

**MANAGING UNDER PRIVATE OWNERSHIP: AN ETHNOGRAPHY OF  
MANAGERIAL WORK IN PRIVATE ENTERPRISES IN CHINA**

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**XUEHONG SHEN**

**MANCHESTER BUSINESS SCHOOL**

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## Abbreviations

ASG:	AH Shipbuilding Group
CEO:	Chief Executive Officer
CFO:	Chief Financial Officer
CIC:	The China Shipping Industry Company
CMSA:	China Maritime Safety Administration
CNSC:	The Changjiang National Shipping Corporation
COSCO:	The China Ocean Shipping Company
COSTIND:	Committee of Technology and Industry for National Defence
CSIC:	The China Shipbuilding Industry Corporation
CSG:	Converge Shipbuilding Group
CSSC:	The China State Shipbuilding Corporation
DWT:	Dead Weight Tonnage
ESOP:	The Employee Stock Ownership Plan
FDI:	Foreign Direct Investment
FIE:	Foreign Invested Enterprise
GM:	General Manager
GT:	Gross Tonnage
HR:	Human Resource
HRD:	Human Resource Director
HSG:	HT Shipbuilding Group
IPO:	Initial Public Offering
JSG:	JE Shipbuilding Group
JV:	Joint Venture
KW:	Kilowatts
LPT:	Labour Process Theory
MII:	The Ministry of Information Industry
MSA:	Maritime Safety Administration
NDRC:	The National Development and Reform Commission
NSG:	NC Shipbuilding Group
OC:	Operating Company
OECD:	Organisation for Economic Co-operation and Development
OSG:	Ocean-Pacific Shipbuilding Group
POE:	Private Owned Enterprise
PRC:	The People's Republic of China
QA:	Quality Assurance
QC:	Quality Control



SBU: Strategic Business Unit  
SOE: State Owned Enterprise  
TEU: Twenty-foot Equivalent Units  
UNCTAD: United Nations Conference on Trade and Development  
USD: United States Dollar  
USSR: The Union of Soviet Socialist Republics  
YSG: YJ Shipbuilding Group  
ZPMC: Shanghai Zhenhua Port Machinery Co., Ltd.

## Abstract

Since the inception of economic reform, China has undergone comprehensive changes which have stimulated substantial research on various aspects of Chinese society. In recent years, research on management and organisation in China has grown rapidly, but with relatively little attention being devoted to the ethnographic analysis of private enterprises, despite the fact that such enterprises play a crucial role in China's economy and make a significant contribution to labour employment. A lack of close, personal and meaningful access to everyday organisational activities is often cited as one of the main reasons preventing such research. This thesis attempts to fill the gap through investigating the everyday nature of management and managerial work in seven large private shipbuilding enterprises in China. In so doing it seeks to provide ethnographic answers to one main question – ***what are the characteristic features of the emerging management systems employed in private enterprises in contemporary China?*** In so doing the research investigates how such systems have evolved and the ways in which they impact on the nature of everyday managerial work.

Research that seeks to understand the reality of management and managerial work however is not research that deals exclusively with static or structural organisational phenomena. Instead it is also research that requires sensitivity to changing events and processes – ones that interact constantly with elements of a complex and dynamic environment. It is argued here that such research demands a theoretical framework capable not only of appreciating the diversity of formal management systems in contemporary China, but which can also incorporate informal social and cultural factors into its analysis. To establish sensitivity both to structural and cultural phenomena the research approach developed here is one that combines two, very different, sociological theories - labour process theory (LPT, derived from Braverman, 1974) and Chaxugeju theory (derived from Fei, 1947). On the one hand, LPT offers a framework for appreciating structural forces stimulating changes to management systems and managerial work. On the other hand, Chaxugeju theory facilitates appreciation of how cultural, historical and social factors are synthesized in rules and principles that characterise the operation of society and the values and logics that guide human action. Taken together, the combination of LPT and Chaxugeju facilitates the analytical connection of micro and macro forms of analysis, and thus the appreciation of a range of interacting systems (economic, ideological, social etc.) of relevance to understanding the nature of management and work organization in contemporary China.

Given the nature and form of both the research questions and theoretical framework, a

research design based on ethnography is chosen as the primary methodological approach. As the research not only studies the systems of management in China's private enterprises, but also managerial experiences, behaviour and subjectivity in relation to changing circumstances, an ethnographic approach that commits extensive time to the field, interacts extensively with actors, generates rich data, and detailed and 'thick' description of the observed works well for this research. As to the case study organisations, shipbuilding companies were chosen for three main reasons: (i) the importance of shipbuilding industry to the Chinese economy, (ii) the rapid growth and significance of private enterprises in the industry, and (iii) (at a more personal level) the extensive connections and previous work experience of the researcher in the shipbuilding sector.

At a general level, the findings reported in the thesis reflect that the evolution of management systems in China's private enterprises is the product of the interaction of a range of internal factors specific to the firm and many external forces related to China's transitional economy. As such, issues of cultural, social and historical inheritance are assessed together with those of economic interaction/processes of globalisation to document how these forces influence events at the organisational level. On the one hand, the research describes trends towards convergence with the status and nature of 'global' managerial work, despite a Chinese firm's specific ownership origins, current ownership status, and (re)structuring strategies. In so doing the data demonstrate how managerial work in China's private enterprises is experiencing fundamental changes; for example, the on-set of greater job scope, knowledge/skill levels, organizational control, responsibilities, incentive mechanisms, and relationship-based managerial ethics. On the other hand, the findings also suggest that within China's transitional economy, private firms still incorporate aspects of traditional Chinese management. Such methods are often reminiscent of erstwhile state-owned practices and can function as a strategy for minimizing internal resistance to change. Findings suggest that the current 'hybrid' character of management in private enterprises in China will endure for a considerable period of time. China's traditional management and its values still have a strong influence on firm practices, especially in terms of people management. In many respects the social character of the workplace functions in the spirit of Chaxugeju, with the fundamental organisational rules and behavioural patterns remaining largely unchanged, as individual-based social relationships substitute for formal institutions in the firm. These findings are all explained through detailed ethnographic description and analysis.

Finally, perhaps the major contribution of the research which underpins this thesis is to reduce the gap between the perception and reality of management and managerial work

in China's private firms. Insights into the daily working lives of managers are provided which reveal the deep philosophies underlying apparently rationalized practices and behaviours. Research on such intimate management phenomena is of benefit to organizational research in that it supplements the more 'global' style of analysis common in appreciations of Chinese corporate behaviour. The study thus adds a deeper, qualitative level of analysis to the mainstream managerial research landscape on China. Theoretically it shows the practicability and value of combining an indigenous Chinese theory (Chaxugeju) with an established western paradigm (LPT) to analyze and interpret ethnographic organisational phenomena. It thus reminds us of the importance of looking beyond the boundary of specific academic theories when developing and applying our ideas, especially when exploring international and transitional economies.

## **Declaration**

I declare that no portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning.

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# Chapter One: Introduction

## 1.1 Management research on China in the era of transition

China is influencing the world in its own way. In its three decades of economic reform and opening up to the external world, the country has impressed the whole world with its dramatic economic growth and creative political entrepreneurship (Kraus, 1991). Economically, China is now the largest emerging economy in the world; it has led the world growth rates in the past two decades. It has changed in recent years from being a peripheral member of the global economy to a core contributor, not only receiving large amounts of foreign direct investment (FDI), but also becoming an emerging source of FDI itself (UNCTAD, 2008)<sup>1</sup>.

Politically, unlike the former USSR (the Union of Soviet Socialist Republics) and other countries in the ex-communist camp, China has been advancing its economic reform on the premise of maintaining a solid political foundation of socialism (at least, the official definitions regarding the political system have never changed, whatever the changes in the nature of the economic system), although the reform is still consistent with the government's efforts to improve the capabilities of public administration (Nolan, 2005).

The shift from an administratively planned economy to a market economy under this unique reform approach has posed unprecedented challenges to China's governance system in general and to all the organisations involved in this grand transition, neither side having systematic knowledge of managing in a highly dynamic and competitive context. Thus, the Chinese proverb, "groping for stones to cross the river"<sup>2</sup>, precisely captures the unpredictable tentativeness of China's developing path in the early stages of reform. As the economic transition proceeded, with China being more and more involved in global competition, the urgent need to improve management capability was prioritized at the national, industrial, organisational and even individual level.

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<sup>1</sup> For example, in 2007, China and Hong Kong (China) remained the leading emerging-economy destinations, with FDI inflows of USD\$ 67 billion and USD\$ 54 billion respectively and at the same time the two largest sources of FDI outflows (UNCTAD, 2008).

<sup>2</sup> Deng Xiaoping used this saying as a simile for China's economic reform and opening up policy. "Crossing the river" is an analogue of the general practice of building socialism with Chinese characteristics, introducing economic reform and opening up to the external world. "Groping for stones to cross the river" emphasizes that there is no established model or successful experience available for China to imitate; it has to proceed from the Chinese situation, through experimenting with various methods, constantly summarizing and reflecting on experience and moving forward step by step. At this point, China's economic transition has reached a stage where the past experimental approach is no longer sufficient. Future policy reforms need to be carried out in a holistic rather than a piecemeal manner.



In the meantime, China is presenting itself as an exciting intellectual puzzle, since few regions of the world have undergone such comprehensive changes in “institutional rules, social norms and cultural values” and displayed “such diversity in ownership structures, organisational forms, business strategies and management practices” (Tsui *et al.*, 2004: 134). During the last two decades, research on management in China has grown almost as rapidly as the Chinese economy (Tsui and Lau, 2002). But China still remains “one of the regions of the world that have been studied the least” (Tsui *et al.*, 2004: 133). Many of the fundamental questions await clarification. It is generally agreed that management research on China is currently in its infancy, far from any possibility of reaching a sound understanding of management in so far as the ‘the organisations in China are concerned, during an era of economic, geographic, legal, social and cultural transformation. Empirically, one of the major problems from which management research on China suffers is the imbalanced research agenda which has paid very limited attention to the private sector (Tsui and Lau, 2002; Tsui *et al.*, 2004; Meyer, 2006). In particular, the ethnographic analysis of private enterprises is very rare, which leaves the internal management system and the everyday managerial work in China’s private enterprises largely unknown. A lack of close, personal and meaningful access to everyday organisational activities is often cited as one of the main obstacles to such research (Quer, Claver and Rienda: 2007; Shenkar, 1994). Unlike SOEs, there is little connection between the POEs and research institutions in China. Moreover, government research funds have often gone to projects concerned with SOEs.

However, the increasingly important status of private enterprises in the Chinese economy and society suggests that this is a field which must not be ignored. The significance of studying it lies in three aspects: first, private enterprise is a special organisational form existing in a socialist system, that of China. It is the product of the Chinese socialist market economy. From an illegal spurt of growth in the dark to the major competitor of the SOEs, the development of Chinese private enterprise was also a history of struggle against institutional discrimination and political instability (Garnaut and Song, 2004, Lin and Zhu, 2007), which largely exemplifies the organisational transformation in this post-communist economy.

Second, private business is pivotal to the studies of Chinese management and labour. The domestic private firms have made a great contribution to the economic growth that this country has achieved over recent decades and played a crucial part in creating new jobs (Lin and Zhu, 2007). With an average increase of 71 per cent per year in terms of output and 41 per cent in terms of new employment since 1980, the private sector today has become as important as the SOEs (China National Statistical Bureau, 2005). In terms of work, employment and management in Chinese organisations, no topic can by-pass this biggest

employer. But compared with the research done on SOEs, private firms have so far received only scant attention (Tusi and Lau, 2002; Tusi et al., 2004). Previous research seldom investigates sizeable private enterprises, in any case, and this downplays the importance of private employment in both a practical and an academic sense.

Third, given the above points, studying private firms also helps us to understand the management in other organisational forms. Private firms did not develop in isolation; SOE reform and the emergence of other organisational forms went side by side. It is generally basically believed that private enterprises operate more efficiently than SOEs. The success of private enterprise demands more research into the internal factors of these firms, since few people have written on this subject. In finding the managerial sources of this success, the present research provides a parameter for other organisational forms to benchmark their practices to this purely market-oriented category of business organisation, which helps them, in return, to understand their own internal management system.

## **1.2 Research question**

This thesis attempts to fill the gap in the literature through investigating the everyday nature of management and managerial work in seven large private shipbuilding enterprises in China. In so doing it seeks to provide ethnographic answers to one main question – ***what are the characteristic features of the emerging management systems employed in private enterprises in contemporary China?*** In so doing, the research investigates how such systems have evolved and the ways in which they impact on the nature of everyday managerial work.

'Management' in this research includes both formal and informal factors of management system in the firms concerned. 'Managerial work' is defined in a broader sense to embrace both "the job of management" and the factors associated with "people who have this job", which, in other words, stands for the continuum of both parts, the technical (content) and the cognitive (the managers' subjective construction of the job). Taken together, the key aspects included in this research are the function of management, the cultural norms and values associated with the job of management, the managerial experience, behaviour and the relationships generated in the interaction of the management system and the people, the management and the managed.

The reason why factors associated with people should be positioned at the centre of a piece of research on management and managerial work of this kind is four-fold: first, "management, in a general definition, means getting things done through people...Management is always about people. Jobs in which no other people are involved are technical, not management"

(Hofstede, 2007: 412). Second, people are the most active factors in any organisation; they connect the other factors and manifest the changes and complexities that they have sensed. Managers act on their individual perceptions and their actions have perceived consequences – thus the subjective reality that managers see is quite as important as the objectively defined reality of management. Third, the rationale of studying managerial work through studying managerial labour (managers) derives from the duality of managerial labour in nature. The “manager” is not only the party in the management system who exerts management authority on behalf of the organisation’s interests, but also the party which is to be managed under the system, a party which has its own interests attached to the identity of “employee”. Fourth and finally, organisations operate in an open system. The changes external to the organisation increase the variations in management practice and impact on human behaviour and experiences; meanwhile, the actors at a micro level can feed the dynamics into the system and influence its development at the macro-level. In this respect, a Chinese organisation can be treated as an arena to host the formation of workplace relationships, labour processes, occupational culture and identities and to contribute to our total understanding of management, the work of managing and human behaviour in managerial work. This constitutes the major reason why an intellectual journey like this should go as far as the atomic level of the organisation; that is, the individual manager.

### **1.3 Theoretical Underpinning**

Research that seeks to understand the reality of management and managerial work is, however, not research that deals exclusively with static or structural organisational phenomena. It is also research that requires sensitivity to changing events and processes – ones that interact constantly with elements of a complex and dynamic environment. It is argued here that such research demands a theoretical framework capable not only of appreciating the diversity of formal management systems in contemporary China, but which can also incorporate informal social and cultural factors into its analysis. To establish sensitivity both to structural and cultural phenomena, the research approach developed here is one that combines two very different sociological theories - labour process theory (LPT, derived from Braverman, 1974) and Chaxugeju theory (derived from Fei, 1947). On the one hand, LPT offers a framework for appreciating structural forces causing changes to management systems and managerial work. On the other, Chaxugeju theory facilitates the appreciation of the process whereby cultural, historical and social factors are synthesized in rules and principles that characterise the operation of society and the values and logics that guide human action. Taken together, the combination of LPT and Chaxugeju facilitates the analytical connection of micro and macro forms of analysis and thus the appreciation of a range of interacting systems (economic, ideological, social, etc.) of relevance to understanding the nature of management and work organization in contemporary China.

## 1.4 Research Design

A research design, according to Fetterman (1998: 8), is “usually an idealized blueprint or road map” that enables the researcher “to conceptualize how each step will follow the one before to build knowledge and understanding.” It entails the configuration of different components of research into an effective problem-solving sequence (Pelto, 1970).

Given the nature and form of both the research question and the theoretical framework, a research design based on ethnography was chosen in the present study as the primary methodological approach. Seven large privately owned shipbuilding enterprises were chosen from the category of first tier shipbuilding enterprises in China. I refer to these as the Ocean-Pacific Shipbuilding Group (OSG), NC Shipbuilding Group (NSG), YJ Shipbuilding Group (YSG), Converge Shipbuilding Group (CSG), JE Shipbuilding Group (JSG), HT Shipbuilding Group (HSG) and AH Shipbuilding Group (ASG). All the case companies are identified by means of pseudonyms for the sake of preserving anonymity and so are the names of the informants. The following sections seek to justify the choice of this specific research methodology, the role of the researcher and the case study organisations.

### 1.4.1 Choice on research methodology

The adoption of an ethnographic methodology for this research is justified on two levels: the appropriateness of qualitative research in general and ethnography in particular.

**First, the nature and content of this research required the adoption of a qualitative methodology.** As stated in foregoing arguments, the research aims to explore management and managerial work in China’s private enterprises, not only through a study of the objective aspects of the management system and work, but also through subjective aspects derived from the people who work in the system and perform the duties of management. The latter parts constitute the critical aspect of the ‘reality’ in this research, which, in a broad sense, includes ‘cognition, affect, intentions and anything else that can be encompassed in what qualitative researchers often refer to as the “participants’ perspective” (Maxwell, 2005: 22). In this sense, the qualitative paradigm is deemed suitable, as (i) the problems and issues in this research require a complex and detailed understanding, while its focus on the subjective basis of people’s behaviour calls for a more profound interpretation, which simple cause-effect models cannot offer; (ii) the data can be acquired only through interaction with people in the field; (iii) managers’ perceptions and behaviour have to be studied in a context-dependent process; and (iv) quantitative measures and statistical analyses do not fit the problems and issues (Creswell, 2007). Further, quantitative research focuses more on predicting outcomes and less on process variables, context-free and labelled through deduction, with limited cause-effect relationships, whereas qualitative research focuses

more on understanding process and less on outcomes, labelled through induction and context-specific, multivariate and multi-process interactions (Creswell, 1994; Cassel and Symon, 1994). Hence, quantitative research methodology does not seem suitable for this research; while qualitative research has the strengths and logics to serve it.

**Second, ethnography is regarded as the most appropriate qualitative research methodology for this research, for four reasons:** (i) the ethnographic research design provides methodological support for the adoption of the LPT and Chaxugeju perspectives in this research, by its particular focus on the social group and culture as research objects and its capacity to offer as its research product a holistic portrait of a social group or system (Van Maanen, 1988; Hammersley and Atkinson, 1993; Gill and Johnson, 1997; Fetterman, 1998; Creswell, 2007; Cunliffe, 2010); (ii) its significant use of participant observation and interview enabled me to immerse myself in the natural settings of the case study organisations, enter the manager's daily working life and discover the patterns of cultural and human activity. Consequently, the ethnographic approach, which devotes extensive time to fieldwork, interacts extensively with actors, generates rich data and detailed and 'thick' description of the observed is able to grasp the "complexity, intricacy and mundanity of organisational life" (Cunliffe, 2010: 229). In addition to these two specific methods, in this research, ethnography as the research strategy is able to introduce other qualitative sources under its umbrella; for example, documents and files from all the firms, to supplement participant observation and interviewing; (iii) it provides the legitimacy for designing this research as a less structured and non-linear entity. In text books, the research process is most likely to be presented as an idealized, neat series of logically directed steps (Gill and Johnson, 1997: 151), but in practice it is "quite unlike its pristine and logical presentation in journal articles ... often confusing, messy, intensely frustrating and fundamentally nonlinear" (Marshall and Rossman, 1989:21). Ethnography uses inductive, interactive and recursive processes (LeCompte and Schensul, 1999). Its flexibility in both design and application is particularly valuable in the present study because it allowed me from time to time to check my understanding of the phenomena; and (iv) the ethnographic approach is particularly renowned for its relevance to theory development. The emerging nature of the research on privately owned enterprises in China demands an effort to develop both practical and theoretical understanding and the generation of new concepts and alternative theories. Ethnographic approach efficiently serves the purpose of theory development. Its application exemplifies its strength in dealing with the absence of strong prototypical models in research of this sort (Cassell and Symon, 1994; Creswell, 2007). Further, as Hammersley and Atkinson (1993) put it, the capacity of ethnography to depict the activities and perspective of actors overcomes the risk of conducting research under misled preconceptions in social science. With these features, ethnography need not be regarded as an alternative paradigm

to other approaches; instead it is the one method that matches the needs of the present study.

#### **1.4.2 Role of researcher**

Researchers are part of the social world they study (Hammersley and Atkinson 1993; Fetterman, 1998). Due to the commitment to naturalism, ethnographic study promises the least contamination from researchers' behaviour and the methods they used for data collection (Hammersley and Atkinson, 1993). But more realistic methodological thoughts support the idea of 'reflexivity', that is, ethnographers seeking to understand and put into words their own role in and impact upon the research setting and making the best of this knowledge when they collect and analyze data (Gill and Johnson, 1997).

In this research, I entered the field with an open mind, ready to welcome any expected or unexpected answers that I could get from myself as a human instrument collecting and interpreting data and from the human objects that I studied in the field. My status was regarded by my research subjects as 'one of them,' rather than as a pure researcher. I made no effort to completely eliminate traces of myself in the field; instead, I went further, trying to incorporate both my experience (from an insider's standpoint) and my research subjects' reactivity by my research interpretations, thereby hoping to deliver accurate and authentic information.

#### **1.4.3 Choice of case study organisations**

As regards the case study organisations, shipbuilding companies were chosen, for three main reasons: (i) the importance of the shipbuilding industry to the Chinese economy; (ii) the rapid growth and significance of private enterprises in this industry; and (iii) (at a more personal level) my extensive connections and previous work experience in the shipbuilding sector.

**First, the shipbuilding industry is one of the most important industries in China and is regarded as one of the industrial mainstays of China's domestic economy.** In recent years, China has boosted shipbuilding output by more than 40 per cent a year and in 2006 overtook Japan as the world's second largest shipbuilder. Much capital was injected into this sector by both domestic and overseas investors. Compared with other traditional industries, for instance, the textile industry, which is experiencing a sharp decline with limited macro adjustment support and almost no governmental capital influx, the shipbuilding industry, as one of the most prosperous ones, makes more sense as a research area when it comes to cutting-edge issues of contemporary management and managerial work in China.

**Second, the shipbuilding industry fostered a batch of successful private companies, capable of competing with the largest state-owned and foreign shipbuilding companies in their world.** Since the late 1990s, a series of government macro adjustments regarding capital investment, land examination and approval and industry entry criteria for the shipbuilding industry have encouraged the fast growth of private shipbuilding enterprises. It is at the same time one of the industries that has undergone massive transition, in particular in its modes of production, labour management and technology. Shipbuilding enterprises are typical labour intensive, capital intensive and technology intensive heavy manufacturers. The labour population engaged in shipbuilding industry is immense. Whether a shipbuilding enterprise is able to survive the competition in China depends on how well its management mechanism can maximize the efficiency of its production through labour. This issue is even more important for private shipbuilding enterprises. Therefore, a study focusing on the internal management system and managerial work of private enterprises in China would find the shipbuilding industry the ideal field to investigate. Choices of case study samples also need to consider methodological issues. The number of major shipyards in the Chinese shipbuilding industry is relatively small. Although an ethnographic study does not aim to generalize its findings to any industry as a whole, choosing case companies from the shipbuilding industry would be more representative than choosing case companies from a vast and fragmented industry.

