

## **Flexibility or Commitment: Manpower Strategies under the New Labour Law in China during Financial Tsunami**

Andy W. Chan\*

*The Labour Contract Law of People's Republic of China came into effect in 2008 to supplement the first Labour Law of 1994. The enactment of this law, however, coincided with the outbreak of the world's financial tsunami at the same time. Many enterprises in China, especially manufacturing factories, faced tremendous difficulties of both the decreasing sales orders from the West and increasing operations costs including labour cost. This article is based on intensive case studies of two manufacturing plants in Dongguan, a manufacturing hub in Guangdong Province. Semi-structured interviews with managers and workers were conducted. The author investigated the changes imposed on the employment policies of the enterprises under the new Labour Contract Law, including the areas of employment contracts, working hours, part-time employment, termination and lay-off, as well as union organization and union's influence in the firms. The author also investigated the strategic responses adopted by the management of these case firms in managing human resources in this critical period. These firms' manpower strategies, employment policies and employee relations practices including relationship with the union, etc. were evaluated. Findings show that the small case factory adopted the manpower strategy very similar to the 'flexible firm' model (Atkinson 1985). Another larger case factory, which strictly complied with the new legal requirements in employment, adopted the approach similar to the 'commitment model' (Walton 1985) in managing human resources and the management was optimistic to the positive outcomes of such approach to the firm.*

**Keywords:** Employment policies, manpower strategies, flexible firm, commitment model, labour law, China

### **1. Introduction**

The *Labour Contract Law* of People's Republic of China (National People's Congress 2007) came into effect in January 2008 to supplement the original *Labour Law* (National People's Congress 1994). The enactment of this new labour law, however, coincided with the occurrence of world's financial tsunami in the same time. Many enterprises in China, especially those labour-intensive manufacturing factories, faced tremendous difficulties of both decreasing sales orders from the West and increasing operations costs including labour costs in enterprises. They had to do a lot of measures to respond to these changes so as to survive from such a crisis, including outsourcing and reducing expenses and employee bonuses (Floyd 2009).

With continuous inflation for the past decade with double digits, the wages and salaries of most employees have increased a lot when compared with the first generation of workers in Guangdong Province, the 'world's factory' in China. The statutory minimum wages in Shenzhen and Guangzhou increased to RMB 1100 by July 2011. In

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\* Andy W. Chan, Department of Management and Marketing, The Hong Kong Polytechnic University, Hong Kong. Email: [msandyc@polyu.edu.hk](mailto:msandyc@polyu.edu.hk)

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Dongguan, the second tier city in Guangdong Province, the minimum wages also increased to RMB 920 by July 2010 while the figure was only RMB 770 in April 2008.

Nowadays, more and more ordinary Chinese workers know their rights under the labour laws and in addition, many non-governmental organizations assist them to safeguard and fight for their own benefits (Chan 2009). So, the new *Labour Contract Law* is anticipated to become a threat to most employers in China.

To respond to the changing environment, many firms adopt the flexible approach in managing their manpower (Atkinson 1985) because it allows the firm to maintain their core, primary employees to guarantee productivity and organizational performance and on the other hand to utilize secondary flexible workforce including temporary and part-time employment to expand their productivity. Some firms also outsource their work to external agents to reduce their production cost and increase their output. On the other hand, there exist some other enterprises which adopt a more long-term approach by developing various means to attract and retain their human assets so as to nurture employees' sense of belonging and commitment to the firm. The management of these enterprises expects to have positive outcomes or benefits to the firm (Walton 1985).

Under the fluctuating economic environment during the financial tsunami and the high demand from the revised labour laws in China, what should employers or managers do in order to strive for their survival and even further success in China? So, it is a good time to study how the employing organizations formulate or change their employment policies and practices in China. It is essential to understand and evaluate the impacts on the effectiveness of managing various human resources under these crises.

