case studies were conducted at one Sino-European assembly joint venture, and its suppliers, one private supplier and one European-wholly-invested supplier. This research explored four aspects of Employment Relations and HRM practices, that is, staffing arrangements, skill formation, pay and fringe benefits, as well as communication and participation.

The research results showed that employees at Sino-European Auto Co had a higher level of job security in comparison with the other two suppliers, with respect of the length of the contract of employment. Workers at Sino-European Auto Co were equipped with sufficient skills via school education and the company's training, whilst workers at the suppliers were less skilled. Turnover rates were much lower at Sino-European Auto Co than the two suppliers. A large number of temporary agency workers were employed at Sino-European Auto Co, whilst the two suppliers did not engage temporary agency workers at the workplace level due to the high expenses incurred by using temporary work agency. The shortage of migrant workers and the financial crisis in 2008 did not exert any significantly negative impact on the case companies and their demand for employees.

With respect of skill formation, Sino-European Auto Co spent much more time on employees' induction training than the two suppliers, though the length of training programme for different groups of employees varied. Contents of training programme were more comprehensive at Sino-European Auto Co than the two suppliers. Employees at Sino-European Auto Co after taking up their jobs received on-the-job training with various focuses and purposes. The result might be that employees at Sino-European Auto Co performed better in their career progression than those at the two suppliers. It may partly explain why the turnover rates were so low at Sino-European Auto Co.

Sino-European Auto Co paid employees at a higher average salary level than the other two companies. This may reflect the same picture of wage distribution in China's auto assembly industry and auto components industry. Pay increases in the three case companies were unilaterally determined by the management. In comparison with the private Supplier A, workers at Sino-European Auto Co and foreign-invested Supplier B enjoyed greater wage security, with low proportion of performance pay.

Employees, mainly production workers, at the three case companies, had worked overtime very frequently, with few days off every month. Especially in the private company Supplier B, night workers had to continue working for 16 hours one shift.

The three case companies adopted different types of employee participation schemes to involve their employees. They included downward and upward communication, non-representative consultation, task-based involvement as well as representative consultation machineries. Nevertheless, the evidence showed that the true employee participation scheme was not established in these companies. The use of employee participation schemes was more for the interests of company than the employees.



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