**Third, my work experience in shipbuilding enterprises and personal connections established in the industry make the research field a practical choice.** I used to work in one of the seven chosen case study companies and thus obtained some understanding of the industry overall. With the help of former colleagues and friends in the shipbuilding industry, I was able to access my previous employer easily. Moreover, through the business connections of this company and my former colleagues and my friends' direct and indirect connections, I was given access to the other six companies. But the arrangement of having seven shipbuilding groups involved a compromise with my original plan. Personal connections had their limits, too. In the initial plan, the research aimed to target all the private shipyards<sup>3</sup> in China that were listed in the world's top 50 shipyards in 2005<sup>4</sup>. My previous employer owns one of these. With one exception, the remaining shipyards (including the one owned by my previous employer) are located in the same province. Because the business connections and influence of my previous employer did not stretch to this very last shipyard, which is located in a different geographic and administration zone, I

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<sup>3</sup> 'Shipyard' and shipbuilding companies are different concepts in this research. Calling a business 'a shipbuilding company' normally means that it is a shipbuilding group owning more than one shipyard.

<sup>4</sup> This research project started in 2007, so the initial research design was based on knowledge that I had at the time.

had to change my strategy and target the shipbuilding companies within his sphere of influence. The selecting criteria become 'large private shipbuilding companies or medium-sized ones (by government statistical standards)' which were regarded as successful firms, on account of their profitability, by order book record, or by production capacity. The issue of ownership of origin emerged along with the growing number of case study companies that agreed to accept me as an observer. In order to incorporate this dimension into the research, at the point when four large companies and a medium-sized one had agreed, two more medium-sized companies were added to the list to make up the category of firms which had originally been small family businesses. Eventually, then, there were seven private shipbuilding companies to include in this research. Within these seven companies, a total of 12 shipyards (firms) were included, of which six are listed in the world's top 50 shipyards and five of them in China's top 10 shipyards (firms). In their origin, they cover the whole spectrum of types of private ownership, falling into four categories: privately purchased ones, SOE privatized, small family-owned in origin and funded by private investment. In general, the seven shipbuilding companies share some basic features: they are all classified by the government supervision departments as first tier shipbuilding companies (Zhang et al., 2007); employ a large labour force of 2,300 to 26,000 people; have all experienced or are experiencing compound organisational (re)structuring; and are all located in Jiangsu Province. In this sense, having a relatively similar institutional environment for all the case study companies helped to minimize the contextual discrepancies brought by China's varied government interventions in different regions and provinces. The details and issues regarding the actual conduct of the research are described in Chapter 4.

### **1.5 The objectives and potential contributions of the research**

The research objectives are as follows:

- empirically, this research aim to explore the reality of management and managerial work in China's private enterprises;
- theoretically, it aims to experiment with a joint theoretical framework which combines an established Western theory with a Chinese theory to appreciate the complicated and unique management phenomena in China's private enterprises;
- methodologically, it aims to introduce ethnography as an efficient methodology for management research on China;
- and practically, it aims to provide useful benchmarks for measuring the performance of China's business organisations.

The potential contributions deriving from this research are as follows:

- First, this research generates massive empirical evidence, which not only narrows the gaps in knowledge about management and managerial work in China's private



enterprises, but also connects the research with studies on management and managerial work in other countries/regions and contributes to the global research on this topic.

- Second, the application of the combined theoretical framework, whether successful or not, will benefit management research on China in general. In particular, since management research on China has long been criticized for its over-reliance on received Western-based theories (Tusi et al., 2004; Meyer, 2006), trivialized contextual dimensions (Tusi and Lau, 2002; Meyer, 2006; Puffer and McCarthy, 2007; Hofstede, 2007) and consequently, the under-development of its theory-building (Tusi and Lau, 2002; Tusi et al., 2004; Peng, 2005; Wright et al., 2005; Meyer, 2006; Li and Peng, 2008), this research proposes a new solution to dealing with the contextual issues which have been generated by China's unique context.
- Third, this research demonstrates the strong explanatory capacity of ethnographic methodology and highlights the importance of qualitative methodology for management research on China. Currently, quantitative research approaches occupy the dominant status in management research on China and in China's management research, due to the strong influence of the academic tradition of the USA (Mayer, 2006) and the difficulties experienced by foreign researchers hoping to collect first-hand data in China (Quer, Claver and Rienda: 2007). It is hoped that the present research will inspire more researchers to conduct qualitative management research on/in China.
- Fourth and finally, such research also helps practitioners and policy-makers to understand the development of private enterprises and the problems and difficulties that they have encountered regarding their management system and management personnel. In doing so, it provides evidence for these audiences to improve their management ability and administrative capacity.

## **1.6 Structure of the thesis**

This thesis consists of 11 chapters.

Chapter One has provided a brief outline of the basics of the intellectual puzzle that this research will explore. Specifically, it includes a brief background to the research, justifications of the research, the research question, research design, objectives and potential contributions and the organisation of the thesis.

Chapter Two reviews and critiques three major approaches of managerial work study in mainstream management research: the functional approach, the behavioural approach and the political approach. Within each approach, key concepts, the main content and arguments, landmark contributors and their studies, achievements and weaknesses are discussed. The

chapter points out that the mainstream approaches to management and managerial work study contain major weakness and limitations which fail to cope with the changing research needs; hence, it appeals for a more suitable theoretical approach for the expanded landscape of management and managerial work study and for the emerging new phenomena in the age of globalization.

Chapter Three consequently attempts to suggest an appropriate theoretical approach to the study of management and managerial work in the context of China's private enterprises; that is, the combined perspective of the labour process approach and the Chaxugeju perspective. To achieve this, both the theoretical approaches and the existing managerial work studies pertaining to each perspective are reviewed and critiqued and the potential advantages of combining them are discussed.

Consonant with the research design in Chapter One, which covers the key issues leading to the choices of the research paradigm, methods and case organisations, further discussion is carried out in Chapter Four to provide details of the actual conduct of the research: getting access to the companies, the collection of the data, their analysis and theorization. Ethical issues concerning the role of the researcher and the way to conduct research are explored in this section.

Chapters Five to Nine present the findings of the study. Chapter Five contains two parts. The first part serves as an analysis of the world's shipbuilding industry and the general development and institutional settings of contemporary shipbuilding industry in China, also discussing the status of China's private enterprises. The second part depicts the seven case study companies. The focus is on company history, ownership involvement, and the development and further expansion of the company. The purpose of the chapter is to provide a context for the case studies. In four chapters (Chapters Six to Nine), the seven case study companies are discussed and presented as four case studies. The findings are grouped and presented under themes, which include (re)structuring exercises (e.g. the (re)structuring of the organisation and the systems of production and management), people management, the managerial job, controls and incentives, relationships in the workplace. An analysis and discussion of the major issues in the findings follow. Tables and charts are used from time to time to display the data and support the argument.

In Chapter Ten, a synthesis of the findings and a comparison between case studies provide a more comprehensive picture of the management and managerial work in China's private enterprises, which is then referred back to the reviewed literature in the previous chapters. It was hoped by so doing that the discoveries of the study would not only contribute to the

understanding of the research topic in its unique context, but would also contribute to the broader research on management and managerial work in general.

Chapter Eleven summarizes the key issues discussed in the previous chapters and highlights the findings, argument and contribution of this study. Before concluding, the limitations of this study are discussed and the possibilities of future exploration considered.

## **Chapter Two: Management and managerial work studies in mainstream management studies: a brief review and critique**

### **2.1 Introduction**

This chapter presents a brief review of the development of research on management and managerial work within mainstream management studies. The tasks set for this review chapter are, first, to trace the major trends and thoughts in its development in the literature and present a clear and up-to-date picture about relevant studies of management and managerial work; second, to extract the findings that are useful for the central topic of this study and help to position the study in the broader terrain of knowledge, while laying a foundation for a further review of management and managerial work studies through the lens of labour process theory and in the Chinese context and further discussion in the rest of the thesis.

#### **2.1.1 Management and managerial work studies in previous reviews**

Management and managerial work during the last 80 years is a subject area with a long history and has been subject to various constructs and a wide range of empirical studies, if Fayol's work '*General and Industrial Administration* (1916)' is taken as the initial point. Management researchers have made several attempts to sketch out the overall achievements and limitations of this subject area (e.g. Mintzberg, 1973; Reed, 1984; Hales, 1986, 1999; Martinko and Gardner, 1985; Willmott, 1984, 1987, 1997; Stewart, 1989).

Hales' classic review article (1986) covers a wide range of published "evidence" to summarize writers' responses to the question "what do managers do?" This is often referred as the most detailed one. Two follow-up articles, Hales and Tamangani (1996) and Hales (1999), picked up the interest in assessing the development of studies on managerial work; of these the former reviewed and critiqued the empirical studies and models which dealt with the relationship between managerial work and its organisational context and the latter evaluated the existing theoretical formulations addressing the question "why do managers do what they do".

Before Hales' (1986, 1996, 1999) articles, Mintzberg (1973) provided a review of the different approaches to the study of the manager's job before the 1970s and classified eight schools of thought, which he called the Classical, the Great Man, the Entrepreneurship, the Decision Theory, The Leader Effectiveness, the Leader Power, the Leader Behaviour and the Work Activity Schools, acting as a summary to the research preceding his own celebrated title, *The Nature of Managerial Work* (1973). As he commented (1973: 7), "much

of the literature is of little use, being merely endless repetition of the same vague statements”, which resulted in the situation of knowing very little about the manager’s job even though an enormous amount of material had been published on the topic. Reed analysed the available materials (1984) and assessed three conceptions of management: management defined as a configuration of structural components (Mintzberg, 1973; Braverman, 1974), management treated as a social process (Simon, 1945; Dalton, 1959; Child, 1972, Pettigrew, 1973; Pfeffer, 1978) and management regarded as socio-economic resource (Kerr *et al.*, 1960; Silverman, 1970; Tinker and Lowe, 1982).

Martinko and Gardner (1985) took a narrower focus than the preceding works had, reviewing the studies by means of structured observation and concerned more with limitations and with furthering the research through overcoming methodological weaknesses; while Willmott (1984, 1987, 1997) proposed a radical approach to analyzing management and the work of managers, building on a review and critique of landmark studies in the literature of “mainstream management studies”. He laid emphasis on assessing whether studies had included the political realities of managerial work in their institutional settings. Stewart (1989) based her review mainly on Hales’ (1986) and Martinko and Gardner’ (1985) review articles, to distinguish what had been studied from what direction future management and managerial work studies might take.

### **2.1.2 Management and managerial work studies: typology and the review strategy**

The above review articles together provide basic insights into the general development of management and managerial work studies and suggest that it can be viewed as a single phenomenon being studied under two different approaches, namely, that of mainstream studies with a micro-perspective (looking into the micro-actions of individuals) and that of a series of critical management studies with a macro-perspective (looking into the logics of management) (Tsoukas, 1994: 290), each revealing diverse views and shifts in focus and method and competing models during the decades of its evolvement. Considering the prevalence of a dominant mainstream perspective in this subject area, a search for an appropriate research perspective from which to explore management and managerial work in China’s private enterprises, a largely under-researched territory, has to start with some understanding of the major theoretical approaches and empirical works from this mainstream perspective. Given the sheer volume of literature on managerial work, the present review aims not to include the existing literature in its entirety, but to select the studies and models that are most representative and influential as well as relevant to this present work.

Therefore, three major approaches in mainstream studies have been chosen: the functional,

the behavioural and the political approach. The selection of authors and their studies in each approach may appear somewhat arbitrary. For example, a couple of studies may show features of more than one approach. Major contributors and their landmark studies are discussed in terms of answering several key questions: what has been studied in management and managerial work, how has it been studied, how can the evidence from the studies be understood and what are their contributions and limitations? A summary of them all concludes and closes the discussion in general.

## **2.2 Major approaches to management and managerial work studies from the mainstream perspective**

### **2.2.1. The functional approach**

Many of the early studies on management and managerial work were often found to define it by means of a set of composite functions; this characterises what is commonly referred to as the “classical or administrative management school” of thought. Fayol, an early key contributor to this school, is regarded as its founding father. He was the first person to identify elements or functions of management. In his pioneer work (1916), *General and Industrial Administration* (English translation, 1949), he defined five interdependent functions of management: planning, organizing, commanding, coordinating and controlling and argued that these functions were universal duties for all managers to perform at work no matter what type of organisation they worked in and what types of managerial job they held. His theorizing about management or administration came from his personal observation and experience at work as the managing director of a large French coal mining firm.

The five functions view of managerial work provided an analytical approach to describing and classifying management roles and processes and recognized the distinctiveness of managerial work from other business functions, such as accounting (Stewart, 1976). Fayol's work reflected the aspiration among the followers of this “classical school”, including management scholars and practitioners, of seeking the “one best way” of management. The assumption behind this sequence of thought is that there is a consistent set of principles which all organisations must apply in order to achieve efficiency.

Over the decades, the classical functions view has been subject to various applications, expansion and changes in wording, but its essence has remained unchanged. Luther Gulick, in the 1930s, added impetus to this theory by devising the acronym “POSDCORB”, of the various functional elements of the work of a chief executive (1937). POSDCORB derives from the initials of all the managerial activities: planning, organizing, staffing, directing, coordinating, reporting and budgeting. Mahoney, Jardee and Carroll (1963, 1965) expand the five functions to eight (Planning, Representing, Investigating, Negotiating, Coordinating,

Evaluating, Supervising, Staffing, called the 'PRINCESS' factors), adding new functions and renaming some of the original five before inclusion.

A number of subsequent empirical studies have found supportive evidences for the classical functions. For instance, Williams (1956) and Hemphill (1959) find that managers spend time on the functions defined by the classical school; these writers go beyond recording the observable activities of managers to show that all managers, not only those at high level, but also middle and frontline manager, engage in the functions of planning, coordinating, controlling and problem solving. Penfield's study (1975) replicates the findings of Mahoney, Jerdee and Carroll (1963, 1965) and those of Haas, Porat and Vaughan (1969), by studying managers' activities and their allocation of time. Other studies partly support the validity of the classical conceptualization of a manager's job and seek to highlight the factors associated with technical issues, such as the technical competence factor (Brush and Licata, 1982) and the technical problem solving factor (Lau, Newman and Broedling, 1980).

While still being the most widely quoted theory of management and managerial work, it still attracted equivalent criticism. The usefulness of the classical functions for understanding and categorizing managerial activities were challenged by subsequent researchers. It was argued that the theoretical understanding of management promised by the classical functions view was based on weak empirical foundations and incapable of capturing the reality of what managers do in practice (Carlson, 1951; Mintzberg, 1973). Stewart (1976) criticizes two deficiencies of the theory: its imprecise conceptualization of managerial functions and its overgeneralization to different managerial jobs. The former results in ambiguity in distinguishing one function from another; and the latter ignores the fact that different types of managerial jobs lay emphasis on different functions and that some of them do not involve all five functions. A number of writers propose their own typology for describing managerial work (Mintzberg, 1970, 1971, 1973, 1975) or develop alternative conceptualizations of the manager's job (Kotter, 1982a, 1982b; Stewart, 1974, 1976, 1982a). Particularly stringent criticism comes from Mintzberg (1973:11), which completely denies the value of the classical functions:

“Thus we found little of use in the writings of the classical school. They have served to label our areas of ignorance, and may have fulfilled the need of telling managers what they should be doing (even if it did not tell them what they did). But the classical school has for too long served to block our search for a deeper understanding of the work of the manager.”

Hitherto, however, the classical functions view has still been influential in the sense that it maintains its elevated status in the writings of popular theorists (e.g., Peter Drucker), the written and verbal applications of management practitioners (Mintzberg, 1973; Hales, 1999)

and in many management textbooks as the basis of initial discussion of the nature of managerial work and the structure which organizes the segments (Miner, 1971, 1982; Thompson and McHugh, 2009). It emphasizes the formal aspects of the job and presents a macro view of managerial work (O' Gorman, Bourke and Murray, 2005). It may have suffered from its over-simplified theoretical conceptualization; but it has laid a foundation for later studies and has frequently been used as the starting point of discussions on research into management and managerial work.

### **2.2.2 The behavioural approach**

On the basis of the critiques of the classical school, management researchers developed an alternative conceptualization of management and managerial work which was not functional. They sought to understand the nature of management and managerial work by studying managers' behaviour, or "what managers really do". This approach often focused on managers' observable behaviours and categorized them in terms of the roles, functions, activities, critical incidents and work patterns of managers (Stewart, 1976; O' Gorman, Bourke and Murray, 2005). Among the studies taking this approach, Mintzberg (1973, 1975, 1979, 1994), Stewart (1967, 1976, 1982a, 1983) and Kotter (1982a, 1982b) contribute three important but different frameworks in which to analyse management and managerial work.

#### ***Mintzberg: ten roles of managerial work***

In his celebrated work *The Nature of Managerial Work* (1973), Mintzberg sets out to close the gap between the theory and the actual practice of management. He observed five chief executives' work for a period of one week, examining six sets of characteristics in relation to 'the quantity and pace of their work', 'their activity patterns', 'the relationship between action and reflection', 'the use of media', 'their communication and contacts' and the 'interplay between their rights and duties' (1973: 28). On the basis of these data, he describes managerial work as a set of ten roles divided into three main groups: interpersonal roles (figurehead, leader, liaison), informational roles (monitor, disseminator and spokesman) and decisional roles (entrepreneur, resource allocator, disturbance handler and negotiator), which are common to all managers (1973). But he also indicated that the importance of these roles varies in terms of the type of managerial job and its level in the hierarchy. Thus, the minor differences in managers' behaviour are explained as the consequences of four sets of variables: 'environmental', 'job', 'person' and 'situational'. Contrary to the classical functional view, which suggests that managerial work is planned and rational, Mintzberg (1973:29-51) concludes that managerial work is typified by unrelenting pace, brevity, variety, fragmentation, preference for live action, attraction to the verbal media and the use of networks of contacts. On the basis of these characteristics, he further proposes thirteen propositions about managerial work.



Mintzberg was the first person to use the empirical data that he collected to shape the picture of managerial work, which gave him a more effective way of dismissing the 'myths' of management inherent in the classical view (Dann, 1990; Reed, 1984). The propositions which he extracts from the characteristics present managerial work in a rather accurate and well-defined manner (Tengblad, 2006). He exemplifies the 'in-depth realistic descriptions of managerial behaviour', which, as Martinko and Gardner (1985: 684) comment, has passed the stage of simply reporting frequencies or time allocation in managerial behaviour and been upgraded from the 'what' to the 'why' of managerial work. Similarly, Hales (1999) points to Mintzberg's contribution of inspiring innovative studies which moved beyond the previous purely descriptive approach and took a more theoretically oriented direction.

Methodologically, *The Nature of Managerial Work* (Mintzberg, 1973) initiates the application of the structured observation method<sup>5</sup> to study the behaviour of CEOs (Chief Executive Officers), which largely departs from the traditional application of structured observation in previous studies (e.g., Guest, 1956; Jasinski, 1956; Landsberger, 1961; O'Neill and Kubany, 1959; Ponder, 1957), which focus exclusively on the behaviour of production foremen in industrial firms (Martinko and Gardner, 1985). This seminal status was strengthened by a stream of replicating studies (Alexander, 1979; Kurke and Aldrich, 1983; Whitely, 1978; Sproull, 1981), using the structured observation method and heterogeneous samples of CEOs, in which results similar to Mintzberg's were confirmed. The use of the method was also expanded to studies of various managerial occupations, in both the private and public sectors. The heterogeneous nature of these occupations and organisations improved the generalizability of the research findings (Martinko and Gardner, 1985; Tengblad, 2006).

While numerous studies support Mintzberg's conclusion (1973) altogether or in part, there have been substantial criticisms to challenge the major aspects of this work, from conceptualization to methodology and from the findings to its contribution over time. Although he describes the classical functions found by Fayol and others as "folklore" (Mintzberg, 1975), his roles approach was criticized as no more than a list as arbitrary as that of the classical school. As Reed (1984: 275) observes:

"... his analytical categorization of 'managerial roles' and the 'contingency theory' of management behaviour and organisation in which it is developed is premised on an analysis of the manager's 'basic purpose' which resonates with the presuppositions formerly associated with 'classical theory'. His outline specification of the generic tasks which all managers have to perform and the more detailed categorizations of managerial roles which flows from it facilitates an exclusive focus on formal job

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<sup>3</sup> Three criteria are generally accepted in differentiating structured observation from other methods: (a) the method relies on observation by a person other than a subject; (b) the method must rely on the use of categorical systems; and (c) the method does not use randomized activity sampling procedures (Martinko and Gardner, 1985: 676).

characteristics that hold at the level of the 'universal manager.'"

The critics found no clear explanation of the conceptualization of the roles from the data (Dann, 1990). 'The relative importance of the roles differs greatly in different jobs; they do not apply in all managerial jobs; it is hard to allocate some activities to his categories; and some of his roles, especially that of leader, are too broad to be of practical use' (Stewart, 1976: 123); and there is no analysis of the way in which the roles are actually performed and why they are necessary for the managers (Willmott, 1984). Despite some acknowledgement of his contribution of advancing the theory of managerial work (e.g. Martinko and Gardner, 1985), most authors found that Mintzberg's (1973) framework could not be regarded as a theory for it still needed 'a creative leap from data to theory' (Dann, 1990: 322). Even he himself was not pleased with this descriptive approach; he calls it an arbitrary ordering, 'a list instead of a theory' (Mintzberg, 1991:357). Reed (1984: 275), from a more radical perspective, questions the validity of Mintzberg's role theory to explain 'the complex link between forms of managerial action and the organisational settings in which they occur'. Similarly, Willmott (1987) highlights that, although Mintzberg recognized the significance of institutional 'variables' in shaping managerial work, he failed effectively to incorporate the social or relational nature of managerial work into his contingent view, although he purported to do so.

Structured observation, as the research method, despite prevailing in general during the 1970s and 1980s, was also under attack (Stewart, 1976; Ferguson and Berger, 1984; Willmott, 1984; Carroll and Gillen, 1987; Martinko and Gardner, 1990). It is flawed mainly for three reasons: first, its focus is not on the reasons for the managerial behaviour; second; it assume that CEOs might be representative of managers as a whole; third, the cognitive part of managerial work is not directly observable, while its physical activities could be misunderstood without further checking the purpose behind them (Carroll and Gillen, 1987). Some writers (such as Larson et al., 1981 and Bussom et al., 1981) suggest that not all managerial work is varied and fragmented, as Mintzberg (1973) had concluded; many managers were found to work in a rather systematic way and manage their time efficiently.

### ***Stewart: demands, constraints and choices***

Since her book *Managers and Their Jobs: A Study of the Similarities and Differences in the Ways Managers Spend Their Time*, (1967) Stewart alone (1976, 1980, 1982a, 1989) and with collaborators (Stewart et al., 1980; Noordegraaf and Stewart, 2000) have contributed a series of influential works, spanning five decades, about the nature of managerial work. Before 1967, when she began her studies, most management writers had concentrated upon the similarities of managers' job rather than on their differences (Stewart, 1976; Stewart, 1982a; Dann, 1990). Stewart (1967, 1976), however, was more concerned with the

underlying constructs which distinguish one job from another, apart from its specialist and technical requirements.