## 2. Literature Review

Flexibility in manpower is always considered by employers in the times of changes and uncertainties. In Atkinson's model of 'flexible firm' (1984, 1985), there are core or primary employees, peripheral or secondary groups and external groups of manpower. Core employees are multi-skilled and thus functionally flexible to make significant contribution to maintain the stability and quality of output for a firm over the time. They are full-time employees with considerable job security. Peripheral or secondary groups are unskilled employees who work part-time or on short-time contracts. They can be quickly called in and deployed to work under sudden demand of orders. So, this allows a firm to enjoy numerically flexible in manpower. As these employees have low secure employment, they are of low satisfaction with poor commitment to the firm. External groups are those who provide regular or ad hoc services to the firm, such as outsourcing agents in advertising or legal advice. This group of manpower, including sub-contractor, staff of the agent, and self-employed freelancer, etc., is certainly of no secure employment and they are distant from the firm without commitment. Under the fluctuating economic conditions during the financial tsunami, many firms adopt such a manpower strategy to reduce the fixed labour cost so as to be more financially flexible.

On the other hand, some firms adopt another totally different approach by investing in employees. They have a long-term manpower strategy in developing employees' sense of belonging, job satisfaction and thus commitment to the firm. Walton (1985) argues

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that such a smart approach by moving from the traditional approach of controlling employees to the 'commitment model', resulting in lower employee turnover, better product quality and higher flexibility to enhance the firm's competitive advantage. Financial tsunami is a good opportunity for these firms to win their employees' support whilst most firms adopt the cost-cutting approach in China. Therefore, it should increase employees' commitment to the firm and thus improve the organizational performance.

This study is based on case study of manufacturing plants in China to illustrate how these two different managerial approaches to human resources are adopted in the factories under the crises of both financial tsunami and the implementation of the *Labour Contract Law* in China. Under such a law, the provisions on signing of employment contracts, probation period, working conditions, part-time employment, termination of employees, economic compensation, manpower-providing agents as well as the power of trade unions and collective contracts are stipulated in greater detail in the *Implementing Regulations of the Labour Contract Law* (State Council of Chinese Government 2008). Many employers and industrialists were very skeptical to the law and they had asked the government to amend some provisions and to postpone the date of implementation of this law (Ng & He 2008; Tang 2008). Some Hong Kong employers even considered to relocate their plants to other countries (Ng et al. 2008). It is thus a good time to study the effects of different manpower approaches under these crises and to assess the implications to firms.

### 3. Methodology

This article is based on intensive case studies of two manufacturing plants in Dongguan, a manufacturing hub in Guangdong Province. The strength of case study approach is that it allows various data collection strategies and it allows researchers to double check the findings from various angles (Yin 1994; Yin 2003). The studies are based on interviews of various informants including managers and employees of these two cases in the period from early 2009 to end 2009.

Semi-structured interviews with workers and related managers were conducted. With their support, relevant archival documents were analyzed to evaluate the impacts of the new labour law and the financial tsunami on their manpower strategies and employment policies and practices. The author first examined the changes imposed on the enterprises under the legal provisions of the new *Labour Contract Law*, such as those concerning employment contracts, termination of employment, working hours, part-time employment, wages and benefits, as well as union organization and influence in these firms. Then the author investigated the strategic responses adopted by the management in these case firms in managing human resources in this critical period. The firms' manpower strategy, pay practices, employment policies and employee relations practices including relationship with the union, etc. were evaluated.

The two factories in this study are located in Dongguan, Guangdong Province of China, They are chosen because they belong to different types of manufacturing industries and they have quite different employment sizes so as to understand the challenges to factories and to compare how various types of firms respond to the implementation of

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the *Labour Contract Law* and the financial tsunami. The background information of these two firms is shown in the following table.