Her work is based on the awareness that it is difficult to acquire accurate interpretations from managers' self-assessments of their work, since managers' perceptions and behaviours, even in similar jobs, can differ widely, Stewart sets out to develop a model that "would take account of this variety and flexibility and enable one to explore both the flexibility in the job and the variations in the jobholder's behaviour" (1982b: 8). The development process of this model is manifested in a number of her studies: first, the conceiving stage, *A Behavioral Classification of Managerial Jobs* (Stewart, 1976); second, the formation stage, *A Classification of Choices in Managerial Jobs* (Stewart, 1982a); and third, the test and application stage, *The Job and Role of the District Administrator in the National Health Service* (Stewart et al., 1980) and *Managers' Perceptions of the Choices in their Jobs* (Marshall and Stewart, 1981a and 1981b).

Central to her model are three themes: demands, constraints and choices. The demands, in Stewart's explanation (1976:1), stand for 'the things that a manager must do and the pressures that he cannot escape'; the constraints represent the factors that restrict what the manager can do, for instance, the market forces beyond the organisation and its internal procedures; finally, the choices are the activities from which a manager can select; either doing or not doing is open to him. Although all three are necessary in a full understanding of a job, during the conceiving stage of the model extra attention was given to demands, in particular, the ones 'made by human relationships, by the pattern of activities that a job may impose and by an aspect of responsibility that we have called exposure' (Stewart, 1976:2). Choices were discussed in more detail at the stage of testing and applying the model; and different types of choice were identified, such as 'common' and 'distinctive' ones (Stewart, 1982a). A summary of different kinds of demand, constraint and choice in managerial jobs was produced to assist the functioning of the model (Stewart, 1982a). The interaction between the three stages is perceived as a dynamic process: the demands can be viewed as the inner core of the job, the constraints as the outer boundary and the choices as somewhere in between; choices are confined by demands and constraints; while demands or changes can be modified by jobholders (Stewart, 1982b). Stewart argues that managers in a given position exhibit substantial differences in the conduct of their work due to the wide areas of discretion or choice available to them.

The research methods adopted in these studies included self-recording diaries, group discussions, lengthy questionnaires, open-ended interviews and observation. Apart from her 1967 study, which solely relies on the diary method, Stewart in her later studies (1976,

1982a; Stewart et al., 1980; Marshall and Stewart, 1981a, 1981b) employs a multi-method strategy to cope with the complexity and variety of managerial work. This change stems from the fact that a diary is flawed by the linguistic uncertainty resulting from managers' different understandings of certain terms, such as planning and controlling, which resulted in their failure to grasp the nature of the functions that they undertook (Burns, 1957; Stewart, 1967); while the advantages of multi-methods enable her to develop grounded theory work and to implement method triangulation (Lowe, 2003).

Stewart's studies in general have broadened our understanding of 'what managers actually do' through its new perspective, concentrating on the differences between managerial jobs and a new tool, the analysis of a job through its demands, constraints and choices. The simplicity of the model allows its easy integration with various theoretical ideas (Lowe, 2003). Her studies, both the series studies (1976, 1980, 1982a, Marshall and Stewart, 1981a, 1981b) and her other work at different times, can be treated as an integrated long-term research programme, systematically exploring the managerial phenomenon layer by layer and nuance by nuance. Compared with Mintzberg's (1973) unbroken focus on managers at CEO level, Stewart's studies cover a wide variety of jobs at different levels of their organisational hierarchy, in different functions and across different industries and areas of commerce, which yield a richer and more comprehensive description of managerial work.

Stewart was one of few researchers who sought to expel the conceptual ambiguity surrounding the research subject. What is being studied, whether it is a managerial job, managerial behaviour, managerial work, or all of them together, had not been clearly defined in many of the previous studies, which resulted in further ambiguities in interpreting research results or making comparisons between studies (Stewart, 1989). Stewart clearly distinguishes these basic terms involved in her studies and clearly states the focus in her research, enabling her to categorize dissimilar posts and successfully identify the typology of managerial jobs (Stewart, 1976, 1982a; Stewart et al., 1980). In her study of district administrators in the National Health Service, she made one of the earliest deliberate attempts to reduce the number of variables (Stewart et al., 1980). Another important aspect of her studies (Stewart et al., 1980; Stewart, 1982a) is her initial attempt to compare managers' behaviour in similar jobs, which helped to expose the variety of content and patterns of different jobholders' work at a time when many studies were comparing managers' jobs and behaviour regardless of their different functions, industries, locations, firms' sizes and different levels in the hierarchy (Dann, 1990).

Two major limitations were pointed out by her critics: first, that Stewart's work, like that of her contemporaries, was believed to be restricted by its origins in anthropology and sociology,

and hence failed to go beyond “who”, “how”, “what” and “when” questions about managers and could not provide valuable answers to “why” questions (Lowe, 2003). Therefore, what Stewart’s studies offer is merely another description of the manager’s job. Second, the demands, constraints and choices model of a managerial job could not clarify the nature of managerial work — although it offered an answer to the question ‘what affects managerial work?’ the proposed image of the way that the factors interact with each other and how they form the characteristics of managerial jobs remains an abstract one. Moreover, Stewart (1982a) reached the conclusion that ‘choices’ are more important in the model than demands and constraints. She argued that managers are given a substantial amount of choice in deciding how to undertake their job, what their focus should be and how to spend their time (1982a). Such allegations over-emphasize managers’ freedom at work and downplay the influence of demands and constraints in shaping managerial jobs; they carry the risk of over-generalization.

***Kotter: typology, context and networking***

Kotter’s approach (1982a) to studying managerial work was based on his belief that much of the literature was rather prescriptive, telling managers what they should do, instead of what they actually do and what effective managers do in practice. Like Mintzberg (1973), Kotter’s book *The General Managers* (1982a) focused upon managers in executive positions with multifunctional responsibility. Between 1976 and 1981, he studied fifteen general managers (GMs) from nine different corporations across the United States in his research project. He (1982a: 11-12) defined “jobs” as a set of responsibilities at different stages and a set of relationships on different hierarchical levels, sometimes formal and sometimes informal; the former includes setting basic goals, directions and priorities for an organisation in the long run, allocating resources in the medium run and using human, financial and material resources and achieving profit in the short run; the latter contains managers’ upward relationships with supervisors, their lateral relationships with other internal groups and their downward relationships with subordinates.

Kotter (1982b) finds that, although general managers’ jobs shared some basic demands, there were considerable differences between them. Drifting away from the most traditional managerial work research, Kotter emphasises the context in which a managerial job is embedded. As he notes (1982a: 10-11),

“It is well recognized in a general sense that the world of the typical manager has changed considerably during this century as organisations have grown larger, more diverse, more geographically dispersed, more technologically sophisticated, and the like. But I wonder if we really appreciate in a more specific sense how these trends which continue today, affect the nature of managerial work...

.....

The same trends have also helped create more kinds of GM jobs, and have made the key demands associated with those jobs less and less similar in different contexts. As a result, two general management jobs today can be very different in terms of the key tasks involved, and thus in terms of the demands they make of the general manager.”

He classifies seven different kinds of GM job<sup>6</sup> and concludes that the differences in job demands derive not only from the type of GM job but also, to a larger extent, from the variations in dimension of the business and corporate contexts; among the numerous dimensions identified in his study, size, age and performance level are believed to be particularly important. Kotter’s study (1982a) reflects the primary concern in the 1980s with factors affecting managerial work and behaviour (Dann, 1990). Moreover, to account for managers’ behaviour patterns, he extends this central issue further to include general managers’ personal and background characteristics into the contextual dimension.

Kotter’s (1982a) work is one of the major studies in the understanding of managerial work. His description of general managers’ actions resonates with the findings in many major studies. Like others (e.g., Mintzberg, 1973; Mahoney, Jerdee and Carroll, 1965), Kotter (1982a) finds that managers commit substantial time to interaction with those on whom their jobs depend, both inside and outside their unit or organisation. Meetings are an important arena for managers to exchange useful information, discuss issues and handle items. However, Kotter excels at presenting the entirety of the manager in his work, rather than a set of details of managers’ contacts, locations, time spent and frequencies. Interactions between managers are referred to as network building, which creates ‘a network that is different from, but generally consistent with, the formal organisation structure’ (Kotter, 1982b: 162). Networking activities are used not only to collect information for agenda setting, but also to implement this agenda. Thus Kotter (1982a) challenges much of the inherited knowledge about what managers do, by exposing their adoption of informal process and their use of many subtle methods to perform effectively.

Kotter’s research links closely with Stewart’s series studies (1967, 1976; Stewart et al., 1980; Stewart, 1982a; Marshall and Stewart, 1981a and b) in the way that Stewart’s Demands, Constraints and Choices model can be used to examine the origins of managerial agendas; and Kotter’s findings about managerial networks can be connected to Stewart’s (1976) proposed managerial contact patterns (Hales, 1986). However, some indirect conflict can also be found in the explanations in their studies. For example, Stewart (1982a, 1982b) argues that managers are not generally conscious of the choices available to them; whilst Kotter (1982a) suggests that general managers are generally aware of their activities in

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<sup>6</sup> Kotter (1982a) identifies seven different types of job for the general manager: (1) Functional CEO, (2) Multidivisional CEO, (3) Group GM, (4) Autonomous division GM, (5) Semiautonomous GM, (6) Product/Market GM and (7) Operations GM.

agenda setting, operating and network building.

To sum up, Kotter's most important contributions have been, first, to highlight the significance of context in influencing the demands of a job; second, to reveal the networking nature of managerial actions; third, and related, to deepen our understanding of the micro-social and political aspects of managerial work.

However, Kotter's research bears some limitations, too. First, there was some risk in generalizing his findings to larger populations of managers, because of the innate constraints on qualitative, in-depth studies of a small number of objects. Second, the variability between the general managers observed in the study was as significant as the similarity, which makes generalization even more difficult (Lake, 1984: 102). Third, though renowned as the largest study of its kind ever conducted, Kotter's research is not likely to be replicated by anyone considering the labour intensity, time requirements and interpersonal requirements involved (Lake, 1984), which, to some extent, limit the possibility of obtaining further support from subsequent studies. Fourth, although Kotter's understanding of managerial work considers more political and social aspects than his predecessors', it is still limited by his research object of seeking evidence to account for the individual manager's performance, rather than exploring the integrated cause-effect mechanism embedded in a broader social and political context (Willmott, 1987). This is why, in his explanation, managers' politicking is attributed to the difficulties in large complex organisations of performing their roles, for example, obtaining reliable information.

Methodologically, Kotter's (1982a) investigation employs multiple methods, including questionnaires, interviews and observation. His contribution includes a brief but useful commentary upon some of the methodological limitations of previous research, for instance, his criticism of survey methods in the work undertaken by managers (Willmott, 1984; Lake, 1984). Contrary to Mintzberg's (1973) pursuit of the scientific validation of research results and theory, Kotter (1982a) assumes that intensive field research is the methodologically efficient way to deal with the complexity of managerial work. However, Kotter's own methodological approach is far from perfect either. Although he provides clear descriptions of his process of inquiry and gives examples of the ways in which he practises the methods, he does not adequately justify his adoption of combined methods or and address the limitations of his choice of methods.

### **2.2.3 The political approach**

#### ***Dalton: managerial work between formal and informal***

Turning now to consider political accounts of managerial work, Dalton's pioneering book,

*Men Who Manage* (1959) is widely acknowledged as marking the inception of viewing management as a political and manipulative process (Dann, 1990). He once again challenges “the fairy-tale account of strict rationality in managerial behaviour” and replaces it with “... informal, non-rational, self-protective and clique-oriented behaviour” (Stagner, 1961:206).

Dalton is intrigued by the coexistence of formal and informal systems in modern organisations and its managerial consequences when faced by managers (Stagner, 1961). Central to his analysis are two concepts, ‘role’ and ‘clique’. He argues that there is a gap between a manager’s officially designated role and his individually assumed roles. In order to fill the gap, individual managers engage in all sorts of informal activity in quest of support, which results in the forming of various cliques, horizontal and vertical, within the organisation. Dalton’s observation also indicates that an individual’s behaviour inevitably reflects his power striving; and that power struggles constitute the major aspect of managerial interactions. Accordingly, he devotes a substantial share of his book to discussing the inner psychological problems of individual managers.

He brings in carefully chosen examples to demonstrate all kinds of managerial behaviour: the bureaucrat executives who find security in a milieu of guaranteed stability fabricated by rules and regulations, in contrast with the power-seeking executives who are frustrated by the restricted role assigned to them and seek ingenious ways to expand their freedom. Some managers are capable of fulfilling the assigned responsibilities, but others are unwilling or unable to deal with official assignments, which forces them to use extra stratagems to shift the pressure onto others.

Throughout his work, Dalton emphasizes the continuing conflict between the rational and non-rational aspects of organisational functioning (Dalton, 1959: vi; Stagner, 1961). It is “a study of compromises among key individuals and groups in rational organisations and the human strictures on compromise”, whose locus is “the conflict between those advocates of routine whose passion is method and procedure and those pragmatists who resort to adaptation and expedient in order to get the job done” (Dalton, 1959: vi).

Methodologically, Dalton’s (1959) study is designed as a multiple case study, consisting of 4 case firms. Instead of drawing contrasts between them, Dalton mainly uses evidence from the first firm and evidence from the other three through occasional comparisons to support and supplement his findings. Dalton’s data collection was conducted through participant observation, which enabled him to penetrate the surface of the official sanctioned features of managerial work and uncover much of what goes on in organisations. Later researchers,



such as Sayles (1964) and Kelly (1964), employ observation and activity sampling, respectively, to reinforce a political perspective derived from Dalton.

Dalton's study (1959) concerns issues from the sociology of both the enterprise and its industrial relations and makes important contributions in three major ways: first, it breaks new ground in understanding managerial behaviour by highlighting the function of "office politics" in organisational life. It illuminates the interaction between individual and organisational needs from a micro-political perspective. Its description of managers' power struggles over resources and decision-making on organisational design ignited the reconceptualization in the studies of later researchers of management as a power negotiating process among competing interest groups or coalitions (e.g., Child, 1972; Pettigrew, 1973; Pfeffer, 1978) and led to a new perspective which viewed the organisation as a political system (Crozier, 1964; Pettigrew, 1973). Although he positions himself as a "marginal researcher", Dalton's study reflects his attempt to link academic theories with phenomena which can be observed in practice.

Second, his effort goes beyond mere description of a phenomenon and seeks to construct a theory, although vague and imprecise, to interpret the exceptional cases which he observed, in which, "managerial deviation from formal rights and duties is the major dependent variable and 'office politics' is the big, independent one" (Delany, 1960: 662).

Third, by stressing managers' feelings and political skills the emergence of his political perspective on managerial work supplements both the "bureaucratic" and "scientific management" approaches to organisational design, where in both cases the emphasis is laid on managers' intellectual and work skills. While the "bureaucratic" and "scientific" approaches assume that organisational efficiency should be taken, with rational cooperation among managers within a relatively stable hierarchical environment; Dalton perceives the actual managerial life as engaged in with "passionate rivalry, shrewd compromise and emergent, constantly changing organisational objectives" (Delany, 1960:661).

However, Dalton's political approach is limited by his exclusive focus on individual managers' inner psychological struggles (Willmott, 1987) and his over-emphasis on office politics (Delany, 1960; Stagner, 1961). For the former, Dalton reasons that personal sentiments are the primary factor in the tension between managers' expected roles and their enacted roles, which implies that the gap between roles can be bridged only by individual managers striving to harmonize the needs, expectations, emotions and ethical issues already in play. In addition, the role tension and individual manager's reactions are presented without sufficient elaboration either of the concepts themselves or the conditions and factors included in the

manager's reaction.

For the latter, almost every aspect of management in the case firms can, from Dalton's perspective, be attributed to office politics, from individual political personality, group interests, to clique alignments, from struggles at individual level to clique and firm level and even at community, market and union level. Even an individual's career success is attributed to his or her political skills, combined with his educational background and work performance. Altogether, Dalton's political account of managerial work is detached from the broader context within which firms are embedded, therefore unaffected by the macro-structure of the society.

### **2.3 Mapping the terrain of mainstream management and managerial work studies: limitations and prospects**

Since the mainstream category embodies various perspectives, conceptual models and countless images of management and managerial work produced in empirical research, its contribution to our understanding of what management and managerial work look like is certainly significant. However, as we have seen in the preceding overview of representative studies, despite the massive literature on management and managerial work studies which has accumulated, the development of such studies seems still a fragmented process (Hales, 1986). This is first, because "they do not fit into a clear pattern either in terms of chronological or methodological development or in terms of the primary concerns of the researchers" (Dann, 1990: 316); second, because the category encapsulates various perspectives, conceptual models and countless images of management and managerial work presented in empirical research and thus it certainly makes a significant contribution to our understanding of what managerial work looks like, but fails to provide convincing answers to the question of what managerial work actually is; third, the ample evidence produced does not point toward convergence, but rather, to a disconnected research area "with little sense of sustained, systematic accretion of knowledge" (Hales, 1986: 105); and, fourth, only a few studies can be found which focus on non-advanced economies.

#### **2.3.1 Limitations: theory and context**

Mintzberg (2009) deplors the lack of systematic study of managing and the slow advance of our understanding of the nature of managers' work in the last three decades, in particular from his "ten roles model" onward. In fact, this issue has been reiterated by many writers (e.g., Hales, 1986, 1999; Martinko and Gardner, 1985; Brunsson, 2007). It is argued that the slow progress of research in the field should be attributed to the absence of a good theoretical base whose formation has been hampered by three long-term problems (Hales, 1986, 1999; Martinko and Gardner, 1985; Stewards, 1989): first, an ambiguous conceptual

system which fosters the confusing use of terms. The most basic problem could be the interchangeable use in many studies of such terms as *management*, *managerial work*, *managerial job* and *managerial behaviour* (Hales, 1989; Townley, 1993; Tsoukas, 1994). As Hales (1989: 9) observes, within the term 'managerial work', studies hardly distinguish "management' as a process and 'managers' as a particular category of agents", "managerial work as a totality and managerial jobs as clusters of that (and other) work", managers' role definition and their role performance and managerial tasks and responsibilities and managers' behaviour and activities. Further problems flowing from this confusion include diverse or inconsistent research findings, the difficulties in distinguishing managerial work from non-managerial work (or managers' general behaviour from their managerial behaviour) and the difficulties in interpreting managerial behaviour and in finding the correspondence between managers' behaviour and their duties (tasks, responsibilities and functions).

Second, there has been a reluctance to move away from narrative-dominance to explanatory accounts of managerial work. The descriptive-centred tradition inherited from early studies still enjoys substantial popularity. On the one hand, it could result from irreconcilable pieces of evidence and findings, caused by the immature conceptual system mentioned above; on the other, the difficulty originates from the disengagement between theoretically conceived models and the research findings. Often a theoretical construction starts with an ambitious claim to answer such questions as "why do managers do what they do?" and ends with another masterpiece of narration about "who", "how", "what" and "when", but no answers to "why" questions (Hales, 1999). A perfect example is Mintzberg's (1973, 1979, 1994) work: his 'ten roles model' gives no reasons for managers' behaviour; his model to link managerial work to organisational forms is developed in an inconsistent way; and his 'rounded out' model of the manager's job proves to be merely an updated framework, practical only in the sense of fitting the necessary elements for describing a managerial job.

Third, there has been a tendency to simplify and abstract management and managerial work from its environment. A necessary step toward an appropriate explanatory account, which requires considering the issue of the embeddedness of managerial practices in the broad context of the function of management in work organisations (Noordegraaf and Stewart, 2000), is disabled by many researchers' decision to reduce management and managerial work to the managerial behaviour of an individual manager (Stewart, 1989; Hales, 1986, 1999). Willmott (1987: 324; 1997). This minimises their disregard for the institutional formation and significance of management and managerial work and points to the hiatus between the behavioural and institutional accounts and consequently the dualism between the actions and system of managerial work. Often researchers, such as Kotter (1982a), emphasize the impact of context on the manager's job; but, due to their initial research

objective of seeking evidence to account for an individual manager's performance, the context in their studies is often confined to particular organisational settings, rather than broader national or cross-national settings (Willmott, 1987).

### **2.3.2 Prospects: the global turn of management and managerial work studies**

During the last three decades, management and managerial work in general has been experiencing profound changes under the fierce waves of globalization. An increasingly open and unified world market requires organisations to cope with pressures from the configuration of global resources, transnational labour mobility and the internationalization of capital, which calls for more attention to the impact of international trends and forces upon work organisations in general and the managerial work in particular, as well as the influence from the dynamics of capitalist systems. As Smith and Meiksins (1995:241) put it,

“the influences upon work within a particular country are the result of a three-way interaction of system effects [the economic mode of production], societal effects [national legacies and institutional patterns], and dominance effects [‘best practice’ or universal modernization strategies generated and diffused by the ‘society-in-dominance’ within global economy at a particular period of time]”.

In a similar way, Frenkel (2003: 135) proposes that the understanding of work in a given environment has to consider its embeddedness in three force-fields: “the macro field of globalization and new technology, the meso field of transnational production networks and the micro field of local political and labor market institutions and organisation structure and culture”. Thus, the global turn of managerial work studies appeals to a theoretical framework which is competent not only to bring “work” back to a specific workplace, but also to situate it horizontally in an extended context (from the setting of a particular organisation to its context at national, cross-national and global levels) and vertically (in the historical evolution of work).

### **2.4 Conclusion**

Taken together, the further advancement of management and managerial work studies in terms of theoretical development and contextual integration requires an alternative perspective which should provide a clearly defined conceptual system to dispel the ambiguity surrounding the term management and managerial work (Reed, 1984; Stewart, 1989; Townley, 1993); it requires attention to shift from description to the exposure of the causal power underneath the surface contours of managerial phenomena and a competent theoretical framework to deal not only with the positional characteristics of managerial work but also the structural features and to allow the further extension of management and managerial work studies to move from specific organisational settings to a broader context containing typical and non-typical examples of institutional, cultural, social, economic and political environment.

Hales (1986: 107) and Stewart (1989) suggest that dealing with this comprehensive task should start by “an understanding of how the managerial function is constituted within the overall work process of an organisation”. Tsoukas (1994) indicates the plausibility of theorizing on context-dependent managerial work through looking into the logic of management, which enables models to be constructed capable of revealing the causal mechanisms underpinning particular forms of management practice and behaviour in particular social contexts.