**Table 1: Profile of two case firms**

<b>Case firms</b>	<b>Firm S</b>	<b>Firm M</b>
<b>Type of industry</b>	Knitwear and popular clothing products manufacturer	High-technology electrical appliances manufacturer
<b>Ownership</b>	Hong Kong entrepreneur	Hong Kong-Chinese joint venture
<b>History of the firm in Dongguan, Guangdong Province of China</b>	About 5 years	About 6 years
<b>Employment size</b>	About 120 full-time employees; Number of part-time employees fluctuates, may reach 100	About 900 full-time employees; Number of part-time employees is about 30 to 40. Also use manpower provided by staffing agents
<b>Enterprise union</b>	No union	An enterprise union under the city branch of the All-China Federation of Trade Union (ACFTU)
<b>Informants</b>	General Manager, and three serving employees	HR Manager, and six serving employees

### 4. Findings and Analysis

Firm S was a small family-based garments firm manufacturing knitwear for both overseas market and domestic market in China. It had only about 120 full-time workers in Dongguan by 2009. In fact, it had about two hundred full-time workers in the years before. Due to financial tsunami, it decreased the employment size of full-time workers. However, it maintained a large number of regular short-term and part-time workers (about 100), so that they could help to increase productivity for sudden orders in peak seasons. Most frontline workers, skilled or unskilled, were piece-rated workers with their wage rates higher than the market average. They don't provide dormitory for workers so they mainly employ local people as their core monthly-paid employees so that they need not provide living-quarters to them. For other casual workers, they use higher wages to attract them so that workers can find cheap living-quarters around the factory. In this study, the General Manager and three other employees, including two workers and one production supervisors, were interviewed separately to understand the management practices and employment policies of the firm.

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Firm M was a large firm manufacturing high-technology electrical appliances in Dongguan. They had about 900 full-time employees. Most workers were monthly-rated and only a few temporary and part-time employees were paid on daily or hourly wages. They established a HR Department headed by the HR Manager who had worked for the same factory as Assistant Production Manager before. They had an employment handbook detailing the company regulations. Also, they developed two sets of appraisal forms, one for workers and another for officers or professionals. There was an enterprise union being set up in 2008 and a collective contract was also recently signed between the enterprise and the union. The HR Manager and six other employees, including two frontline workers, two technicians and two engineers, were interviewed to understand the management and employment practices of Firm M.

Basing on the interviews with various informants and analyses of archival documents of these two firms, the author has following findings and discussion.

### ***New requirements on the signing of employment contracts***

Compared with the old *Labour Law* of 1994, there are several additional regulations on the signing of the employment contract. To echo the requirement of written contract required under Article 19 of the *Labour Law*, the new *Labour Contract Law* (Article 10) stipulated the contract must be concluded in written form within one month after work starts. Without written contract, the employer needs to pay double of the normal wages in this service period and in case the employee's service reaching one year, the open-ended employment contract is deemed to be effective (Article 82). As it is not easy to terminate an employee who is under the open-ended contract though his performance is poor, employers have to be careful to ascertain all the written employment contracts are in order for all full-time employees in their firms. The HR Manager of the case Firm M disclosed that they have upgraded its human resource information system (HRIS) so that it is easier to check the dates and other details of all employees, open-ended, fixed-term, full-time or part-time employees. On the other hand, with less sophisticated HRIS, the case Firm S simply deploys an accounting clerk to double check the registry of workers and their written employment contracts weekly to avoid missing.

In addition, under the new *Labour Contract Law* (Article 14), an employee is eligible to obtain an open-ended contract if s/he has been working for the enterprise for a consecutive of not less than 10 year, or s/he is less than 10 years away from her/his retirement age, or s/he has served the enterprise for two consecutive contracts without serious problems in work or in health. It is difficult to terminate a worker who is under the open-ended contract but s/he is only incompetent because such an open-ended contract is similar to a regular employment.

To cope with the above regulations, Firm S adopted a very flexible staffing policy resembling that postulated by Atkinson (1985) by offering regular employment to those core employees including senior production supervisors and department managers, but hiring more temporary employees and part-time frontline operator to meet the fluctuating production needs. The General Manager of Firm S disclosed that they might have the number of part-time workers doubling that of the full-time in these periods to

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rush for urgent orders from customers during peak seasons (which were in May and in November of each year).