All of these writings imply a more promising prospect of studying management and managerial work from a critical perspective; while some scholars (e.g., Knights and Willmott, 1986; Storey, 1983; Willmott, 1997) advocate more explicitly a labour process approach to analyzing management and managerial work. Thus, two follow-up questions arise. The first is why labour process theory (LPT) is competent to take on the challenge and the second asks how LPT could be incorporated theoretically into specific socio-economic contexts, in particular, those of the newly emergent economies or which are unlike advanced economies – in the present study, the context of China. The next chapter touches on both these questions in a review and assessment of managerial work studies from the labour process perspective and has the bold vision of combining LPT with a theory of the Chinese context to form a theoretical basis for studying managerial work in China's private enterprises.

## **Chapter Three: Towards an integrated approach for management and managerial work studies in China's private enterprises**

### **3.1 Introduction**

As concluded in Chapter Two, studies of management and managerial work have long been criticized for two major shortcomings: the lack of theoretical development and the lack of attention to contextual embeddedness (Hales, 1986, 1999; Willmott, 1987; Stewart, 1989; Noordegraaf and Stewart, 2000; O'Gorman, 2005). In addition, the increasing globalization during the last two decades has imposed even more pressure on management researchers to understand the nature of management and managerial work within and across different countries and contexts. Altogether, the situation calls for a critical perspective equipped with context sensitivity to cope with the limitations and the further contextualization of the research.

As regards the topic of this research, the context of China poses a specific challenge. With its influential economic status and distinct political, social and cultural system, this context can hardly be ignored by any management or organisational study. Along with its establishment of a market economy, China has increasingly become integrated into the global business system, an event which is accompanied by the popular trend to import and emulate 'advanced/successful management systems'. Thus, to understand management and managerial work in post-socialist China, it is necessary to appreciate both the common features and the differences between Chinese management and global management. To overcome the challenge of the context of Chinese management studies in the management research as a whole requires an integrated framework.

The purpose of this chapter is two-fold: first, it seeks to justify the use of the labour process approach to further managerial work studies by assessing its evolvement both theoretically and empirically; second, it introduces a theory accommodating the Chinese context (Chaxugeju) and discusses the feasibility and possible benefit of combining it with labour process theory to overcome the challenge from the Chinese context and apply it to the research into management and managerial work in China's private enterprises.

### **3.2 Management and managerial work through the lens of labour process theory: an assessment**

The idea of adopting the labour process approach to look into management and managerial work is not recent. As long ago as the 1970s, Braverman (1974) laid a solid foundation for

the critical analysis of managerial work. Its capacity as a key remedy for the deficiencies of mainstream studies and a solution to the new challenges brought by globalization in this area has been strengthened and revived by its own theoretical evolution (Thompson and Newsome, 2004) and its most recent applications in empirical studies (e.g., Hassard, Morris and McCann, 2009; McCann, Morris and Hassard, 2008).

### **3.2.1 Managerial work as managerial labour process**

Braverman's seminal work *Labor and Monopoly Capital* (1974) is widely regarded as a pivotal study from a critical perspective of management and work in capitalist organisation. Armed with the core elements of Marxist theory, Braverman focused on the development of the processes of production and labour processes in general, in which managerial work is treated as a "labor process conducted for the purpose of control within the corporation and conducted moreover as a labor process exactly analogous to the process of production, although it produces no product other than the operation and co-ordination of the corporation" (ibid., 1974: 267).

#### ***Main arguments***

Braverman argues that the overall structure of management was changing in accordance with the evolution of capitalist work organisation, which contained the general practices of dismembering the management function and reorganizing it "from a simple line organisation into a complex of staff organisations suited to a subdivision of authority by various specialized functions" (ibid.). Management is turned into administrative control and its overall purpose become to eliminate the uncertainty and exercise constraints to operate capitalist production efficiently (ibid., 1974). Under this management system, the relations involved in every step of the production process, for instance, "the relations of purchase and sale of labour power" or "alienated labour", become "part of the management apparatus itself" (ibid., 1974: 267).

Braverman (1974) considers that central to all management systems is the concept of "control": the essence of "control" should be understood as "the removal of any possibility of worker intervention in decision-making and the increasingly thorough and detailed imposition of prescriptions and standards designed elsewhere" (Salaman, 1982: 48). For capitalists, it is essential to secure control over the labour process under their own hand. Braverman contends that Scientific Management exemplifies the paradigmatic form of the capitalist mode of production in the monopoly era. It serves not only as the bedrock of all work design, but is "a means for management to achieve control of the actual mode of performance of every labour activity, from the simplest to the most complicated" (ibid.: 90); while other competing schools of management thought, the human relations school in particular, offered

no more than the rhetoric for “the maintenance crew for the human machinery” (ibid.: 87). His argument implies that “it is management which deskills workers” (Salaman, 1982: 49).

Based on his understanding on the nature of management in capitalist organisation, Braverman incorporates the concept of “class” into the conceptualization of manager, which clarifies the difference between acquiring membership of the capitalist class in general and becoming a capitalist by way of directly organizing and managing a capitalist enterprise. The former can be satisfied by simply owning adequate wealth, while the latter has to consider whether the individual has the traits and talents required by the capitalist organisation. Braverman’s description of the forming of the managerial stratum reveals the fact that the “hierarchy” is no longer fixed according to an individual’s status; rather, it has been replaced by a dynamic one based on work (Burawoy, 1996). On the basis of his description of the nature of management, Braverman (1974) highlights the fact that the true operating executives of capitalist organisation are very limited in number; the various categories of personnel under the title of “manager” are merely part of the “working class” or in other words, “the middle layers of employment”, including the scientists and technologists who perform specialist roles in the division of labour. The managerial function is operated at collective level, combining the workers’ execution and the managerial staff’s exercise of control over workers. In this sense, managerial work at the individual level in capitalist production cannot escape from the fate of de-skilling, a two-fold process of job fragmentation and the progressive separation of conception from execution, essentially the same as for the productive work conducted by workers. Such progressive degradation turns into a general trend for both managerial and non-managerial work in capitalist economies.

Braverman’s labour process perspective on managerial work differs from other approaches in four aspects: first, it situates managerial work in the development process of capitalism, bringing a historical and social dimension into the analysis. His analysis starts with workplace relationships, later expanding to market mechanisms and the role of the state, which reflect his efforts to link the “micro” and “macro” processes of managerial work within the broader socio-economic context. Second, it reconstructs the concepts of “management” as an institutionalized control system, managerial work as the apparatus of the control mechanism and the manager as a unit of managerial labour whose work life shares the characteristics of “sellers of labor” with productive workers in so far as both of them live with “subjugation and oppression” (1974: 418). Third, by combining the analysis of managerial work with the process of “class formation”, Braverman produces a more complex picture of the social relationships involved and produced in the workplace. Fourth, its methodological approach is believed to add extra merit to the study, given the fact that it involves Braverman’s direct experience as a skilled metal worker who could interpret the



transformation of the labour process and class structure within an occupation (Burawoy, 1996).

### **Limitations**

The image and ideal of managerial work presented in Braverman's work attracted not only advocacy (e.g., Zimbalist, 1979) but radical criticisms. Since it is part of Braverman's construction of capitalist labour process, its limitations have to be understood within the general critique of Braverman's work. The criticisms of Braverman's work overall and of his analysis of management in particular, centre largely on three inter-related respects of his analysis: a) its neglect of "subjectivity" (Burawoy, 1979, 1985; Littler and Salaman, 1982; Willmott, 1997; Doherty and Willmott, 2001); b) the limitations associated with its functionalist view (Salaman, 1982; Reed, 1984); and c) the failure of the deskilling thesis to account for the new development of work (Burawoy, 1996).

a) Braverman's decision to ignore the subjective aspects of the development of work and the working class was facilitated by his acceptance of Marx's methodological stratagem, in which the individual was conceptualized as "the personification of economic categories, the bearer of particular class-relations and interest" (Marx, 1867: 92). The consequence of this treatment is an irreconcilable conflict of interests between managers and the managed and an "objective" account of management control mechanisms, focusing exclusively on objective aspects of work. The absence of worker subjectivity in Braverman's examination of the labour process under monopoly capitalism prevents us from appreciating the nature of control which involves 'political and ideological processes' (Burawoy, 1985:35). As Littler and Salaman (1982: 260) contend,

"The achievement of consent, of a *modus vivendi* between management and the shop-floor also crucially depends upon the construction of definite trade-offs and interactions which, while they can generate an adequate level of worker acquiescence, may have little to do with generating or reflecting, large-scale legitimations."

To ignore or minimize the analysis of the subjective aspects of work resulted in an ossified way of thinking which takes the relations between capital and labour as given, abandoning the further analysis of the way in which it is formed in practice in the process of production (O' Doherty and Willmott, 2001). To this end, Braverman omits the role of class struggle as a force shaping the labour process, which portrays capital (the employer) as 'having uncontested, unilateral control over the labour process' (Zimbalist, 1979:xii; Friedman, 1977).

b) Braverman's analysis of management is criticized for promoting a simplistic 'explanatory determinism' (Reed, 1984: 275) in which management is obliged to design and redesign the labour process in response to capitalist requirements to achieve more profit from operating

and oppress worker resistance (Salaman, 1982; Reed, 1984; Storey, 1985). The role of management is passive and reactive, “simply to comply with the necessary historical process of development of work forms under capitalism”, which suggests an automatic, unmediated and unproblematic relationship between “variations in the size, form and activity of management” and “capitalism’s imperatives” (Salaman, 1982: 50-51). Following this logic, the role of managers is deprived of any power of active intervention, acting only as the medium or executor (Reed, 1984).

The functionalist feature of Braverman’s analysis, to some extent, was inherited from Marx or derived from his reading of Marx, although it is inferior to Marx’s original theory in terms of the richness and complexity of the conceptions (Littler and Salaman, 1982). As a result, Braverman’s management theory bears congenital flaws stemming from its basic conceptions and structurally impacting on the overall analysis; for example, its conception of treating the actors in the labour process as a dehumanized category encourages a one-dimensional perspective with an overriding focus on the objective factors of the managerial system.

Littler (1982) comments that to believe that reorganisations of the labour process were the outcome of the capitalist need to pursue surplus value, in which every aspect was carefully designed by the capitalist class and implemented by the agents of capitalism (the management), is almost to advocate a “conspiratorial concept” of capitalism. The understanding of the labour process cannot be reduced to an essentialist law of capitalism (Tinker, 2002). Braverman’s analysis portrays management in a highly abstract way, reflecting a theoretically crucial relationship without giving the necessary elaboration on the way in which it comes about in practice (Salaman, 1982; Littler and Salaman, 1982). As Reed (1984) argues, such a rudimentary explanation cannot account for the actual range and diversity of managerial forms.

c) “Deskilling”, in Braverman’s framework of management, is treated as a critical managerial strategy and the inevitable consequence results from this strategy. Braverman (1974: 100) assumes that unless management seizes complete control from workers over the labour process, “not only in a formal sense but by the control and dictation of each step of the process, including its mode of performance”, an expansion of surplus value production will never take place, given the fact that workers have a nature of ‘thwarting efforts to realize to the full the potential inherent in their labour power’. To erode worker control over the labour process, capitalists sought to progressively erode worker control over the labour process through attenuating workers’ cognitive and technical input into the production process. As a consequence, the division between mental and manual labour was deepened, and the

workforce was deprived of conceptual control over the labour process.

However, the deskilling hypothesis was greeted with scepticism by subsequent researchers. Burawoy strongly doubts it (1996:296), asking “How could such a simple, even unoriginal thesis transform the field of sociology?” He states (ibid.) that the simplicity of Braverman’s deskilling thesis might have been appealing for a while, but it is merely “a classic of its time”, failing to sustain new interpretations. The situation seems to incline to the opposite of Braverman’s prediction of a homogenous population of deskilled proletarians (Grint, 2005). In assessing this issue, Wright uses quantitative data drawn from American industry, 1915 to 1960, to show that that the deskilling tendency within industrial sectors can be reversed by shifts of sectoral composition in the economy. When considering the deskilling issue in the managerial labour process, a further question arises from the ambiguity in Braverman’s definition of the “management class”. Our understanding of the levels of alienation and fragmentation of managerial work is hampered by the absence of an appropriate answer to questions such as “What is middle about the middle class?” (Wright, 1986). Even Braverman himself was aware that his simple polarization could not cope with the challenge from the fact that the emergence of the new skilled occupations in his time was reducing the rate of progressive deskilling (Burawoy, 1996).

### **3.2.2 Management and managerial work in control-resistance paradigms**

Braverman’s work stimulated a wave of subsequent research focused on managerial strategies of control (e.g., Friedman, 1977; Edwards, 1979; Meiksins, 1984; Burawoy, 1979, 1985; Littler, 1982; Thompson and Ackroyd, 1995, 2005), which contains counter-arguments and alternative theorizations to Braverman’s construction of management and managerial work. Among them, Friedman (1977), Edwards (1979) and Burawoy’s (1979) reformulations at this stage reflect major advances in the critical approach to managerial work.

#### **3.2.2.1 Friedman: management and managerial work between direct control and responsible autonomy**

Friedman (1977) began some corrective work, attempting to overcome the objectivist bias of labour process theory. Friedman (1977) accepted Marx’s view of labour power as “variable capital” (Marx, 1867: 173-4), which states that human labour is different from any animal labour in its characteristic of being conscious and purposive (Braverman, 1974:51). Since “individual human beings are intelligent and guided by subjective states” and since “workers are alienated from the labour process and actively build organisations to resist managerial authority”, each managerial control strategy is essentially constructed on a contradiction which varies according to the specific type of control strategy exercised (Friedman, 1977: 82). In this respect, management, under the capitalist mode of production, is defined as “the

process or activity of managing economic enterprises or firms, rather than the group of top managers who direct those enterprises” (ibid.: 280); managers, as the representatives of capitalists, always bear the functions of coordinating “the various activities undertaken by the firm and the exercise of managerial authority over labour power” (ibid.: 6, 77).

Friedman (1977: 6-7) proposes two basic managerial strategies: Responsible Autonomy and Direct Control, the former of which “attempts to harness the adaptability of labour power by giving workers leeway and by encouraging them to adapt to changing situations in a manner beneficial to the firm” while the latter “tries to limit the scope for labour power to vary by coercive threats, close supervision and by minimizing individual worker responsibility using Taylorist techniques.” These two types of managerial strategy employ different logic: the Direct Control type of strategy assumes that people can be treated as machines and that they respond most efficiently to coercive methods or stimuli, for instance, financial decisions; the Responsible Autonomy type of strategy tries to encourage the positive aspects of labour capacity so as to win their loyalty to their employers, by respecting them, giving them autonomy and responsibility and trying to convince them that the top managers share their goals (Friedman, 1990: 178).

Friedman (1977:4-5) adopts a historical perspective to examine the development of worker resistance and management control strategies in the capitalist mode of production. Through reviewing the history of worker resistance in the United Kingdom from the 1780s to the 1970s, he finds that the two types of strategy co-exist throughout the history of capitalism, with Responsible Autonomy strategies often being applied to central workers and Direct Control strategies to peripheral workers (ibid.: 7). However, these two types of strategy can best be conceptualized as two extreme directions in between which exists a wide range of possible positions where managers can manoeuvre, rather than pre-defined states for managers to choose (Friedman, 1990: 179).

For Friedman (1977: 4-5), Braverman’s account of managerial control is flawed in so far as it treats the Direct Control strategy as normality in the theory and practice of capitalist management. This is a mistake, stemming from a general Marxist tradition of neglecting the impact of work resistance on the mode of production. It was the power of class struggle that provoked and forced the changes to be accommodated within the capitalist mode of production and therefore drove the further development of the system. Failure to consider the impact of worker resistance at the level of the industry or the firm would cause difficulties in understanding changes in the activities of managers and capitalists and lead to a “technological deterministic view of capitalist development”.

In sum, a key proposition expressed in Friedman's general thesis (1990: 175) is that management plays a key role in the development of the capitalist mode of production in so far as managers are forced to adjust managerial strategies to cope with "changing market conditions and changing forms and strength of worker resistance". He argues (1977, 1984, 1990) that, historically speaking, the adoption of different managerial strategies at different times depended on the strength of worker resistance. Meanwhile, the strength of worker resistance reflects both the external labour market and the internal labour market of the organisation; and the fact that, in dealing with different worker groups, managers employ different managerial strategies.

### **3.2.2.2 Edwards: management and managerial work from "Simple Control" to "Structural Control"**

Edwards (1979) provides an alternative theorization of the development and changes in management control strategy. For him, control should be understood as "the ability of capitalists and/or managers to obtain desired work behaviour from workers" and "such ability exists in greater or lesser degrees, depending upon the relative strength of workers and their bosses" (Edwards, 1979: 17). Like Friedman (1977), Edwards contends that "control" is the response of capitalism to conflicts and contradictions derived from worker resistance in the production process. The system of control means the social relations of production within the firm and can be understood as the method of coordinating three indispensable elements: the Direction (of work tasks), Evaluation (of work done) and the Disciplining (and rewarding of workers) (ibid.: 18, 112).

He argues that "control" is an active process, changing with changes in firm size, operation, the environment and the level of worker resistance (Edwards, 1979: 18); and that the evolution of the control systems<sup>7</sup>, from a historical perspective, exhibits different stages (ibid.):

"...each transformation occurred as a resolution of intensifying conflict and contradiction in the firm's operation. Pressures built up, making the old forms of control untenable. The period of increasing tension was followed by a relatively rapid process of discovery, experimentation, and implementation, in which new systems of control were substituted for the older, more primitive ones. Once instituted, these new relations tend to persist

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<sup>7</sup> Edwards (1979: 18) provides more specific definitions for these three elements: 1) Direction, or a mechanism or method by which the employer directs work tasks, specifying what needs to be done, in what order, with what degree of precision or accuracy and in what period of time. 2) Evaluation, or a procedure whereby the employer supervises and evaluates to correct mistakes or other failures in production, to assess each worker's performance and to identify individual workers or groups of workers who are not performing work tasks adequately. 3) Discipline, or an apparatus that the employer uses to discipline and reward workers, in order to elicit cooperation and enforce compliance with the capitalist's direction of the labour process.

until they no longer effectively contain worker resistance or until further changes occur in the firm's operations."

On this basis, he (1979) introduces a typology of management control, which is composed of the capitalist control strategies which have sequentially emerged since the nineteenth century, namely "simple control" (ibid.: 25-26) or "hierarchical control" (ibid.: 30-34), "technical control" (ibid.: 111-112) and "bureaucratic control" (ibid.: 130-131). Simple control is most often seen in the small business sector, in which, power is exercised personally by bosses; workers are subject to a mix of close supervision, tight discipline, harsh sanctions and rewards and incentives. In the nineteenth century, in particular, simple control was prevalent when most firms were small in size, with limited resources and personnel and were faced by a "relatively tight discipline of substantial competition in product markets" (ibid.: 18).

Such an unsystematic control system failed to sustain its efficacy when dealing with production on a larger scale and at a more complex level. At the end of the nineteenth century, firms required more control to cope with the increasing tendency of concentrated economic resources and an expanded worker group. The distance between capitalists and workers was widened by the growing numbers of worker and the increased hierarchy of management. Large firms began to have the power to loosen market constraints and make plans for pursuing long-term profits. In order to inhibit worker resistance, they spent much great effort and invested substantial resources in establishing systematic control. After the failure of their series of experiments – welfare capitalism, scientific management and company unions, large firms developed "structure control", which can exist in two forms: technical control and bureaucratic control (ibid.: 20).

Edwards' discussion of managerial roles focuses mainly on those related to production, in particular the role of foreman and front-line supervisor. He analyzes the changing role of managerial work and managers in a technical and bureaucratic control system by comparing them with their counterparts in a simple control system. Technical control arose from the employers' attempt to control production through controlling the physical structure of the labour process (ibid.: 20-21). It includes the procedures of designing machinery and planning the work flow, both of which are essential to the transformation of labour power into labour as well as the maximization of "the purely physically based possibilities" for pursuing efficiencies (ibid.: 112). The mechanization of production forces workers to give up control over the pace and sequence of operation. Managerial staff is equally forced to submit to the pace and demands of the technical system. The role of managerial staff under technical control is turned into the "enforcer of the requirements and the dictates of the technical structure" (Edwards, 1979: 120). The most obvious case, in Edwards' observation, is the

“foreman” who retreats from the responsibility of directing and initiating tasks and takes on more of a monitoring responsibility (ibid.). Since the direction and pacing of work are set by technology and the individual worker’s physical location is fixed by the technical structure of the production line, workers’ social contacts and the potential to ganging up are minimized. In this sense, the managerial staff actually needs less power and their personal arbitration in the job is also confined by the whole technical structure. With production technology serving as the mediator in the control system, the struggle between capitalists (bosses) or managers and workers in the labour process no longer takes the form of direct and personal confrontation (ibid.: 118), which leads to obscuring the nature of a conflict. Ford’s assembly line was used to exemplify the image of technical control because of its clear direction of the operation, performance and pace of work (ibid.: 118). Later, with the development of new technology such as the computer, more non-production (or, in Edwards’ term, white-collar staff) jobs were turned into the operating of simple machines.

Bureaucratic control rested on “the principle of embedding control in the social structure or the social relations of the workplace” (ibid.: 20-21). Since technical control carries the risk that workers can take over the control of the entire production process, the employers favoured the depersonalized system of bureaucratic control, relying purely on hierarchies, rules and careers (Grint, 2005: 186). The exercise of hierarchical power was institutionalized, “built into job categories, work rules, promotion procedure, discipline, wage scales, definitions of responsibilities and the like” (ibid.: 131). Capitalists held the power to establish rules, which guaranteeing the terrain of and the basic conditions for struggle, decided in favour of their interest.

As Edwards claims, bureaucratic control in its essential aspect “makes power appear to emanate from the formal organisation itself. Hierarchical relations were transformed from relations between (unequally powerful) people to relations between jobholders or relations between jobs themselves, abstracted from the specific people or the concrete work tasks involved” (ibid.: 145). All the functions of management were routinized in this way; and managers were subject to an established systematic “law of the firm” in performing their duties, which was accompanied by the erosion of any personal power to arbitrate. In general, within a bureaucratic control system, “once the goals and structure were set, the management process was to proceed without need of and (in exceptional circumstances) without benefit of, the conscious intervention or the personal power of foremen, supervisor, or capitalists” (ibid.: 131).

Edwards’s theory is built on his study of the history of a panel of large American companies. He traces the evidence over time of the processes of conflict and control which had

transformed the way that work was organized within the firms. He concludes that the changes in the labour process in the twentieth century mainly concern large corporations using their resources to tackle new contradictions (Edwards, 1979: 73).

### **3.2.2.3 Burawoy: from control to manufactured consent**

Burawoy (1979, 1985) offers a revision of Braverman's objectivist control strategy. He contends that the objectification of work itself comes from human experience; it is an innately subjective process (ibid.). Therefore, "the very distinction between 'objective' and 'subject' is arbitrary" (ibid., 1985:10) and the objectification cannot be reduced to certain inexorable laws of capitalism (ibid., 1985:10). In his work *Manufacturing Consent* (1979), instead of highlighting the effect of the dynamics of the struggle between labour and capital in shaping the labour process, Burawoy pays close attention to the way in which social processes could benefit the capitalist class, assigning almost equal weight to the political, ideological and economic dimensions of work organisation (Willmott, 1997). He maintains that these three dimensions are all "objective inasmuch as they are independent of the particular people who come to work, of the particular agents of production" (Burawoy, 1985: 39). In his analysis, capitalist control over workers is realized through controlling workers' ideology; during this process, various games are developed and played with motivated workers, through which workers' consent is manufactured; the role of management in the control system is not to passively accept 'the rules of the game' but to cooperate with them in enforcing the rules. Although the games arise from workers' initiatives, only the ones regulated by management and serving its ends are allowed to persist. However, he also notes that lower level management and upper management hold different attitudes towards "games": the former cooperates; whilst the latter is strongly opposed to them.