Firm M, on the other hand, adopted a more pragmatic HR model to meet both the short-term operations needs and the long-term, developmental needs of the business strategy. In fact, Firm M was in the process of expansion strategy to meet the increasing orders for the electrical products from the short-term and medium-term forecasts. So, the management developed the key staffing policies to hire some short fixed-term employees and some part-time employees only in urgent cases but the proportion of such contingent employment was less than 3% - 5% of the total workforce only.

Both firms agreed that the financial tsunami made them carefully consider hire regular full-time employees as it was difficult to replace them if they were not so productive. Flexibility was a major factor under such an uncertain period.

### ***Demand on proper employment conditions and overtime work***

There are not many new changes in the limits of working hours, overtime work after the 1994 *Labour Law* and subsequent regulations issued by the State Council. The upper limit of the working hours per week is 40 and the normal overtime work allowed is 3 hours per day but the maximum prescribed overtime work is only 36 hours per month (Articles 36 and 41 of the *Labour Law*, and the related order issued by the State Council in 1994). Also, there are 11 statutory holidays in a year and at least 5 days of paid annual leave (the order was issued by the State Council in 2007).

In Guangdong Province, the employers of most enterprises are mainly concerned about the maximum number of working hours allowed and number of working days in a week. For those labour-intensive factories, the management tried to increase the productivity through maximizing their working hours in every working day and sometimes asked workers to work overtime on their rest days and statutory holidays, especially in the peak seasons. In Firm S, the General Manager responded that they require most workers to work overtime on weekdays and also on Saturdays and on Sundays, if necessary. They ask workers to work more than the prescribed maximum overtime hour (which is 36 per month) if they had to rush to meet urgent orders. They pay the overtime payment to workers according to the overtime rates in the *Labour Law*, i.e. 150% for overtime work on weekdays, 200% for overtime work on rest days, and 300% for overtime work on statutory holidays. They provide leaves to employees according to the law's minimum requirements, i.e. 11 statutory holidays and 5 days of paid annual leave to full-time employees but not to part-timers. Firm S had to tightly control the labour cost.

In Firm M, the HR Manager disclosed that they must comply with the stipulated provisions in working hours and working week (8 working hours per day and 5 working days per week). They will not ask employees to work more than 30 hours of overtime work per month even though it is necessary to satisfy the need of production. Also, they provide the paid annual leave longer than the stipulated minimum; they give an annual leave of 10 days per year for frontline workers. They wish to have a stable workforce so that they can expand further their business into various provinces in China and also into international markets.

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### ***Provisions on part-time employment and staffing agencies***

Under the provisions of *Labour Contract Law* (Articles 68 to 72), employers can use part-time, contingent employees who work no more than 4 hours a day and 24 hours a week. In the employment, written contract is not necessary and oral contract is allowed to stipulate the employment relationship. Also, no prior notice for termination is necessary and no matter how long these contingent employees have served the enterprise, they are not eligible to severance payment upon the termination of employment contract. Thus, it allows further flexibility for enterprises in employment part-time employees. The General Manager of Firm S admitted that:

*'We hire many part-time employees, maybe about a hundred in normal days, because we are not required to pay them any termination compensation when we terminate their jobs. It is very cost effective. Also, we need not pay to buy mandatory social insurances for part-times.'*

However, she admitted that the commitment of part-time employees to the jobs and to the firm was found not as high as their full-time staff in Firm S.

For Firm M, they only employ part-time workers for cleaning and other minor positions in normal time:

*'We have only about 3% of jobs occupied by part-timers in normal time. During peak seasons, we may employ more part-time workers to rush for urgent orders; but the number of part-timers should not be more than 5% of our total workforce.'*

On the other hand, employers may consider use manpower who is not their direct employee. According to the *Labour Contract Law* (Articles 57 to 67), an enterprise can use the manpower for work with the manpower being provided by the so-called 'staffing agent' or 'manpower-providing agent'. The genuine employer of these workers is the staffing agent. However, this group of workers acts as supplementary to the productivity of the enterprise and thus they should only fill temporary or auxiliary job positions for the enterprise, i.e. they can't occupy key job positions. On the other hand, these workers must be provided normal working conditions, similar pay level, working hours, holidays, overtime pay rates, and social benefits as the normal employees of similar positions in this enterprise.