Burawoy (1979) contends that the factor that drives each individual in the control mechanism is the social pressure generated by everyone who engages in the games, rather than the money issue, as they claimed. He concludes (ibid.) that because the capitalist control mechanism allows workers to make certain choices in the production process, the workers although they are strictly confined, consent to let their work be degraded, without protesting.

Apart from the "games", Burawoy highlights the functions of the internal labour market and the internal state in facilitating the production of consent. Both of them help to diminish antagonistic class relations and contain class struggles so that "the surplus labour is obscured and secured" (Burawoy, 1979: 92). The function of the internal labour market includes establishing a differentiated job structure, formulating rules and regulations to guide job transfers, pricing and allocating labour and providing training (ibid.: 94-106), which fosters an ideological basis for concealing and safeguarding the extraction of surplus value



(ibid.: 96). Moreover, the internal state is constituted by a set of institutions (including trade unions, collective bargaining, joint regulation and grievance machinery) which coordinate the interests of capital and labour (ibid.: 110, 119). Most importantly, it successfully hides the capitalist relations of production in the labour process behind workers' new "identity" as "individuals – industrial citizens with attendant rights and obligations – rather than as members of a class" (ibid.: 119). Together, they complement each other, helping to expand the choices of workers within the narrowly confined limits of the capitalist control mechanism (ibid.: 94, 119).

Acknowledging the subjective aspects of work opens up a new space for exploring workers' opposition to management (Burawoy, 1996); it enables us to reconstruct the concepts of 'system', 'structure' and 'objectivity' so as to better understand "the enigmatic 'space' where capitalism both finds its source and gets reproduced and maintained" (O'Doherty and Willmott, 2001: 461); and it enables us to study the 'complex-media' (O'Doherty and Willmott, 2001: 459) through which capitalism can exercise its social interaction with labour (O'Doherty and Willmott, 2001) and secure the objective processes of exploitation (Tinker, 2002).

#### **3.2.2.4 Summary**

The discussions on managerial work shown in the control-resistance paradigm supplement Braverman's theory from two standpoints: 1) they redress the objectivist interpretation on management and managerial work through assessing the consequences of omitting subjectivity from theorization; on this basis 2) reconceptualised management and managerial staff work together in the process of forming and enforcing managerial control.

Both Friedman (1977) and Edwards (1979) incorporate the subjectivity issue into their models of management control, in which the correspondence between the strength of labour resistance and the form of control is seen. The most direct consequence of Friedman's model is the abandonment of Braverman's "single strategy myth" of control (Grint, 2005: 183). Compared with Friedman, Edwards provides a more comprehensive theory of managerial control. However, both of them are constrained by historical studies. Although Friedman emphasizes the need to study the resistance on the micro level, his study cannot escape from the constraints of a historical study which lacks the necessary clarification of the interaction between managers (or employers) and workers (Thompson, 1989). Further, because both the control strategies can be applied to most historical epochs, not exclusively that of capitalism. Friedman's framework has not been valued for analysing the whole development history of the capitalist labour process (Thompson, 1983: 134). Edwards's study has been criticized for lacking the support of historical evidence (Thompson, 1989;

Batstone et al., 1987). His theory of technical control assumes that “work” equals “factory employment” and its applicability to employees in non-factory employment is problematic (Grint, 2005: 186).

It resembles Friedman’s in that both of them highlight that, instead of coercion, workers’ participation (in Burawoy’s work, this is called “making choices” and in Friedman’s work it is “responsible autonomy”) plays a significant role in the strategic control of labour (Willmott: 1990: 364). However, Burawoy’s approach of concentrating exclusively on the subjective aspects of management control over the capitalist labour process, as a sharp contrast to Braverman’s objective approach, prevents his analysis from capturing “the contradictory and dialectical nature of the capitalist labour process” (Clawson and Fantasia, 1983: 680). He emphasizes the value of analyzing the process of making choices for understanding labour processes, but fails to provide a sound explanation why making choices is so attractive to workers that they even overlook the deprivations contained in the process of approaching consent (Willmott, 1990). Instead, he attributes this to workers’ “human nature”, which leads them to pursue “freedom” in choosing how they will adapt to the labour process so as to reduce the sense of deprivation in so doing (Burawoy, 1979: 1990). This explanation again falls into the area of Marxist functionalist logic, which, to some extent, contradicts his view that an individual is driven more by social pressure than economic concerns. Another related criticism of Burawoy’s interpretation of individual subjectivity is the absence of defining criteria for key terms in the individual’s lived experience, such as “fulfilling” and “developing”. As Willmott (1990) points out, these concepts depend on the social constitution of the individual’s subjectivity; and it is problematic to assume that choices are always welcomed unless this belief has been historically constituted as a necessary and reasonable expectation of experiencing the making of choices.

### **3.2.3 Beyond the control-resistance paradigm**

The late 1980s and the 1990s witnessed the emergence of new production concepts and their challenges to labour process research, which resulted in the shift of LPT’s attention from Taylorism and deskilling to “variations in management control and skill formation strategies and practices and more sophisticated typologies of conflict and consent” (Thompson and Newsome, 2004: 145) and to the analysis of “the continuities and constraints associated with lean production and other new management practices” (ibid.: 147). Empirical studies flowing from this dealt not only with the rapid changes in technology, management strategies and production techniques brought by this new concept, but produced substantial evidence in relation to the ‘mean’ side of its practices (ibid.; Harrison, 1997; Rinehart et al., 1997). The optimistic vision promoted by the workplace restructuring under the lean production concept, which should have led to flexible management,

empowered workforce, improved employment relations, enhanced employee morale and unified capital-labour interests, turned out to be an even more successful system of exploitation, in which employees were faced by systematically intensified work, increased accountability, closer supervision and greater job insecurity; whereas the pivotal part of managerial work should be to secure the formation of worker identification and interests towards what the organisation expects (Thompson and Newsome, 2004).

Thus, management and managerial work in labour process research has moved beyond the control-resistance model since the last decade of the twentieth century. But this is not to say that its analysis has completely broken away from the basis of the control-resistance framework. Rather, most studies have worked within a tradition of focusing on a specific workplace and its production process. A salient trend among them is that labour process research has been trying to win back its main place, locating workplace studies in the broader political economic context and connecting them to the bigger picture of the changing organisation of work processes. In addition, with the international spread of lean production systems, LP research is no longer confined to the national context of the United States, but is starting to consider management and managerial work in a number of different national settings.

#### **3.2.4 Contemporary LP research into management and managerial work**

Most recent research further demonstrates the strength of the LP approach for analyzing work, human behaviour and the social relationships involved in the management of contemporary organisations, in particularly in cross-national comparative studies. For example, McCann, Hassard and Morris (2004, 2008, 2010) and Hassard, Morris and McCann (2009) have conducted a series of investigations into the experiences of middle managers in large organisations in major capitalist countries (the USA, the UK and Japan), which include discussions over a range of interlocked aspects: differences between national institutional patterns, changes of organisational management and governance and their impacts on managerial work and managers' subjective self-understandings. These studies exemplify the powerful capacity of labour process research to keep up with the increasing complexity and diversity of management and managerial work studies under globalization. It continues to provide critical insights into management and managerial work; meanwhile, its shifting away from classical Marxism equips its current form with more resilience in response to theoretical and empirical challenges (Jaros, 2003). As LPT theorists respond, by opposing technological determinism and acknowledging the formation of class consciousness under the influence of multiple factors, LPT "abandons some of the less readily defensible elements of Marx's theory" (Adler, Forbes and Willmott, 2007: 21; Thompson and Newsome, 2004) and offers critical scholarship a core framework in which to load causal factors, link

the parts to the whole and connect the micro and macro forms of analysis.

In short, the evolution of labour process theory and the development of managerial work research through the lens of LP attest to the fact that LPT in its most recent form satisfies the role of the “good theoretical base” which further development of managerial work studies in the global era calls for. As Thompson (2009) suggests, LPT should be a theory building project, capable of accommodating new challenges and conceptual innovations both theoretically and empirically.

### **3.3 The case of the Chinese context**

#### **3.3.1 In search of an essential theory of the Chinese context**

The scholarly interest in Chinese management and organisation has dramatically increased with the rising status of the Chinese economy in the global market (Li, Tsui and Weldon, 2000). More and more writers have realized the need to position China studies within global research as a whole (Peng, 2005). However, China’s distinctive context often poses massive challenges for analysis and theorization, no matter which approach is taken to constructing an analytical framework. In the case of management and managerial work studies in China, the adoption of the LP perspective also needs to incorporate contextual issues into the analysis, which entails the fundamental step of finding an effective way to conceptualize the Chinese context (Child, 2009). Thus, the present study suggests that an integrated approach should be constructed, which combines LPT with Chaxugeju, the theory of the Chinese context.

#### **3.3.2 Chaxugeju: the core theory**

Chaxugeju theory (the differential mode of association) conceives Chinese society as “a society founded on social relationships and interlocking social networks” (Fei, 1992: 33). Literally, *cha*<sup>8</sup> means “difference” or “dissimilarity”, *xu* means “order” or “sequence” and *geju* means “pattern” or “framework”; together, the term connotes “analytically the patterning of Chinese society through non-equivalent, ranked categories of social relationship” (ibid.: 19).

Fei (1992) used a metaphor to illustrate the structure of social relationships in Chinese society:

“Social relationships in China possess a self-centred quality. Like the ripples formed from a stone thrown into a lake, each circle spreading out from the centre becomes more distant and at the same time more insignificant” (ibid.: 65).

There are four primary rules of this framework which directly define the logic of social action

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<sup>8</sup> The transliteration of Chinese in this paper uses the pronunciation system of Mandarin.

at both individual and collective levels and meanwhile manifest the social construction of the whole of Chinese society: the self-centred structure, the differential order of social relationships, the elastic sphere of the social relationship network and the relativity in the meaning of “private” and “public”. These rules should be explained by tracing their historical and cultural roots in Confucian ethics.

### ***Self-centred structure***

Social relationships are self-centred. The whole society is constituted by networks of social relationship. Within each network, the individual is situated at the centre. The interpersonal ties (known in Chinese as “*guanxi*”) spring from the core (the individual) and spread out to link the other people in the network. Each tie is “both normatively defined and strictly personal”: for the former, “it consists of an explicit category of social relationship that requires specific, prescribed ‘ritual’ (*li*) behaviour”; and for the latter, “the specific prescribed actions needed to maintain the link are based on norms of reciprocity and are defined as personal obligations on the part of each individual, particularly the subordinate in the dyadic relationship” (ibid.: 22).

Networks are not connected in a single systematic way, but rather display themselves discontinuously. Networks may have a certain degree of overlap, but no two of them are completely identical. As Fei (1992: 62) describes them, “everyone’s circles are interrelated. One touches different circles at different times and places.” A simple example will help to clarify this point: two brothers in a family have the same parents, brothers and sisters, but they may have a family of their own (wife and children) and relatives derived from their respective marriages, different tutors and schoolmates if they went to different schools, together with the friends, colleagues and other people they have been familiar with. Even with similar experiences, for instance, sharing parts of the kinship, friendship or any other parts of the network, their networks are essentially different from each other. The system of notation which we use to identify the members in our networks is the only thing that we hold in common (ibid.: 63).

Another characteristic of self-centred social relationship lies in the way in which people influence the others in the network. Confucius (2003) contended that one should “treat the others as you would like to be treated” (*tui ji ji ren*). Regarding social relationships in *Chaxugeju*, one should “control oneself and conform to rituals” (*ke ji fu li*<sup>9</sup>) and then extend oneself out to influence the others, from the centre to the periphery, circle by circle. This suggests a control system based on self-restraint. As Confucius (ibid.: 1) wrote:

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<sup>9</sup> *Li* means proper etiquette or good manners. In this phrase it may be more appropriate to understand it as prescribed actions and obligations.

“A young person who is filial and respectful of his elders rarely becomes the kind of person who is inclined to defy his superiors and there has never been a case of one who is disinclined to defy his superiors stirring up rebellion. The gentleman applies himself to the roots. ‘Once the roots are firmly established, the way will grow.’” (Confucius Analects, Book 1: Sec. 2)

### ***Guanxi as a dimension of differentiation***

*Guanxi* not only links people, but also serves as a spatial dimension for defining the distance between people. Strong *guanxi* ties people closely, whilst weak *guanxi* produces loose connections. To understand the classification of *guanxi*, Fei (1992) believes that we need to face the basic characteristic of China’s social structure, that is, *renlun* (human relationships), the term used by the Confucian school to stress differentiation. The term “*lun*” itself stands for “the ripple-like effect created from circles of relationships that spread out from the self and the effect that produces a pattern of discrete circles” (ibid.: 65). In ancient China, “ten relationships” were prescribed in *Li Ji*<sup>10</sup> (the Book of Rites), which form the discontinuous classification of *guanxi*. They are: Gods and ghosts, monarchs and subjects, fathers and sons, the noble and the base, the intimate and the unconnected, the rewarded and the punished, husbands and wives, public affairs and private affairs, seniors and juniors and superiors and inferiors. These principal types of human relationship require everybody to stay in his place and abide by the rules and obligations attached to this position. As written in *Li Ji* (1985), “toward the intimate, there is only intimacy; toward the respected, only respect; toward superiors, only deference; between men and women, only differences; these are things that people cannot alter” (*Da Zhuan*). The traditional Chinese social structure was built on exactly these hierarchical differentiations. Some of the relationship categories may have faded away with time, such as the ones in the category of Gods and ghosts, but new categories have emerged to take their place.

Differentiation lies at the core of Confucian ethics. The cultivation of humanity (benevolence) is a process of controlling people’s cultural logic, values and actions. Benevolence for Confucius is “love”, not loving everyone equally, but having different kinds of love for different people (according to the different relationships in the network). Mencius (1991) divided love, in this sense, into three types: love (for family members), kind-heartedness (for other people) and universal love (for everything/everyone) and wrote:

“The benevolent embrace all in their love, but what they consider of the greatest importance is to cultivate an earnest affection for the virtuous. Even the wisdom of Yao and Shun did not extend to everything, but they attended earnestly to what was important. Their benevolence did not show itself in acts of kindness to everyman, but

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<sup>10</sup> *Li Ji* is one of the Confucian classics, compiled during the Western Han period (206 B.C. – A.D. 8) and contains an early discussion of ritual practices.

they earnestly cultivated affection for the virtuous". (Mencius, 1991: 476)

Therefore, the essential step in understanding the networks of human relationships is still to recognize the fact that "such distinctions create the very patterns of Chinese social organisation" (Fei, 1992: 66).

### ***Elastic sphere of the social relation network***

*Chaxugeju* is elastic in the way that it can stretch out to embrace countless numbers of people and can also shrink to very limited connections, depending on the way in which one defines the scope of the *guanxi* which wove their network. Given different situations, places and times, people may employ different definitions. The elasticity of *chaxugeju* derives from the nature of *guanxi*. First, as noted above, there are different types of social relationship under the umbrella of *guanxi*, strong or weak, some of which can be highly ambiguous and changeable, for example, kinship. In traditional China, society is an ethical community which is isomorphic for family and state on the base of consanguinity and the patriarchal clan system. Kinship thus becomes the most fundamental relationship in one's networks of people. However, when we look at the notion of *family*, it itself bears multi-layer meanings: it can be extended to include a big group of people who are connected through the relationship of marriage and reproduction; it can be used to refer to core family members only; it can be used to include anyone who you want to "drag into your own circle" to "indicate your intimacy with them" (ibid.: 62); or in its extreme usage, it can include the whole of humanity into a "big unified family" (Li Ji, 1985). Second, there is the possibility for people to *achieve* a social relationship, apart from their pre-set ties. People outside the network can create a link through "an intermediary" or through locating themselves in an appropriate relational category to allow them to be accepted by the people inside the network (Fei, 1992).

The implication of the changeability of social relationships is that although traditionally the types of tie are pre-set and the strong or weak feature of the relationships pre-exist, the actual relationships can vary with time, place and situation.

### ***The relativity of "private" and "public"***

In Chinese traditional thought, there is no clear-cut boundary between the private and public spheres. This notion needs to be understood from two related aspects, Chinese "selfishness" and "pan-familism". Fei (1992: 69) has developed a formula to account for the "selfishness" in Chinese society, in which the "Chinese would sacrifice their families for their own self-interests, their party for their families' interests, their country for their party's interest and the whole world for their country's interests". He traces the root of this thought again to the established wisdom:

“The ancients who wished to display illustrious virtue throughout the empire first put their own states in good order. Wishing to order their states, they first regulated their families. Wishing to regulate their families, they first cultivated their own self. Their self being cultivated, their families were regulated; their families being regulated, their states were correctly governed. Their states being well governed, the whole empire was made tranquil and peaceful” (The Great Learning, Sec. 4)<sup>11</sup>.

This formula of people needing to satisfy their interest in the sequence of self, family, party, country, world, exactly complies with the order of relationships as arranged in *Chaxugeju*.

Fei (1992) argues that the selfishness is derived from the centrality of “self”, both the structure of relationships and the way of radiating one’s influence, which we have discussed above. In this sense, the premise for ensuring public order is the ensuring of each individual’s self-restraint. Hence, private selfishness is justified by moving outward in sequence to all the circles. Because “both public officials and private persons use the same ambiguous conception of the social order to define the context of their action” (ibid.: 69), it is difficult to draw a clear line between what is public duty and what is private business and to establish how far group interests represent public interests.

Another possible explanation of this blurred boundary could be that it is the mindset inherited from thousand years of feudal monarchy, whose doctrine of “under the wide heaven, all is the king’s land. Within the sea-boundaries of the land, all are the king’s servants” (Shi Jing, 1985)<sup>12</sup> had penetrated into people’s mental assumptions. The logic of universal kingship contends that, if everything belongs to the monarch, it is not necessary to distinguish micro/“private” from macro/“public”, or, in other words, in theory, everything is both private and public.

### **3.3.3 Contemporary Chaxugeju in China: reinterpretation and evolvement**

Researchers have attempted to correct and clarify some of the ambiguities in the key concepts or ideas found in Fei’s original work and to show us that the Chaxugeju of contemporary China is equipped with an enlarged scope, enriched connotations and more complicated structure, but its fundamental principles remain solid.

#### ***First, from the individual “self” to the family “self”.***

Fei believed that the “self” is the centre of the structure of social relationships and his

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<sup>11</sup> The translation of this quotation is that of Gary G. Hamilton and Wang Zheng’s in the version of Fei’s *From the Soil*.

<sup>12</sup> *Shi Jing*, the Book of Odes, is one of the Confucian Classics. It was compiled even before the founding of the Qin state’, China’s first empire, in 221 B.C. The verse comes from the poem *Decade of Bei Shan*, in which the king’s command was metaphorically conceived to be co-extensive with the infinite expanse of heaven. The catholicity of his rule has since been established as an axiomatic principle of Chinese political thought.



discussion of the characteristics of Chaxugeju always treats the “self” as the basic point from which people’s logic of behaviour is initiated. In his formula of “selfishness”, in particular, he puts self interest before family interest, which contradicts the common understanding of Chinese society as family oriented. Some commentators have concerned over this point arguing that in Chinese society, the family, rather than the self, should be considered the smallest social unit for analyzing social relationships and human behaviour (Tu, 2009). Zhai (2009) contends that the individual is only part of the accumulated social relationships of the family; while the extended family is the basic unit of Chinese society. The individual has to attach himself/herself to the family and serve as a contributor to the family’s benefit. An individual can never be self-centred in the family and can never be independent of it, which results in situations exactly contrary to Fei’s formula. That is, the individual often sacrifices his own interests to family interests. This is the reason why Chinese culture often is regarded as “collectivist” (Hofstede, 1980). But this does not mean that there is no conflict at all within the family; individuals still compete for the allocation of resources and rewards, but their struggle does not lead to the consequence of breaking away from the family or the decision to sacrifice benefits to it (Zhai, 2001).

Chang (2010) notes that Zhang’s description of the Chinese as “dependent beings” (1946) half a century ago persists. This is not to say that individuals cannot survive without relying on others, but points to the fact that each individual Chinese is surrounded by rights and obligations. When one is faced with a problem, a proper decision requires many factors to be assessed, in particular when the problem may impact on the status of one’s social relationships. He proposes four vital factors to take into consideration in dealing with social interactions: moral judgment, human feelings, rational calculation and a spiritual sense, all of which are included in Fei’s theory and covered by Confucianism (Chang, 2010).

***Second, the connection between micro structure and macro social structures.***

In Fei’s Chaxugeju, the social relationship structure from “self” outwards smoothly extends to the structure of society as a whole; on this basis the governance of society features the isomorphism of family and state. But this process is not securely justified. It poses logical difficulties for Western scholars to understand that in Chinese society micro and macro social structures are unified and that this has behavioural and managerial consequences in practice. Even Sinologists tend to doubt the pragmatic validity of this tenet and treat it as a purely theoretical construction. Recently, researchers have attempted to supplement this point by historical accounts. First, they establish that the power system in ancient societies was constructed on the foundation of the family. Zhai (2009) argues that in traditional Chinese society, most people at the grass roots could make the “leap” (from lower class to ruling class) in social status through “imperial examinations”. Before the advent of “imperial

examinations”, officials were selected through *Zheng Pin Zhi*<sup>13</sup> and *Jiu Pin Zhong Zheng Zhi*<sup>14</sup> (the Nine-grade System). Therefore, most personnel in the Civil Service were recommended by “acquaintance”. This led to a solid family- and *guanxi*-oriented political power system. And, even with the imperial examination in place, the co-existing hereditary system still favoured the descendants of dignitaries. Thus, Self/family enterprise and state/empire enterprise were unified.

Second, the governance of ancient China was maintained through family and “*lun*”, the value system rooted in family order. Mencius (1991: 295-296) emphasized the importance of the family for the governance of the entire country:

“People have this common saying, ‘The kingdom, the State, the family.’ The root of the kingdom is in the State. The root of the State is the family. The root of the family is the person of its Head.”

“The administration of government is not difficult; it lies in not offending the great families. He whom the great families affect, will be affected by the whole State; and he whom any one State affects, will be affected by the whole kingdom. When this is the case, such a one’s virtue and teachings will spread over all within the four seas like the rush of water.”

This echoes what has been stated in the Doctrine of the Mean: that the management of self, family, state and kingdom are inseparable, in that success at one level is conditional on taking the previous step.