The General Manager of Firm S said that they would not use these manpower provided by the staffing agent at this moment because the cost was not low and they could not closely monitor on their work discipline because the genuine employer was the staffing agent. However, the HR Manager of the Firm M disclosed that they had used these manpower provided by the staffing agents because they required more workers to meet the huge production needs and sometimes they could not find suitable human resources. Firm M had maintained good relationships with two staffing agents which could provide them satisfactory helping hands in some auxiliary jobs such as general clerical staff and plant maintenance workers, etc.

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### ***Difficulties in termination of employees and layoff***

Accordingly to the *Labour Contract Law* (Articles 36, 38, 41 and 44), when employers terminate the employment contract, they have to pay severance payment under following situations:

- i. The employment contract expires unless employee does not want to renew;
- ii. Employer proposes to terminate the contract after mutual agreement between employer and employee;
- iii. Employers terminates the contract due to redundancy or layoff;
- iv. Employers terminates the contract because of employee's illness or injury or incompetence;
- v. It is the employee who terminates the contract because employer fails to pay employee or employer violates the law;
- vi. Other circumstances specified by the law or administrative statues.

From the above situations, it is very likely that employers who dismiss a normal employee or an employee with less satisfactory work performance, they have to pay severance payment to employees. To some extent there is a good protection for employees to have higher job security. However, it is difficult for enterprises to have a proper management of discipline and utilization of their human resources. It is difficult to implement strict supervision and appropriated rules on the employees who can't effectively produce or perform (Lam 2006).

To cope with these, Firm S seldom dismissed workers direct. The General Manager disclosed:

*'We don't dismiss workers, but let them go themselves – if some workers don't have enough things to do, they will resign because their take-home income drops.'*

However in Firm M, as they have about a thousand employees, they must maintain clear and consistent discipline and assessment criteria on the workplace in order to effectively manage their employees for performance. The HR Manager tries to develop clear-cut company rules and guidelines in the work processes so that employees know their rights and obligations in their work. He agrees that to develop a very detailed employment handbook and other written guidelines for all employees is essential in China (Lam 2006). Also, good and effective supervisors are important. He opined:

*'We don't dismiss an employee with average performance. We also give further chances to the employees who are below average performance before we terminate them. We train them first if they are not so competent.'*

Under the *Labour Contract Law* (Article 47) on the payment of severance payment, employers have to compensate one-month wages for each year of the employee's service in the enterprise. If the duration is 6 months to less than one year, the duration of service is counted as one year; if the duration is less than 6 months, the compensation is half of the monthly wage. However, the basis of calculation of the

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employee's wage rate in severance payment includes all cash incomes and allowances and it takes the average of total income of past 12 months. It is really a burden to enterprises as many employees have served the enterprises for quite a long time.

Also, under the *Labour Contract Law* (Article 41), when employers intend to reduce or lay off workers by 20 persons or more, or by 10% or more of total employment size, they must consult and explain to the labour union or all employees a month in advance. The management must provide strong reasons with supporting evidence on economic conditions, or operations needs, etc. During layoff, employers must retain priority workers in the order of:

- i. Workers with longer fix-termed contracts,
- ii. Workers with open-term contracts,
- iii. Workers with special family situations.

It is good to let workers have a higher protection but employers opined that these provisions might affect their managerial decision on the company's strategy and the needs of manpower to meet the changing environment. The HR Manager of Firm M said that they were very careful to recruit and select their employees because they didn't want to have forced redundancy on their employees in difficult times. In these two years, they tried not to lay off employees though there might be insufficient work due to economic recession. They terminated less than twenty workers in a time but they were very careful to dismiss those who really could not perform. They didn't want to have the name as an 'irresponsible employer' to lay off workers. In fact, they used many alternative means including reducing pay rates and shortening working hours instead of retrenching staff (Taylor 2009). Also they communicated carefully with employees and consulted the union on such arrangements in advance.

On the other hand, the General Manager of Firm S said that they did not retrench the workers during financial tsunami. They however reduced the pay rates and also they could provide less work to their employees during the difficult time. As employees got less take-home pay due to insufficient work, they might leave the firm voluntarily. Thus, the threat of forced redundancy was not so serious for Firm S because the firm was very flexible in utilizing manpower.

### ***Trade unions in enterprises***

The roles of trade unions in China have not been very obvious and effective in the past to represent employees though there are various statues stipulating these under the *Labour Law* and under the *Trade Union Law* (National People's Congress, 2001). However, under the new *Labour Contract Law*, there is a whole section of provisions on the labour union and collective contract (Articles 52 to 56). Under these laws, enterprises with employees 25 or more should establish grass-root trade unions. Unions can participate in those major operations, management, personnel or human resource management issues such as wages, benefits and workplace safety. Also, union leaders can attend those enterprise management meetings in order to safeguard workers' rights. They should also investigate any infringement cases against the labour laws (Lavender 2002).

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One major area to empower the union under the new *Labour Contract Law* is to sign the collective contract with the enterprise. The trade union lawfully represents workers to collectively negotiate with management of the enterprise on work conditions. They should bargain for proper working hours, better pay rates, benefits and paid leaves, and safer working environment with good hygiene. Then, the union enters and concludes the collective contract with employers and the collective contract is legally bound after endorsement by the labour authority.

In the business world, most enterprises do not like trade unions because they are afraid of union intervention on their managerial prerogative in directing and managing the firms. In our two case firms, Firm S has no enterprise union because the firm insists that it is of small employment size (though exceeding 25) and the local government does not impose them to set up union. The General Manager also thinks that they have very close relationship with their core employees. They have no plan to establish any union, even at the end of 2009. The General Manager opined:

*'There has been good protection for workers under the labour laws. Nobody urges us to set up the union. Perhaps, our factory is a small firm only.'*

On the other hand, the enterprise union was established in Firm M in mid-2008 after the repeated demand from the local branch office of the All-China Federation of Trade Unions (ACFTU), the only legal union in China. In fact, ACFTU had put a lot of efforts in organizing unions in various enterprises, especially in recent years (Lauffs et al. 2005). The enterprise has to pay 2% of total employee monthly to the city's union federation of ACFTU. The city's union federation will allocate 1% of the money to the enterprise union to support union activities and other related expenses. In Firm M, there were seven union committee members and over fifty elected representatives from various work units or departments. The union was chaired by the Deputy Plant Manager. It seems that after operations for some time, the management of enterprise accepts more to the role of the union in the enterprise. The HR Manager of Firm M opined:

*'Our enterprise union seems quite co-operative with management as it helps the company as a bridge between workers and managers. Union officials usually discuss with us first before they want to do something. I don't think they will organize collective action against the enterprise!'*

In fact, in the case of dismissal of employees, managers of Firm M consulted the union and the union leaders were very considerate. The union seemed to understand and accept the enterprise's difficulties and thus also gave green light for such dismissals. Certainly, as an experienced HR specialist, the HR Manager did have some concerns:

*'We don't know what the union will do in the future. It is a double-edge sword. The union helps us to communicate with workers; it may help develop employees' sense of loyalty but it may at any time intervene with management's operations decision or personnel decision if it wants!'*

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So, what the management could do is to maintain good relationship with the union and also to assist the union in the organization of activities and election of union committees. The firm also subsidized union's functions upon request. So, though the firm was imposed under the labour laws to establish the enterprise union a few years ago, yet there was not any major change in labour-management relations and particularly, there was no detrimental effect to the firm in managing their human resources.