In Confucianism the “*wu lun*” (five *lun*) was regarded as the most efficient tool for dealing with interpersonal relationships. “The relations of humanity: how, between father and son, there should be affection; between sovereign and minister, righteousness; between husband and wife, attention to their separate functions; between old and young, a proper order; and between friends, fidelity” (Mencius, 1991: 250-251). The relations between father and son are listed before the principle between sovereign and minister, becoming the starting point of “the logic of order”. Sovereign-minister principle indicates that “when the prince regards his ministers as his hands and feet, his ministers regard their prince as their belly and heart; when he regards them as his dogs and horses, they regard him as any other man; when he regards them as the gourd or as grass, they regard him as a robber and an enemy” (Mencius, 1991: 318). This shows that the obligation between sovereign and minister is not

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<sup>13</sup> An ancient official selection system starting from the Han Dynasty, in which suitable candidates were recommended and nominated as a top-down practice.

<sup>14</sup> An ancient official selection system starting in the Wei and Jin Dynasties, in which candidates were selected and evaluated through certain criteria, such as family background, personality, manner, capacity and so on. But after Wei and Jin, the family became the dominant factor in deciding whether a candidate could be appointed.

unilateral. The sovereign-minister principle not only prescribes what should exist between sovereign and minister, it actually dictates the behavioural principle for superior-subordinate relationships throughout the power hierarchy.

In contemporary China, “self” and “pan-familism” still prevail, which leads to “the infinite scope of family” – any community or institute, including states, can be included in the territory of the extended family, which results in some basic features of our managerial philosophy (Jiang, 2007): family structure, form and operation principles can be applied to groups and organisations beyond the family; family ethics and roles can be used to conceptualize the interaction between members in groups or in organisations; and the behavioural principles and attitudes proper for family members can also be used to conceptualize people’s actions in groups and organisations.

As to the economic connection between micro- (personal) and macro- (public), universal kingship and socialist ideology may share no commonality at all, but their consequences from the economic perspective converge at one point: general ownership in the socialist society was labelled ‘state owned’ or ‘people owned’, which conveys the ideology that everything belonged to the entire population (the public). Under this philosophy, individuals were actually deprived of sensitivity to private ownership, as opposed to public, and the proper manners attached to each of them. Therefore, both the belief that everything belongs to one person (the king) and that everything belongs to everyone leads to blurred boundaries between different types of ownership and an indifferent attitude towards non-personal belongings (those out of the control of an individual).

### ***Third, the principal social relationships.***

Fei’s interpretation of Chaxugeju paid much attention to the social relationships established on kinship; while in the more recent debates, theorists have commonly maintained that the dominant status of the kinship and geographically-oriented *guanxi* in Chaxugeju has been challenged and weakened by work related and interest/reciprocity relationships (Wang, 2006; Du, 2006; Chang, 2009). Meanwhile, the significance of fictive kinship has increased, accounting for a larger proportion in the kinship-oriented category of relationships.

Such changes were stimulated by the boom in the non-agricultural economic sectors and the invasion of society by commercial culture (Wang, 2006). Wang (2006) argues that Chaxugeju has experienced three stages since the economic reform<sup>15</sup>: in the first stage of the economic reform, the introduction of a household contract responsibility system in rural

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<sup>15</sup> It is commonly accepted that the Chinese economic reform was launched at the early 1980s.

areas of China enhanced family-based agricultural production; hence, kinship and geographical relationships continued to be the basic ones; and the structure of social relationships could be treated as a continuation of the traditional Chaxugeju. It was followed by the second stage when the development of an industrial economy motivated workers to leave their land/community and move to towns in search of a job; this was when relationships established through work became more important. Although kinship and geographical relationships remained fundamental to Chaxugeju, the scope of each person's network was enlarged. In the most recent stage, reciprocity or interest has risen as another factor critically impacting on social relationships in Chaxugeju, in evaluating the importance of the relationship above all (Du, 2006). The popularity of fictive kinship, which is considered to be a mixture of human feeling and interest, mirrors this tendency.

Lee (1993) draws on a series of studies of the pattern and changes in social relationships in Hong Kong society, which were conducted by the Hong Kong Chinese University in the 1970s, to argue that social relationships in the contemporary Chinese community have mostly been used to gratify personal interest and he proposes a concept of "instrumental Chaxugeju" which contains five principles:

- 1) social connections are self-centred.
- 2) people tend to build social relationship primarily for the sake of utility; therefore, both family and non-family members can be included in the Chaxugeju.
- 3) the instrumental value of members goes down from the centre outwards.
- 4) the person at the centre (the network owner) often needs to strengthen his intimacy with the other members.
- 5) the closer to the centre, the more likely that members will be used by the network owner to pursue his interests.

Sun (1996), however, holds a different opinion from Lee; he points out that although instrumental relationships have become increasingly significant lately, they have not exceeded the status of traditional interpersonal relationships.

As Tu (2009) summarizes it, Chaxugeju in fact is often found to be a mixture of several types of relationship; the one discussed in Fei's original work merely exists because it was constituted by kinship and geographical relationships alone. He goes on to say that within each category of relationship lies differentiation as well. For example, kinship can be classified into immediate kinship relations (core relations) and family relationship (non-core). Core relations always forms the inner circle of the network, but there is still some possibility that in exceptional cases, members from other relationship categories can enter the inner

circle or approach even closer to the network owner than a family member, without changing the basic structure of the network.

***Fourth, “reasonableness” and “ruled by man” in managerial philosophy.***

Fei (1992: 61) contends that the Chinese are not bad managers if assessed on the criteria of Chinese managerial philosophy, but this is doomed to be different from Western ones due to the essential differences between the organisation principles of the two societies. According to Fei, the structure of Western society is the organisation mode of association and it can be likened to a haystack constituted by bundles of rice straw:

“Each piece of straw belongs in a small bundle, which in turn belongs in a larger bundle, which in turn makes up a stack. The separate straws, the separate bundles and finally the separate stacks all fit together to make up the whole haystack. In this way, the separately bound bundles can be stacked in an orderly way” (Fei, 1992: 61).

It is a rough analogy and should be supplemented with the fact that an individual may join several organisations, whereas a straw cannot be included in more than one bundles at once. However, the analogy illustrates the basic organisational principles of Western society as follows (ibid.: 61-62):

- 1) individuals form groups; then groups form organisations;
- 2) organisations (the separate bound bundles) have clear boundaries, which clearly distinguish the members from the non-members of each organisation;
- 3) the relationship between each individual in a group and the organisation formed by the groups is usually the same. If differences exist between group members, or distinctions between ranks, within the organisation, these would have been agreed upon earlier, as part of the rules of the organisation.

The Western structure nurtures individualism and constitutionality (ibid.). In its terms, individuals are the basic unit of society; equity can be achieved if the relationship between the parts and the whole are balanced. In such structures, individual rights cannot be denied by anyone’s organisation; organisational control on each individual is erected on agreed aspects and to the agreed extent of rights that are willingly handed over by individuals. Chinese society, however, stands at the other end of the spectrum: the family as the basic unit of society, ambiguous boundaries between networks, a self-centred (egocentric) structure and ideology, differences over such things as normality, the pre-existing order and power to control. In general, Western society is a organic solidarity: interest centred, formed to fulfil goals and ruled by law and reason; whereas Chinese society is an mechanical solidarity: relationship centred, formed through a natural process of people growing up

together, based on ritual (*li*) and customs (*su*) (Fei, 1992: 41-42; Durkheim, 1964).

Therefore, the managerial philosophy developed in such a *li-su* society embraces reasonableness instead of logical extremes, praises governance if it accords with human nature instead of abiding by laws and regulations and advocates flexibility rather than rigidity (Lin, 2006)<sup>16</sup>. A direct consequence of these traits in the spirit of Chinese people is the prevalence of a personal government (or being ruled by people) throughout Chinese history and lingering in modern Chinese society. Instead of a system, people have faith in the ruler's personal wisdom and correctness. As Confucius wrote, "One who rules through the power of Virtue is analogous to the Pole Star: it simply remains in its place and receives the homage of the myriad lesser stars" (Confucius Analects, Book 2: Sec. 1). Apart from the expectation of wise leaders, personal moral cultivation is regarded as the essential guarantee of good management. The foundation of ethics is morality; the legitimacy of people's behaviour derives from morality; and the evaluation of a people starts from moral standards, too (Du, 2006). It is reasonable to claim that the spirit of Chinese management is moral management (Jiang, 2007).

### 3.3.4 The significance of Chaxugeju theory

The adoption of Chaxugeju Theory in this research is based on three factors: ***first, it provides us with a dynamic system, rather than an inexhaustible list of static characteristics or factors, to account for the social system in contemporary China.*** So far, the most commonly seen context-sensitive studies either consider that China's culture (the cultural approach) or institutions (the institutional approach) could represent the Chinese context (e.g. Peng *et al.*, 2001; Child and Warner, 2003), despite the fact that the context contains more than cultural and institutional dimensions; for a comprehensive and in-depth understanding, China's long and continuous history and social structure must be taken into account at all times (Li and Tsui, 2000; Tsui *et al.*, 2004; Child, 2009). Chaxugeju is the only theory that considers and explains the networking structure, social relationships, human feelings, orders of differentiation (*lun*), rituals (*li*) and other key elements in one framework (Chang, 2010). And, its illustration of social structure not only covers different types of social relationship, including those between individuals, between individuals and associations and between associations, but also contains the principles of the construction and maintenance of these relationships. It serves as a structural framework for social action,

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<sup>16</sup> Lin's (2006: 169) original writing states "An undesirable effect, however, of the Chinese spirit of reasonableness and its consequent hatred of logical extremes has been that the Chinese, as a race, are unable to have any faith in a system. For a system or a machine is always inhuman and the Chinese hate anything inhuman. The hatred of any mechanistic view of the law and government is so great that it has made government by law impossible in China. A rigorous, harshly legalistic regime, or a really impersonal administration of the law, has always failed among us. It has failed because it was not liked by the people."

which is “intuitive”, “taken for granted” and “deeply embedded in people’s worldviews, as well as in the society that people re-create every day” (Fei, 1992: 19).

***Second, Chaxugeju has been proved as the normality of the contemporary Chinese social system.*** Leach (1982: 127) used to doubt whether Chaxugeju could serve as an illustration of Chinese society in a general sense; while some writers, often scholars from the Western academic tradition, were concerned over the political influence on social relationships. Vogel (1965) constructs the ideal type of social relationship model of China after 1949; he insists that, under the communist regime, Comradeship had taken over the place of traditional personal relationships soon after the establishment of the new government<sup>17</sup> and Communist values and norms became the foundation of Chinese social relations. Gold (1985) followed Vogel to argue that social relations in China were taking a new trend after the Cultural Revolution, that is, the re-emergence of some traditional patterns as reshaped by both the Cultural Revolution and the restructuring of state-society relations.

Their scepticism towards Chaxugeju is dismissed by the evidence found in recent empirical studies in various disciplines of social science (e.g., Chen, 1999; Wang, 2006; Jiang, 2007; Du, 2006; Tu, 2009). There is more consensus about the indomitable vitality of a mature social system from both theoretical and empirical perspectives (Sun, 1996). On the one hand, theoretically, the emergence of new social relationships must be a response to the reconfiguration of the entire society, during the process of which social relationships enjoyed high stability and its transformation took place only gradually (Child and Warner, 2003). Vogel (1965) and Gold (1985) emphasize exclusively the influence of political intervention, ignoring all other influential factors. On the other hand, empirically, the government launched several large-scale reforms to change social custom, but none succeeded in penetrating the private lives of ordinary people. This implies that a change in social relations cannot possibly be made on the basis of administrative orders alone. Although Marxist ideology did impose a certain degree of influence upon the top administrative officials, it is pointless to argue that the top-down political approach has overthrown the traditions consecrated by time for an entire society. Thus, China’s Chaxugeju has not only survived political interventions from the period after 1949, but has remained the foundation of Chinese society; and recently, it has even experienced a rebirth of popularity in the younger generation (Heffernan and Crawford,

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<sup>17</sup> Gold (1985: 657) defines ‘Friendship’ as “a particularistic tie, where individuals do not treat all others equally, but rather have special friends in whom they can confide and to whom they can turn for help”; whilst, ‘Comradeship’ as “a universalistic morality in which all citizens are in important respects equal under the state and gradations on the basis of status or degree of closeness cannot legitimately interfere with this equality.” For Friendship, people trust friends and “enjoy bonds of personal commitment with them”; for Comradeship, it is featured with “helpfulness, civility and concern for others” (ibid.).

2001; Rarick, 2007; McGregor, 2007). Exactly as Fei (1984) himself reiterated in his other related works, Chaxugeju should be regarded as the “typical” mode of the Chinese social system.

***Third, Chaxugeju theory has been applied in a wide range of studies across the disciplines of the social sciences, and demonstrated its value in management and organisational studies.*** It took shape in the study of individual human behaviour in social anthropology and was generalized to explain typical social relationship structures and finally recognized as a theory of Chinese society at macro level. Management studies have benefited from these applications, in particular for analyzing intra-organisational human behaviour, the structure of relationships (individual-individual, individual-group and individual-organisation relationships) and the relevant economic and micro-political aspects of this structure. Huang (2004) notes that studying people's social interaction could help to explain a number of unique phenomena in Chinese society; people's typical behavioural norms and patterns according to Chaxugeju will continue to exist in any Chinese community, regardless of time and geographical differences.

More recently, researchers have begun to acknowledge Chaxugeju's explanatory capacity with regard to economic phenomena. For example, some researchers (including Wang, 2006; Chang, 2010; Tu, 2009; Sun, 1996) argue that resource allocation in traditional Chinese society follows Chaxugeju and that it continues to influence current business practices. The discussion on this issue draws on convincing evidence from a number of empirical studies. For example, Guo (1996) investigated the industrialization process in the south of Jiangsu Province and has found that extended kinship/family relationships became the major way of acquiring resources, not least for new firms and firms in transition. Moreover, the management and operation of firms also follow the principles of kinship/family relationship. Similar evidence is found in respect of labour mobility and employment in Guangdong Province (e.g., Chen, 1999), leadership (e.g., Jiang and Zhang, 2010), trust in family business (e.g., Chen and Xiao, 2007), employment practices in private enterprises in Beijing (Zhang, 2004) and employee relationships and performance appraisal (e.g., Zhu, 2000; Cai and Jia, 2009; Liao, You and Xu, 2008). In this sense, it is very likely that the application of Chaxugeju to management and managerial work studies in China's private enterprises could also yield exciting results.

### **3.4 Theory and context in managerial work studies: making better connections**

With management and managerial work studies in particular, the significance of combining LPT and Chaxugeju should be addressed on the following points:



***First, it helps to reduce the difficulty of adapting LPT to the Chinese context. LPT's early application in the Chinese context encountered substantial difficulties, for instance, the problem of explaining the impact on the labour process of workers' social networking activity (Wen and Zhou, 2007).*** These problems can hardly be solved by directly attaching the Chinese meanings to the original conceptions of the theory, which unfortunately seems to be the common practice in the LP research in China (e.g., Lee, 1998; Ngai, 2005). Chaxugeju enables the Chinese context to be understood in a structured framework in which cultural, historical and social factors are synthesized in primary rules and principles which cover the operation of the society and the values and logic which guide human action. It makes the complicated Chinese context more comprehensible for both insiders and outsiders. Compared with the approaches which either consider these factors functioning independently of each other or highlight only the significant ones whilst ignoring the underlying interaction between them, the Chaxugeju perspective promises a comprehensive view of the social organisation of Chinese society and a causal mechanism which justifies people's behaviour in social interaction.

***Second – a related point – it enables us to distinguish endemic features from the common features of managerial work and, meanwhile, makes it easier to analyze changes and conflicts during the process of introducing new production systems and helps to trace their origins.*** This helps to lay the foundation for cross-national comparisons and also to connect the study of Chinese managerial work to the established discipline of managerial work studies around the world. Further, adopting a systemic view of the Chinese context opens up space for analyzing the interaction between systems, in this case, the possibility of conflict between the capitalist production system, its underpinning managerial ideology and the Chinese social system and its affiliated cultural values and norms of behaviour. Another possible advantage flowing from this system-system perspective could be the integrity of the macro and micro perspectives to be gained by supplementing LPT with expertise from Chaxugeju in describing different elements of management and managerial work at the individual level.

***Finally, it implies that there is a wide range of possible positions for the construction of new paradigms in Chinese management and organisational studies between two extreme directions, to go from the 'outside in', using existing theories and concepts developed outside the Chinese context (Barney and Zhang, 2009) and to go from the 'inside out', giving primary concern to what is inside China (Tsui, 2006).*** Since the world has become increasingly integrated, there is no reason for us to oppose our knowledge construction to the trend. The combination of LPT and Chaxugeju exemplifies an immediate fit of two mature theories coming from different parts of the world. Besides,

Chaxugeju itself is a successful 'product' which came from using a Western research paradigm jointly with Chinese interpretation. Its theorization of the Chinese model benefited greatly from the comparison with Western experience (Leach, 1982). It is reasonable to argue that using Western knowledge to study Chinese phenomena without understanding the Chinese context or using pure Chinese theory to interpret Chinese phenomena without knowing its Western counterpart is equally risky. Thus, a balanced view is essential.

### **3.5 Conclusion**

The increasing level of globalization has continued to challenge our present knowledge system, demanding a more sensible theoretical approach to help our cognitive development. In trying to tackle the problems faced by current studies of management and managerial work, the discussion in the chapter concludes that labour process theory could serve as a foundation on which to develop a more context-sensitive approach. This is supported by assessing the nature of LPT and its evolution over time. The chapter further focuses on managerial work studies in the Chinese context, in which LPT is combined with the theory of the Chinese social context (Chaxugeju) to form a new theoretical framework in which to account for the nature of the management and managerial work in contemporary Chinese organisations (in this thesis, private enterprises). It suggests that a balanced view is essential for us to optimize the strength and minimize the potential risks of combining theories developed in different contexts; and theoretical advances could be made by the creative application of existing theoretical tools.

Having justified the joint use of the LPT and Chaxugeju theory as the appropriate theoretical framework to the study of management and managerial work in China's private enterprises, the next chapter moves to present the methodological issues encountered in the conduct of the research. Among them, too, social relationships are found to play an important role. Of course, further discussion on the social aspect of the research will be presented in the analysis and discussion chapter (Chapter Ten).

## **Chapter Four: Methodology**

### **4.1 Introduction**

Following the research design presented in Chapter One, this chapter describes how the research was conducted and explores the difficulties and problems which were encountered in the course of it. The content of the chapter is organized in chronological order: getting access to the companies, the data collection, data analysis and theorization.

### **4.2 Access: seven firms, five solutions**

The constraints and difficulties of doing fieldwork inside China have frequently been mentioned in the academic literature. Many of the issues relating to gaining access to the 'settings' in China were regarded as stemming from the political sensitivities of the Chinese authorities, towards Western based fieldworkers in particular (Thogersen and Heimer, 2006). Hansen (2006:81) notes that the tradition of 'walking in the footsteps of the Chinese Communist Party' remains potent in today's China, despite the consistent openness of every aspect of Chinese society compared with 1978. Initially, accessing the case companies in this project started with my own network in the shipbuilding industry so as to avoid or reduce the perceived complexity and cost of time associated with attaining official permission. However, it turned out to be unavoidable to have official or semi-official support from a government supervisory department, given the scope and the nature of the case companies that the research targeted. Apart from this, my experience in field in many ways suggests that being aware of the 'social diversification and polarization of Chinese society' (Zhang, 2004; Thogersen and Heimer, 2006) and understanding the ways of doing things and the 'language of saying things' in the field are also vital.

#### **4.2.1 Access to Converge: the sovereign importance of friendships**

Access to the company Converge was extremely good. The cooperation which I enjoyed can be attributed to my working experience of 18 months (from March 2004 to June 2005) as the human resources (HR) manager within the company. The role as an 'absolute insider', guaranteed full involvement in the everyday life of Converge during the 18-month period. Since then, my personal connection with Converge had been always positive. For personal reasons, I left the company in June 2005. At the exit interview with CEO, I admitted my intention to carry out research on Converge and asked him to give preliminary permission for research in the future.

From July 2005 to August, 2007, my contacts with former colleagues at Converge were maintained on a frequent basis, mostly through online chatting, emails and telephone calls. In early 2008, I contacted the CEO of Converge by post and raised my request again. After a

short wait, I was informed by his secretary that formal permission was granted. However, the CEO suggested that I should conduct the fieldwork after the completion of their Initial Public Offering (IPO). Later, I handed over all the fieldwork documents to assure the company of the formal status of the research, which included a detailed introduction to the research topic, the agenda for the fieldwork, the sample questionnaire, an interim interview question list, a list of possible interviewees selected by rank and post, a documentation list and a confidentiality agreement.

Due to the global financial crisis, the IPO plan for Converge was postponed several times. Under the time constraints of PhD study, I had to renegotiate the date with the company to reschedule the trip before it went through the IPO process and finally started the fieldwork in May 2009.

#### **4.2.2 Access to HSG and ASG: the influence of business partnerships**

Through the business networks of Converge, I gained access to HSG and ASG. Both companies are located in the industrial park where the Converge shipyard lies. HSG has received several important outsourcing contracts from Converge in the past three years. The cooperation and network between the top management of these two groups dates back to the early 1990s. I joined the group of Converge's guests at a ship delivery ceremony in HSG and was introduced to the general manager of this company. Later, I explored the possibility of interviewing him. He was kind enough to schedule a one-hour interview with me next day and allowed me to stay in the yard and talk to the managers for the whole of the remaining week.

It is possible that ASG will become a business partner of Converge; it has competed in several public bids for contracts to manufacture steel for Converge. I took the opportunity of a meeting of top management staff from ASG and Converge to approach ASG's general manager at a reception. I ventured to initiate a chat with him, asking about ASG's products and was invited to join the afternoon tour to 'appreciate' their newly renovated shipyard. It turned out to be a very fruitful visit; in conversation, the general manager agreed to be interviewed. A week later, he and his top decision making team generously offered me more than two hours of interviewing and allowed me to stay on the site for another two days' intensive observation.

#### **4.2.3 Access to NSG and JSG: mutual interest, mutual benefit**

Access to NSG and JSG was negotiated indirectly through an insurance company, whose human resource manager is a friend of my main informant from Converge. Both NSG and JSG are its clients. In exchange for the favour, I helped the insurance company in a

marketing research project (searching for information, sorting out documents and files, analyzing data and so forth). It was surprising to find that the research project covered almost all the large private shipbuilding companies in Jiangsu Province; NSG, JSG and Converge were all included. A substantial amount of the data it had collected in its years of dealing with these clients enabled me to narrow the gap between the publicly perceived images of the companies and the nature behind the facade. A small part of my research was relevant to this project; the insurance company, therefore, adopted some of the ideas from my questionnaire design, interview questions and structure.