### 5. Conclusions and Implications

In the above two cases, Firm S, has been adopting the model of flexible firm (Atkinson 1985) for a long time. The firm has the core, primary full-time permanent career employees who are the managers and supervisors of the enterprise. Many of them have worked there for a long time and some of them are good friends or even relatives of the owner employers. The firm will hire those secondary employees, the technicians and junior production supervisors who are important for normal production. With sudden demand of their production orders under the financial tsunami, the firm will hire more temporary positions and part-timers to satisfy the seasonal needs. Though the firm may suffer from the problems of quality control and unstable productivity, managers adopt a closer supervision and higher production bonus to support the operation needs. They also sub-contract parts of their periphery production processes to other factories in the northern part of the Guangdong Province because their production costs are much lower. The firm however does not actively retrench workers because of heavy severance payment or economic compensation; managers and supervisors just reduce the work given to these piece-rated workers. Some workers, because of lower income, resigned at their own accord and thus the firm need not pay heavy indemnity. So, the manpower is more numerically flexible with lower unit labour cost and the firm is more financially flexible to face the economic downturn.

On the other hand, Firm M, with a larger production plant of a thousand employees, it has a sophisticated strategic planning in a longer run. To face the short-tem crisis of the financial tsunami, this firm reduces the unit labour cost by adopting various measures including carefully recruiting competent employees only if necessary, selectively terminating poor employees, reducing working hours and overtime work, using flexible supply of manpower from staffing agents. They however have adopted various means to motivate and nurture their employees for the sake of maintaining the required level of task technology and operational efficiency. They try to keep competitive salaries packages for employees in order to attract competent employees with effective selection and appraisal techniques. Also, they maintain harmonious workplace relationships between management and all levels of employees with fair and efficient supervision. As suggested, maintaining good relationship with union leaders is essential to strengthen two-way communication between management and enterprise union (Ng et al. 2011). Though the history of the Firm M is not long, it has started its progress moving from the basic compliance and control approach to a more commitment model (Walton, 1985) in managing their workforce. Managers are optimistic to such approach though it requires more resources and time.

From employers, one critique of the new *Labour Contract Law* is that most of those provisions are too harsh to them, such as the signing of the employment contract, the

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duration of employment contract, the clauses of termination and layoff. Those provisions are too rigid and too detailed. It seems a relaxation of revision of these clauses is necessary to provide a fair employment context and fair labour market for both employers and employees. Also, there are too many different regional regulations in various cities or localities and these regulations change frequently. It is very difficult for investors or enterprises to follow, especially for foreign-invested enterprises or multinationals which have various operations in China. Further proliferation of these regulations may deter local and foreign investors from setting up their plants in China and instead they may choose to invest in other countries, such as Vietnam and Sri-Lanka (Ng et al 2008; Wang 2008). So, the Chinese Government should carefully examine again on the provisions of the labour laws including the *Labour Law*, the *Labour Contract Law*, the *Trade Union Law* and the associated regulations, to see which areas must be revised. Such revisions are important to meet the fast-changing business needs so as to provide a good investment environment and a healthy labour market of skilled human resources for various employing organizations and also to better protect Chinese employees in their work.

To conclude, to face the crises of the world's financial tsunami and the implementation of the stringent *Labour Contract Law*, many enterprises in China, especially labour-intensive factories, have chosen the low-cost manpower strategy by adopting the 'flexible firm' model to survive in difficult times. On the other hand, a few enterprises, mainly high-technology plants, continue to invest further in human resources so as to nurture employee commitment to the firms; such a 'commitment model' is costly but it will bring more positive outcomes and benefits in a longer run. It's difficult to judge which strategy is better than the other. It depends on the nature of the industry, product market, firm size, management philosophy of the enterprise. One major limitation of this study is that the findings cannot be generalized to other types of firms as it is based on only two case factories in Guangdong Province. We need more extensive studies.

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