Although the insurance company planned to combine its data collecting with mine, JSG and NSG rejected a proposal that it should accommodate a group of people researching on the site. Under this restriction, I was given the direct contact number of one informant in each company, one being the Chief Financial Officer (CFO) of NSG and the other a Marketing Manager of JSG. Thus, my continued access in this case relied solely on their personal judgment and interest in my research. I phoned the informants several times and sent a detailed fieldwork plan to each of them, in an attempt to convince them of the innocuousness of both my research and myself. It then took almost one week for them to confirm the dates when they could be available. My cautious efforts to manage my relationship with them were repaid by their warm welcome and cordial reception throughout the fieldwork. Later, the CFO of NSG told me his views on my visit:

“At the beginning, I was impressed by the thoroughness and delicacy showed in your questionnaire. When I heard more of your background information from the insurance company, I was touched by your proactive attitude and persistent effort during our communication. My daughter is almost the same age as you, but I’ve had to arrange everything for her over the past few years. I hope that she can be just as independent and brave. That’s why I wanted to see you in person” (CFO, NSG).

Similar thoughts were expressed at the meeting with Marketing Manager of JSG, emphasising his curiosity about my enthusiasm for privately owned shipbuilding companies and his sympathy for my situation (a young female student who was studying overseas alone).

#### **4.2.4 Access to YSG: semi-official approach**

For the entry to YSG Group, Converge had no direct influence with which to help, due to its location in a different geographical and administrative zone. However, the tie with government supervisory departments implied the possibility of ‘getting access through official channels’. I thus decided to explore whether anything could be achieved through this vague network. The main informant in Converge helped to pass the enquiry on to the Committee of Technology and Industry for National Defence (COSTIND) in Jiangsu Province

and the province's branch of the China Maritime Safety Administration (CMSA), both of which are direct supervisory departments of the shipbuilding industry but in charge of different affairs. The replies from COSTIND stated that no official cooperation could be offered due to the sensitive position of the shipbuilding industry and the rampant commercial spying activities resulting from the increasing competition in the global shipbuilding market. Later, I was informed by my friend that COSTIND had been dissolved and merged with another organisation at central government level. Although the organisation at the provincial level was not included in the restructuring, the actual authority remained unclear. In addition, the official who had previously agreed to help had been transferred to another department a few weeks before.

The feedback from CMSA Jiangsu Province was similar, but one of the officials was willing to be interviewed as an external expert, thanks to the persistent efforts of my friend (my main informant in Converge). I travelled to the Maritime Safety Administration (MSA) Provincial Headquarters, interviewed this official and asked for further assistance. The conversation below between me and the MSA officer indicates the current state of cooperation between academic institutions and industries in China and shows how the problem of access can be solved:

“Q: Why is it so difficult to get official support when doing research in China? My research topic doesn't require any sensitive information.

A: We just don't have this tradition. Either the companies buy in a consultant or they have to cooperate if the project is government sponsored. Or as a third option, if you have connections with top management, then everything will be ok. If you know nobody, it is barely possible.

Q: Is there any chance of getting access to YSG? It is the ideal company for my research, you know. I just can't miss it.

A: I can only try my private network. You know the manufacturing firms you've mentioned so far are all critical to the local economy. Nowadays, big firms are growing more and more independent from us. COSTIND and MSA officially won't take the risk of introducing an unofficial researcher into the firms, but luckily you are not from a university in Japan or Korea. You realise the competition between our firms and theirs...”

Finally, the officer arranged my initial visit to YSG in a semi-official way; that is, by asking his colleague at a local branch to contact the senior management of the company. He even accompanied me throughout the two days of interviews. In the end, I persuaded him to be interviewed himself before our field trip finished.

#### **4.2.5 Access to OSG: compromises in access**

OSG was the last company in my fieldwork. With the help of a senior manager from Converge – an interviewee – who used to work in Ocean Pacific, I was recommended to one of the senior managers of OSG and through him, I got to know a few middle managers whose posts were under his direct supervision. Although I visited the senior manager twice

and managed to interview him and two of the middle managers in his department, further access was refused with no room left for negotiation. As he explained:

“Contacts on an individual basis are not a problem; you can visit us as many times as you wish. But it must be kept on a private basis. Once it is raised by the board of directors, people can make stories out of nothing. That’s why I can only let you interview the people that I trust” (Senior Consultant, OSG).

My second visit to OSG Pacific ended with a tour to one of their shipyards and I took the chance to observe their production unit; my first interviews, when I visited the firm, had been at the company’s Shanghai headquarters. Later, under the help of the HR Director at CSG, I was introduced to several former OSG managers who had moved to CSG, but, due to labour contract issues, had not started to work for CSG at that time. They are classified as OSG managers.

#### **4.3 Data Collection**

The data were collected over a span of 4 years (from January 2008 to July 2011), representing intensive fieldwork, regular contact with key informants before and after the field trip, follow-up interviews after fieldwork and the consistent collection of written materials of the case study firms over the period. In order to cope with the breadth and depth of information demanded by the nature of the enquiry, a whole battery of methods was used, separately or collectively, at different stages of the data collection. Of these, observation and semi-structured interviews were the two major methods employed, supplemented by informal discussion with people working on the sites, as well as extensive analysis of the documentation. Initially, two questionnaires (one investigating the perception among middle management and senior management of the firm’s management system, complex organisational changes and human resource management; the other specially designed to investigate human resource functions and employee statistics) were designed to supplement the observations and interviews. But due to the poor response rate among the managers in CSG, only the questionnaire for HR functions and employee statistics continued to be used.

The data in the field were collected in an ‘overt’ way. My identity as a researcher was made clear to the companies at the very beginning. From May to September 2009, I spent on aggregate five weeks in Converge (three days of this being spent at the Shanghai headquarters and the rest of the time in their shipyard), one week each in HSG, NSG and YSG and two days each in ASG, JSG and OSG. Semi-structured interviews, observation and documentary analysis were the methods applied in the field.

##### **4.3.1 Interviews**

In total, 71 semi-structured interviews were conducted during the four months' of fieldwork. 56 managerial staff, 8 non-managerial staff, 3 government officials and 4 external experts in the industry were interviewed; among them, 60 were interviewed on a one-to-one basis, while the remaining 11 were engaged in three group interviews. Six months after the main fieldwork was completed, 11 managers were interviewed again for follow-up issues. Interviews lasted between one and three hours. The longest lasted more than 4 hours. The interviewee profiles are listed in Table 1, as follows:

**Table 1: Profile of the interviewees**

<b>Firm</b>	<b>Top management (CEO, GM, chairman of the board)</b>	<b>Senior management (Deputy GM, Management director, Assistant to GM)</b>	<b>Middle management (Head of department)</b>	<b>Line manager (lower than head of department)</b>	<b>Non-managerial employees</b>	<b>Total (persons)</b>
<b>CSG</b>	1	7	8	12	3	31
<b>OSG</b>	2	2	4	1	0	9
<b>NSG</b>	0	2	0	3	5	10
<b>YSG</b>	0	2	0	1	0	3
<b>JSG</b>	0	1	0	5	0	6
<b>HSG</b>	1	0	1	0	0	2
<b>ASG</b>	1	2	0	0	0	3
<b>Others</b>	3 government officials, 4 experts in the industry					7
<b>Total</b>						71

One of my former colleagues arranged the transportation for my initial visit to Converge shipyard and took me to the CEO's office after a quick tour of the administration building. The CEO was the first person to be interviewed on the first day of my fieldwork. The interview lasted three hours. The discussion was not limited to the interim interview question list, but expanded to all sorts of relevant areas that related to the research and some practical issues on how to conduct the fieldwork.

The rest of the day, I briefly met with a senior secretary who had been assigned by the CEO to help in scheduling the interviews, distributing and collecting questionnaires and other ancillary matters, such as accommodation, transportation and meals, etc. Among the agreed



items, I was allocated a desk in the Financial Management Department, which is on the third floor of the general administration building, where the CEO office is also located.

The agreed items started the next day. I insisted on following the work timetable for the shipyard. My accommodation was arranged in a hotel in the centre of a nearby town, 80 kilometres away from the shipyard. The company provided its employees with transportation every morning and afternoon from the town to shipyard. Employees could choose the most convenient boarding point from 5 bus routes. Every day, I joined the crowd at 6am, arrived at the shipyard at 8am, had breakfast with the office staff and started work at 8:30.

A list of potential interviewees was nominated by my former colleagues and the CEO, based on the focus of my research – managerial staff at or above middle management level with rich working experience. The candidates were selected from senior managers (vice presidents) and middle managers (heads of department or unit), covering the major functional departments and production units. All of them had worked in shipbuilding for a minimum of 10 years and had experience of both privately owned enterprises (POEs) and state owned enterprises (SOEs).

However, to persuade them to sit in a formal interview was very difficult. At first, the interviewees were invited through the senior secretary, but only a few senior managers agreed to be interviewed; the other senior managers declined even when the CEO's name was invoked. Most often in the first week I had to wait patiently for notification from the secretary, which for a while made me doubt his efficiency. I was afraid that this kind of hopeless waiting would last forever. I turned to my former colleagues for help, asking them to bring their friends. The situation became more promising with the involvement of people 'who knew more about the company'. Soon, more positive replies were received. Some line managers and non-managerial staff were also recommended by these more friendly interviewees. I learned from this experience and applied it to the remaining case study firms when sourcing interviewees; it worked very well there, too. When I look back on this episode, I immediately recall the frank account from one of the managers whom I interviewed in Converge:

“You have to respect the rule of this company. He (the senior secretary) is not the right person to be appointed to your project, which is not because of his position or his competence, but his accumulation of interpersonal relationships. He is new to the company and you are new to this site as well. With the CEO's name on your side, you can get them to pick up the phone but only with a polite 'no', unless you can get the CEO to phone them in person. One's personal network is extremely important. So, he (the senior secretary) shouldn't be the one to blame” (General Manager of Shipbuilding Strategic Business Unit, CSG).

In general, the first batch of interviews at Converge was conducted in a modest and tentative way. I did not follow the exact format of the interim interview question list, but instead tried to cover the key issues more openly and flexibly. Thus, the questions revolved around the central inquiry of the research – the managers' perceptions of the changes in the firm, the influences of these changes on the managerial work and the nature of managerial work in POEs. The approach to being questioned varied on different occasions or at different points in the same interview (Hammersley and Atkinson, 1993); it was even modified according to different types of interviewee. At some points, I asked non-directive questions to allow the interviewees to begin their answers in whatever way they were comfortable with. For instance, at one point, interviewees were asked to describe the differences in management practice between SOEs and POEs, between different types of POE and how they explained such differences; at other points, when the issue itself required more explicitness, I asked direct questions, for example, with regard to specific practices in HR.

Finally I asked each interviewee to comment on the questions they had been asked. Some minor changes were made to the question list based on their feedback. Certain questions that were regarded as too profound, (e.g. what are the major features of Converge's management philosophy?) or too general (e.g. How do you feel about the atmosphere in Converge?) were revised accordingly. Finally, a more practical formula was produced and applied to the subsequent interviews both in Converge and in other host companies. The interviews started normally with friendly greetings and a brief introduction about my research, followed by my asking whether a digital recorder could be set up. Most of the interviewees raised no objection at all. A few of them suggested that we stop recording when some sensitive points were being discussed. Only one interviewee completely rejected the idea that every word he spoke was to be recorded. Another exceptional case was the interview with the Vice Chairman of YSG, who suggested giving an interview in the course of a shipyard tour, where a digital recording would be distorted. In such circumstances, I took notes instead. Interviews were frequently disrupted by incoming calls. I took them as chances to observe how managers communicated with other people. Further notes were taken as soon as each interview ended.

#### **4.3.2 Observation**

Observation is another major method employed in the field. I concentrated on three major aspects: the individual manager's work, group activities and the manager's social life. One of the major methods used in observation is "shadowing" (Bryman and Bell, 2007: 448). For instance, for one job shadow observation in Converge I took the same coach as one of the managers to the shipyard every morning, had breakfast, lunch and even supper with him, sat next to him in his office and left work at the same time. I was invited, too, to join his off-

work social life, such as a gathering with close former colleagues. My observation in this case covered almost all his job-related activities. Stories and personal feelings relating to interpersonal interaction were shared in our casual talk. His detailed daily activities were recorded and he shed light on the rationale behind these decisions and actions whenever I felt puzzled. In other host companies, the CFO of NSG and the HR Manager of YSG were also shadowed. This type of intensive and close observation yielded important data, enabling me to directly understand a managers' job, behaviour and social life (McDonald, 2005). Some of them corroborate the accounts given by the interviewees.

Wandering around to appreciate the settings and chatting with people were two further methods of observing individual and group behaviour. For instance, during lunch breaks in Converge, I would visit other old friends who were working in the same administration building but on different floors. In company with these former colleagues, I was able to engage with their colleagues in a more relaxed way. This could also create some unexpected opportunities. For instance, the head of the Quality Control Unit happened to be making a tour of inspection tour on the afternoon on the day that I met him. He agreed to give me a tour of the production units. During the tour, he described his job responsibilities while performing this duty; and I further observed how cross-sectional cooperation was organized and monitored on the site, which helped me to understand not only the procedures and concepts of the modern mode of shipbuilding but also the nature of production management.

During the field visits in host companies, I watched a variety of events and scenes, including staff orientation, skill competitions, training workshops, department meetings, honor guard rehearsals, workers' protests, receptions for business partners, celebrations, company football matches and preparations for quality system attestation, etc. Of these, meetings exemplify one of the typical group activities in working time. The observation of meetings varied from case to case. In Converge, I was not permitted to sit in on meetings, but I managed to observe them without being seen to do so. Next to my office was the biggest meeting room in the administration building, where important administration and management meetings were held. Those eligible to attend the meetings were the CEO, senior managers and the heads of each department/unit. I could clearly hear what they said since they always kept the door wide open. I could see inside the meeting room when I walked down the corridor or moved around in the area. So, I often glanced in this direction, trying to sense the atmosphere. In the NSG and YSG, I could observe departmental meetings (the Finance and Accounting department of NSG and the HR department of YSG) directly.

In order to avoid any suspicions and discomfort, I normally took notes once I was out of sight in the office or back at the hotel at night, but from time to time I noted keywords to mark specific points and help refresh my memory.

### **4.3.3 Documents**

Along with the other data collection practices, I collected a large amount of documentary materials from the host companies, which included internal publications (company newsletters, magazines and brochures), unpublished documents (organisational charts, company regulations and policies, work flow charts, financial reports, personnel statistics, pay scales, memoranda, annual work report, meeting minutes), published/media reports (mission statements, news on the company website, press releases on the internet, newspaper reports and exclusive interviews with top management) and audio and video files commemorating milestones in the history of case companies. In addition to the documents and files listed above, some companies generously provided extra files, for example, both NSG and Converge supplied me with their management appraisal reports, produced by external consulting firms. In addition, YSG and OSG, as public listed companies, offered their annual financial reports, auditing reports and records of key personnel changes, dating even from the years of their respective IPOs. A substantial part of these files was confidential and I was granted access to them on the basis of the trust that had been established through years of maintaining contact and friendship with their staff.

These documents were used both as valuable sources of background 'information' (Bryman and Bell, 2007: 566) and for 'analytical topics' (Hammersley and Atkinson, 1993: 143). With regard to the former, the documents compensate a good deal for the fragmentary accounts from interviews and observation, by representing the situation over a relatively consistent timeline (Bryman and Bell, 2007). For example, the meeting minutes of Converge revealed to me partial insights, at least, into the procedure of managerial decision making and the power structure implied in the process. In the latter capacity, the documents served as an indication of another perspective, independent from the spoken account of someone's views. The information associated with the files (e.g., the style and the tone of the writing, the reason(s) for issuing the files, the identity of the author, the recipients, their reaction and the circumstances, etc.) led to a systematic examination of official expectations (Hammersley and Atkinson, 1993). As Gill and Johnson (1997:105) note, the significance of documents lies in their availability to be '[checked] for meaning with their producers and with recipients as to interpretation'.

### **4.4 Data analysis**

Data analysis in this study is not a stage in itself (Hammersley and Atkinson, 1993) but an

integral part of each phase of the research: it began at the time of formulating and clarifying research questions, continued into the research design and data collection and ran through the final stage of writing and reporting the findings. The analytic strategy was formulated on the premise of being fully aware of the constraints imposed by the 'research question itself', 'the interests of the researcher' and the external and institutional conditions available for conducting the research (Goetz and LeCompte, 1981: 52) and bears a close resemblance to the 'constant comparative method' (Glaser and Strauss, 1967) and 'analytic induction' (Znaniecki, 1934; Robinson, 1951) in its focus on identifying categories and generating statements of relationships.

The analysis process can be divided into three major steps: preliminary analysis (reading and thinking about the data), focused analysis (classifying and comparing the data) and theorization (interpreting and constructing the meanings of the data). They were not conducted in a linear, one-directional sequence; rather, they were flexible in moving back and forth, or even operating simultaneously, with each influencing all the others. The adoption of a computer-assisted qualitative data analysis approach unified the three steps and enhanced the convenience of analysis which ran in multiple cycles.

#### **4.4.1 Preliminary analysis**

Careful reading and constant reviewing of the data collected so far was an important step not only in familiarising myself with it, but also of thinking about and understanding it. The nature of ethnographic data collection meant that a huge amount of raw material was generated, including more than 3,000 pages of textual material (including interview transcripts, a diary, field notes and company documents). The processes of accumulating and digesting data had to be concurrent, given "the sheer massive volumes of information" (Patton, 1987: 297). More familiarity with the data and more analytic notes and comments added to the original pieces, highlighted the sensitivity of my awareness of features, patterns and contradictions within the of data (Patton, 1987).

Another purpose was to expose inconsistencies in the data and feed their existence back to the data collection so that its accuracy and efficiency could be improved (Marshall and Rossman, 1995). Further, data from different sources may supplement each other and help us to broaden our understanding and establish a comprehensive view of the issues. For example, I used, when transcribing audio-recorded interviews, to refer to notes extracted from observation and to company files so as to supplement over-simplified interview statements about critical incidents.

In general, this step can be viewed as either a preparatory step for the following analysis or

a rudimentary step in the analysis by which to extract general principles for organizing and displaying data. By the end of this stage, the audio-taped interview files had all been transcribed verbatim as word processed documents and summary reports had been written for each case company.

#### **4.4.2 Focused analysis**

The focused analysis stage can be regarded as the “formal analysis stage”. Detailed classification and comparison of the data were closely guided by the research design. Data inherited from step one were sorted into seven units, to represent the different case companies. Within each unit, data segments were processed separately according to their sources: data were taken apart and coded to specific ‘nodes’ (the routes by which references can be coded to themes, patterns, or categories) (Bryman, 2008). What should be included in the analysis was determined by how relevant the data were to my understanding of the research questions (Shaw, 1999). Nodes were exhibited in a number of ways so that the relationship between them could be exposed. The specific techniques which were employed included putting nodes into arrays, creating matrices of categories, creating flow charts or other displays and tabulating nodes. Once I understood the connection between nodes, I could develop broader meaningful categories, which helped to ‘draw together a diverse range of different phenomena under the aegis of one type’ (Hammersley and Atkinson, 1993: 178). When I had identified the basic categories in a data source, they were then cross-compared for similarities and differences with the outcomes from other data sources to form unit-based categories which were continuously compared across units. Each category was constantly revised with the ongoing comparing process and with the input of new data until they exhausted the new data and reached internal homogeneity.

In order to cope with the complexity and massive labour and time commitment demanded by analyzing such diverse and voluminous data, I adopted a computer-based approach. Although there is a wide range of useful computer programmes available for assisting qualitative data analysis, NVivo was regarded as the most appropriate software for this research due to its powerful function of processing multi-language data and its updated compatibility with files generated by other software. The latter promises in particular the convenience of incorporating those pre-fieldwork materials that had been processed in ATLAS.ti. Moreover, its standard application manifests the core idea of ‘grounded theorizing’ (Glaser and Strauss, 1967): Nvivo is designed as an open system, allowing further editing to the ‘existing project’, adding or revising data sets directly, importing or deleting files, all of which makes it easier to constantly check, read, update and expand the analysis. By allowing quick switches between the coded data and its original file, Nvivo provides a

platform to systemize the comparison between extracted (coded) data sections (Shaw, 1999) and, in the meantime, maintains the close interaction between analyst and data.

#### **4.4.3 Theorizing**

There is no doubt that concepts sometimes arose spontaneously from participants' accounts (Hammersley and Atkinson, 1993); however, they were generated as a rule during the course of identifying and grouping/regrouping categories (of phenomena, patterns, questions, etc.) and defining/redefining the relationships between categories. As the categories were being clarified and developed in relation to one another, so also must the concepts be specified and modified.

Making sense of the relationship between concepts constitutes the crucial step of theorization. As implied in Hughes's work (1971), finding a new combination of the old concepts was valued as highly as creating a new concept in addressing ethnographic insights. Through linking the concepts together, an initial theoretical scheme was developed, which served as the foundation for continuous comparison with the subsequent cases. Again, the concepts and the links between concepts in the theoretical scheme were progressively modified and expanded as the process continued.

Although the actual theorization cannot be fulfilled by NVivo itself, it helped along the process of sensitizing the relationship between concepts through visualizing different combinations of concepts.

#### **4.5 Conclusion**

A retrospective look at the methodological aspect of this research reveals unexpected practical issues encountered during the actual implementation, even when the research was well designed beforehand. Lessons learned from the research include the following: getting access to the target companies relied more on personal networks and luck than on formal official contacts; interpersonal relationships proved to be much more useful in sourcing interviewees than authority and rank; and the amount of information that could be released and the depth to which I could probe it depended on the level of trust between the informants and me, rather than any official agreement or relevant regulation by the firm concerned. The above lessons reflect the uniqueness of China's research environment, which is closely related to a cultural and social principle in China – the importance of interpersonal relationships. It also implies that a researcher considering ethical issues during the research process may need to take the values and behavioural principles of the research environment into consideration, rather than directly interpreting them by means of a Western value system.

From the technical aspect of the research, apart from necessary work, which requires persistency and sufficient time, computer based qualitative software (e.g., Nvivo or ATLAS.ti) does have its advantages in managing data and making sense of them; but its limitations in application are also significant. For instance, coding takes it a long time and mending the nodes and the subsumed sub-nodes and connected data takes even longer. Moreover, every essential step of the data processing, for example, deciding on and defining the themes and theorization, has to be decided by the researcher. Thus, the research suggests that computer based qualitative analysis software still needs to be improved.

Having described the process of conducting this research and the difficulties and problems encountered in the course of it in this chapter, the next chapter moves to the findings of the research and supplies the necessary background information to set the context for the following case studies.



## **Chapter Five: The context of management and managerial work in the case-study companies: a macro, meso and micro view**

### **5.1 Introduction**

As stated in the introduction chapter, the study aims to explore the nature of management and managerial work in the private enterprises in China, which requires an understanding of the function of management, the role of the manager, the responsibilities attached to the job of management and the rationale behind the manager's behaviour and activities. To achieve this, I studied seven private companies. The empirical evidence collected from these case-study companies is presented in this and the next four chapters. While the next four chapters focus on the key components of managerial work, this chapter seeks to provide the necessary context in which to study management and managerial work in the private enterprises of China. The chapter begins by reviewing the characteristics of the world's shipbuilding industry and the development of the Chinese shipbuilding industry. It then reviews the institutional environment, the administrative system and the structure of the Chinese shipbuilding industry, discussing also the status of Chinese private shipbuilding companies. Next, the profiles of the seven case-study companies are introduced. The chapter finishes with a comparative review of the history and patterns of development of these companies.

### **5.2 An overview of Shipbuilding Industry**

#### **5.2.1 World shipbuilding industry**

The global shipbuilding industry<sup>18</sup> has experienced dramatic changes since World War Two, characterised by the emergence of new forces, frequent transferring of world leadership, reconfiguration of market shares and the shifting of prices and product focus (Stopford, 1997; Todd, 1991).

#### ***The global shipbuilding market***

The global shipbuilding market has experienced both prosperity and deterioration since the 1950s, which were heavily influenced by the fluctuation of world economy (First Marine International Limited, 2003). The steady growth in ship demand climbed to peak in 1975 when output reached almost 35 million GT (Gross Tonnage), a new historical record at the time. Unfortunately, the following years witnessed a collapse in demand and a slump in prices, normally attributed to the oil crisis starting in 1973 and to the over-capacity of

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<sup>18</sup> The term 'shipbuilding industry' in this thesis is used to mean the commercial shipbuilding industry only.

shipbuilding. Throughout the 1980s, the global shipbuilding industry was typified by sustained low output at around half that of 1975. But, due to strategic considerations and the belief in the long-term market forecast, the extensive rationalisation of capacity in Europe and Japan was still maintained (Colton and Huntzinger, 2002). The long expected upturn of the shipbuilding market finally materialised in 1990.

From 1990 to 2008, shipbuilding enjoyed another period of speedy growth. The reasons for this marketing revival have been widely accepted as the need to replace the ships built in the 1970s and the development of international trading and shipping. In addition, the new regulations to reflect environmental and safety concerns hastened technical innovation in ship design and shipbuilding, which also promoted the demand for new ships (OECD, 2006). The onset of a financial crisis in 2008 forced the entire industry to slow down, leading to a sharp decline in new orders, continuous shrinking of existing orders, more cancellations and slippage and the postponement of deliveries (China Association of National Shipbuilding Industry, 2009). However, shipping and shipbuilding have historically had a constantly cyclical market. As the overall economic conditions moved slowly to recovery in 2010, the industry in certain regions evidently picked up, for instance, that of South Korea (KBS World News Online, April 7, 2011). The revival of the industry overall will still take a long time and the shipbuilding market expects fierce competition for new orders.

### ***The transferring of leadership***

Great Britain was the world's leading shipbuilding nation until 1945. After World War Two, technology and productivity played an important part in the development of shipbuilding in all the nations involved. Competitive forces from Western European nations such as Denmark, Sweden and West Germany challenged the previous balance and each occupied the leading spot for a short while. In the 1950s and 1960s, Japan used shipbuilding to reconstruct its industrial structure; and in the 1970s, the South Korean government copied Japan's successful experience to build up and expand its shipbuilding industry; in 1999 it outdid Japan as the world's leading shipbuilder (Hassink and Shin, 2005). With more and more countries, both developed and developing, realizing the strategic role of shipbuilding in the national industrial structure, new forces continued to emerge. A wave of massive investment in new facilities and new technologies swept through the world. Facing such a competitive situation, some countries with a tradition of shipbuilding, such as Sweden, retreated from the market (Todd, 1991).

As a latecomer in the modern shipbuilding industry, China became the third Asian country to develop world-class competitiveness in a short period. Since the 1980s, the Chinese government has regarded the shipbuilding industry as a crucial part of the economic engine

capable of driving the nation's industrialization. With the financial support of the Chinese government and China's domestic demand for shipping capacity, it enjoyed a fast and steady growth even under the global financial crisis. In 2010, China outstripped South Korea and became the world's largest shipbuilder for the first time since 2003; it kept ahead in terms of three major industry indicators, i.e., new orders, order backlogs and delivery (People Daily Online, 13 August, 2010) and did so well ahead of the official schedule (see Table 2). However, increasing pressure from other ambitious countries implies ongoing competition for global shipbuilding leadership in the future.

### ***The product structure and profitability***

The world shipbuilding market for a long time had been a typical "seller's market", given the fact that the marine transportation market had seen a general trend of increasing total trade volume (see Figure 1). But the profitability of the whole industry cannot be guaranteed at this high rate, due to the increasing cost of raw materials, labour and the high investment in high technology. In order to acquire sufficient orders, some shipbuilders, for instance, those in South Korea, have had to make enormous price concessions, which tipped the balance decisively to the shipowners' side (Hassink and Shin, 2005). Meanwhile, the delay in ship delivery has become another serious problem for shipyards. According to Clarkson's statistics, in 2005, all the ships delivered by South Korea, Japan and China exceeded 36 months on average. All these factors together interpret the profitability of the shipbuilding industry as "the owner's price under the seller's market".

In order to increase the profit margin, established shipbuilders have been trying to adjust the product focus, moving to ships with higher value-added. Currently, the world's main shipbuilding countries all have a relatively clear product structure: European shipbuilders, relying on technological advantage and high standards of workmanship, have moved into the market for luxury cruisers, icebreakers and research ships; the South Korean shipbuilding industry typically works on the bulk cargo sector, tankers, bulk carriers and container ships; the main product of Japanese shipbuilding is bulk carriers, in addition to a significant proportion of oil and chemical tankers and gas carriers; Chinese shipbuilders participate in most market sectors, but focus on the production of standard ships such as oil tankers, bulk carriers and container ships (Ludwig and Tholen, 2006). Thus, European shipbuilders occupy the niche market with the highest profit; Japanese and Korean shipbuilding companies have followed suit; Chinese companies are making quick progress on the technical level and shipbuilding efficiency, but a big gap still exists between them and their Korean and Japanese counterparts. In this sense, the profitability of the Chinese shipbuilding industry currently has to count on expanding its capacity, its cheaper labour force and other factors to compensate in terms of profit. To move from the "biggest" one to a

**Table 2: Regional Shipbuilding Output as of August 1, 2010 (million DWT and Ranked by 2009 Output)**

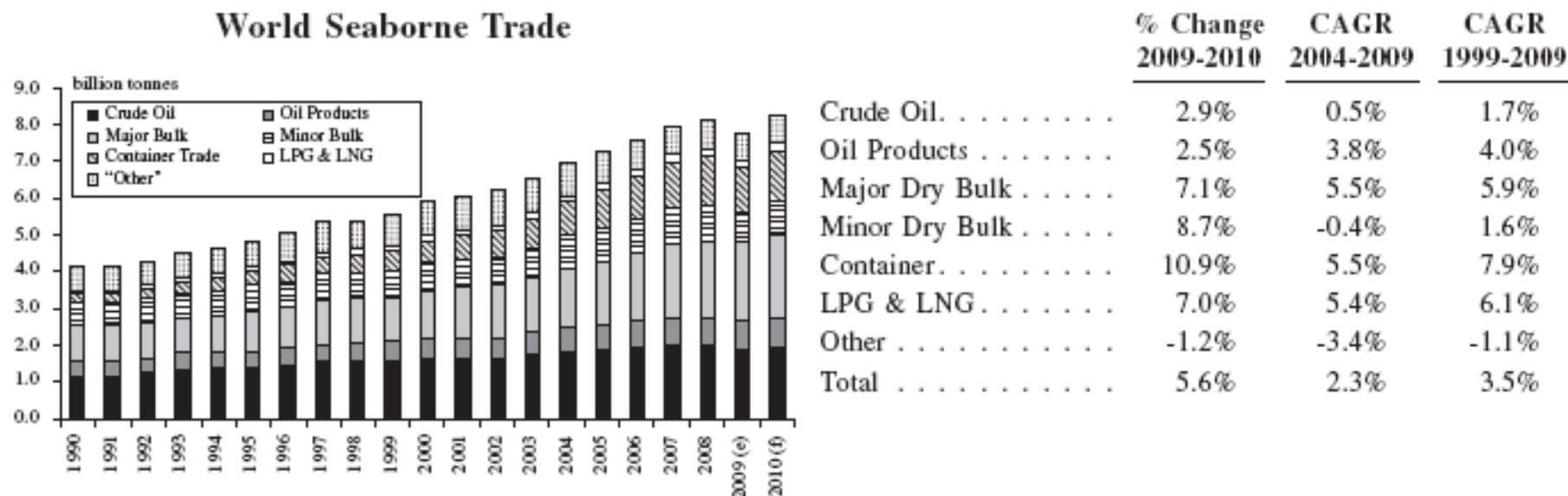
Country/Region	2002	2003	2004	2005	2006	2007	2008	2009	2010 (ytd)	2009 Non- Delivery Rate
South Korea.....	20.3	22.0	23.5	27.1	25.7	29.0	34.4	44.2	28.0	30%
China.....	3.9	5.6	7.9	10.0	13.2	16.4	21.1	35.8	33.7	43%
Japan.....	19.5	20.5	23.5	26.9	29.4	27.4	27.7	29.3	19.4	13%
Europe.....	4.3	4.1	4.5	5.0	5.6	6.0	5.8	4.7	2.6	53%
Other Asia <sup>(1)</sup> .....	1.6	1.7	1.7	1.6	2.1	2.2	2.1	2.4	2.1	73%
Others.....	1.2	0.4	0.5	0.5	0.6	0.2	0.3	0.6	0.1	36%
<b>Total.....</b>	<b>50.8</b>	<b>54.3</b>	<b>61.5</b>	<b>71.2</b>	<b>76.5</b>	<b>81.1</b>	<b>91.5</b>	<b>116.9</b>	<b>85.9</b>	<b>36%</b>

Source: Clarkson Research, August 2010.

Note: 2009 non-delivery rates are estimates for full year 2009.

“Other Asia” includes Bangladesh, Hong Kong, India, Indonesia, Malaysia, Philippines, Singapore, Sri Lanka, Taiwan, Thailand and Vietnam.

Figure 1: World Seaborne Trade 1990-2010



Source: Clarkson Research, August 2010.

Note: The 2010 world trade forecast is based on August 2010 for full year 2010 and subject to change. There is only limited trade and economic data for 2010. Forecasts are subjective and dependent on continued economic recovery; there is no guarantee that trends are sustainable.

“strongest” one, the Chinese shipbuilding industry needs to give priority to improvements in product quality, productive efficiency and profitability, all of which require a higher level of management and personnel development for talented staff in all types of Chinese shipbuilding enterprise (National Medium and Long-Term Plan of the Shipbuilding Industry, State Council of the People’s Republic of China, Issued on 16th August 2008).

## **5.2.2 Chinese Shipbuilding Industry**

The boom in the Chinese shipbuilding industry is closely linked to the government’s macroscopic guide and the industry’s advantageous conditions and resources with respect to the primary inputs into this sector, which include the land and coastline resources, an abundant and relatively cheap labour force and complementary support from other industrial sectors (Ludwig and Tholen, 2006). In order to understand the current developments in the Chinese shipbuilding industry, we need to look at three major aspects: the role of the industry, the government’s policy and support for the industry and the structure of the industry itself.

### **5.2.2.1 The role of shipbuilding industry in China**

Shipbuilding in China was given a strategic status for three main reasons: first, it serves as a fundamental instrument to support the development of China’s domestic economy. Unlike South Korea, whose shipbuilding industry was mainly producing for export, the initial aim of Chinese shipbuilding is to satisfy China’s own sea transportation demands. From the government’s perspective, “the supply of raw materials for domestic manufacturing, meeting the food needs of its population and the transport of exports should, to the extent possible, be undertaken by Chinese built ships” (OECD, 2008: 4). In addition, it makes a substantial contribution to the employment and investment attractions in the development of some regional economies. Second, since the promulgation of its “open door policy”, China has been actively participating in global trade. In particular since China gained membership of the WTO in 2001, transportation has been playing even a crucial role in promoting its integration into the global market and helping China to become one of the most important traders in the world. Third, the development of commercial shipbuilding is strategically significant in enhancing China’s national defence capacity. From very simple vessels with basic functions to more sophisticated, technically advanced ships, the technical and technological capacity of Chinese shipbuilding has significantly upgraded itself and this process has supplied qualified technical personnel and designers for the building of China’s naval fleet. In addition, the shipbuilding industry is closely related to other industries, for example, iron, steel, electronic and machine manufacturing, and its development serves as a catalyst for the development of others.

### **5.2.2.2 Government policies and supportive measures**

From the aspect of macroeconomic control, the Chinese government has made enormous efforts to construct a favourable institutional environment for the shipbuilding industry, which includes three main policies and a catalogue of supportive industrial-political measures.

In 2005, the government added a development plan for the maritime sector to the 11th National 5-year Economic Plan, marking the first time that this sector has been specifically mentioned. As part of the plan, the National Development and Reform Commission (NDRC) and the Commission of Science, Technology and Industry for National Defence (COSTIND) drew up “The Mid-to-long-term Programme for the Development of the Shipbuilding Industry 2006-2015” (State Council, P. R. C., 2006), which aimed to systematically plan and guide the development of this industrial sector through identifying and removing the barriers in the current institutional setting (OECD, 2008). In addition, this national plan, urging the sector to speed up its growth over the next five to ten years, set detailed targets; for example, that the industry should increase annual production to 17 million DWT by 2010, increase the output of locally produced ship equipment by more than 60% before 2010, speed up the construction of key shipbuilding facilities and increase the annual production capacity of medium and low speed ship diesel engines to respectively reach 4 million kw and 1,100 units. In accordance with the national development plan of the shipbuilding industry, local governments at all levels formulated their own development plan for the shipbuilding industry. In 2008, the government went on to issue “The Adjustment and Revitalization Plans of the Chinese Shipbuilding Industry” (State Council, P. R. C., 2009) to mitigate the impact of the global financial crisis on shipbuilding.

The supportive measures derived from the above three policies can be split into two major categories: one for restructuring the industry and the other for reforming its capital financing mechanism, listed as follows (OECD, 2008: 10-12; Ludwig and Tholen, 2006: 24-25):

#### ***Measures for restructuring the industry:***

- **The construction of regional shipbuilding centres:** the government resolved to develop three shipbuilding clusters, Bohai Bay in the north, the Yangtze Delta in the centre of the coast and the Pearl River Mouth in the South.
- **The establishment of a new market access system:** the Chinese government is formulating Provisions on the Administration of the Shipbuilding License to regulate the development of the Chinese shipbuilding industry. This new entry system promoted the overall level of the shipbuilding industry, enhanced government control over it and eliminated unqualified firms.

- **Income tax** will be remitted in certain circumstances to shipbuilding enterprises. If the shipyards made investments in China before 2010, they could be exempt from income tax for a maximum of five years after the investment. This tax exemption refers only to the profit which could be generated by the investment. The tax exemption might amount to a maximum of 5 per cent of the effected investment.
- **Export tax rebates:** for the construction of ships for export, the Chinese shipyards can claim further discounts in export tax, which aims to avoid the repeated collection of tax and is in line with international practice and WTO rulings.
- **Protection to the domestic market:** on the one hand, the State Oceanic Administration buys domestically built ships when these are cost effective; on the other hand, protection to the domestic market is provided through the application of tariffs on imported ships by the Ministry of Finance. But the key ship components are exempted from tariffs applicable to imports necessary for the production of some kinds of high-tech ship.
- **Stabilisation of material costs:** in order to secure a steady flow of steel supplies for the shipbuilding industry, the government plans to localise the production of the required steel through domestic steel producers.

***Measures for reforming the investment funding:***

- **Investment funding reforms:** shipbuilding companies are allowed to raise capital for plant and site development from public issues or corporate bond sales.
- **Privatisation:** the government is determined to speed up the process of privatisation in the shipbuilding industry. On the one hand, the government opened this previously state monopolized industry to private investors and on the other, it determined to privatize most of the medium- and small-sized local shipbuilding companies.
- **Reform of the conventional financing and investment system:** the government has the function of strengthening structural flexibility and providing assistance in the acquisition of capital, which it did mainly by encouraging state-owned and private banking institutions to provide financial support to shipbuilders. For example, the Export-Import Bank of China is responsible for providing export credits to borrowers of up to 80% of the value of the commercial contracts. More recently, other major Chinese banks, such as the China Construction Bank, the Bank of China, the Agricultural Bank of China and the Industrial and Commercial Bank of China, have also become involved in financing transportation and infrastructure.
- **Involvement of foreign investors:** as part of the government stimulus schemes to increase the supply of key components domestically, Chinese maritime suppliers are allowed to establish joint ventures with foreign partners on the premises that, first,



the foreign partners' investment in new shipbuilding and marine engine manufacturing units totals less than 50% of these ventures; second, such ventures must also provide support for shipbuilding technology by establishing their own R&D units. In addition, the government provides incentives for investing in R&D and innovation.

- **Policies under the financial crisis:** the government encourages the financial organisations to increase credit funds for ship export buyers; and the current financial support policies of deep sea ships for the home market will be extended to 2010.

### **5.2.2.3 Structure of the Chinese shipbuilding industry**

#### ***The evolution of the administration system of the shipbuilding industry***

The Chinese shipbuilding industry before 1982 was under the jurisdiction of four government departments, the Ministry of Machine-Building Industry, the Ministry of Communications, the State Administration of Aquatic Products and the Ministry of Defence, each of which was in charge of a specialized area of the industry as a whole. At the local government level, provinces, municipalities and autonomous regions were also given the authority to operate shipyards. In order to simplify the management of the industry, the Chinese government set out to restructure the supervisory departments (CSSC Official Website, 2011).

By 1994, the China State Shipbuilding Corporation (CSSC) which was founded by merging the China Corporation of Shipbuilding Industry and the ship repair functions of the Ministry of Communications, was operating all shipbuilding functions except for the right to import ships and certain special aspects of ship repair (ibid.). The CSSC itself is a state corporation with ministry status, which represented the top authority for managing the shipbuilding industry, e.g., “the setting of long-term development plans for the shipbuilding industry, deciding strategies, building new facilities, introducing new technologies and establishing subsidiaries abroad” (OECD, 2008: 13). The administrative function of the shipbuilding industry, which had been the CSSC's, was transferred in 1998 to the newly established Commission of Science, Technology and Industry for National Defence (COSTIND). Until 2008, COSTIND was responsible for “introducing policies, implementing industrial development, enacting laws, regulations and standards, supervising enterprise operations and providing coordination and services among defence related industries”, but had no direct involvement in the general business operations of individual companies (Xinhua News Online, 2011a, 25 April). In 2008, COSTIND merged with the other three Ministries and formed the Ministry of Information Industry (MII), under which the Bureau of National Defence Industry, a newly created agency, took over the regulatory authority and administrative responsibility for China's shipbuilding industry (Xinhua News Online, 2011b, 25 April).

### ***The major companies in the industry***

The major players in the shipbuilding industry comprised five parts: the central government-led enterprises, the local government owned enterprises, the joint ventures, the large private companies and a large number of small private enterprises. As accepted practice, the shipbuilding enterprises are divided either by the criteria for central government-led/local shipbuilding enterprises or for state-owned/*minying*<sup>19</sup> enterprises. Since the JVs are either controlled by SOEs or private partners, they are normally treated in practice as SOEs or private companies.

As regards central government-led shipbuilding companies, CSSC is the biggest and the leading body. In 1999, CSSC was split into two groups, one remaining CSSC, which is in charge of the state owned shipbuilding enterprises in the south part of China, i.e., the South Group; and the other becoming the China Shipbuilding Industry Corporation (CSIC) which manages the state owned enterprises in the north part of China, i.e. the North Group. Apart from CSSC and CSIC, China's shipping industry also owns three large shipbuilding groups: the Changjiang National Shipping Corporation (CNSC), the China Ocean Shipping Company (COSCO) and the China Shipping Industry Company (CIC). Table 3 lists the main state-owned shipyards belonging to these groups.

For local shipbuilding companies, local government owned and privately owned firms enjoyed a rapid boom since the introduction of central government's macro-control policies. The Fujian Shipbuilding Industry Group and Yiu Lian Dockyards are owned by Fujian province and Hong Kong respectively. Private shipbuilding companies appeared soon after the reform of investment funding and the implementation of the reform policy in state owned enterprises – “grasping the big and leaving off the small” (The Ninth National Five-Year Economic Plan, 1996), during which the first batch of small- to medium-sized state owned shipbuilding enterprises at local government level were selected and privatized, which marked the starting point of the “*minying* shipbuilding legend”. Entering the 21<sup>st</sup> century, with the institutional environment becoming more and more favourable to private firms, a large amount of private capital streamed into the shipbuilding industry, as a result of which a succession of large private shipbuilding enterprises emerged, some of which have already edged themselves into the first tier of the Chinese shipbuilding industry. Since 2006, the balance of this industry, which was divided almost evenly between the North group, the South group and the *minying* cohort, has been superseded by an equal distribution of market share between state-owned enterprises and private enterprises (Wang, 2008).

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<sup>19</sup> *Minying* is the Chinese term for large private enterprises. In some articles, it is also translated as “civil operated”.

**Table 3: Main state-owned Shipyards in China**

<b>Name of Shipyard</b>	<b>Province</b>	<b>Geographic Area</b>	<b>Company</b>	<b>Build/Repair</b>
Waigaoqiao	Shanghai	The Yangtze River Area	CSSC	B
Hudong-Zhonghua	Shanghai	The Yangtze River Area	CSSC	B
Chengxi Shipyard	Jiangsu	The Yangtze River Area	CSSC	B/R
Shanghai Shipyard	Shanghai	The Yangtze River Area	CSSC	B/R
Jiangnan Changxing	Shanghai	The Yangtze River Area	CSSC	B
Huarun-Dadong Shipyard	Shanghai	The Yangtze River Area	CSSC	R
NACKS	Jiangsu	The Yangtze River Area	JV COSCO & KHI	B
Lixin Shipyard	Shanghai	The Yangtze River Area	CIC	R
Jinling Shipyard	Jiangsu	The Yangtze River Area	CNSC	B/R
Wuhu Shipyard	Anhui	The Yangtze River Area	CSSC	B
Jiangdong	Jiangsu	The Yangtze River Area	CNSC	B
Yicang Shipyard	Hubei	The Yangtze River Area	CNSC	B
Qingshan	Hubei	The Yangtze River Area	CNSC	B
Cosco-shipyard (Zhoushan)	Zhejiang	The East and South China Coasts	COSCO	B
Guangzhou International	Guangdong	The Pearl River Area	CSSC	B
Wenchong	Guangdong	The Pearl River Area	CSSC	B
Wenchong-Yuanhang	Guangdong	The Pearl River Area	CSSC	B

<b>Name of Shipyard</b>	<b>Province</b>	<b>Geographic Area</b>	<b>Company</b>	<b>Build/Repair</b>
Cosco-shipyard (Guangzhou)	Guangdong	The Pearl River Area	COSCO	B/R
Boluomiao Shipyard	Guangdong	The Pearl River Area	CIC	R
Dalian	Liaoning	The Yellow River, Heilong River and North China Coast Area	CSIC	B
Bohai	Liaoning	The Yellow River, Heilong River and North China Coast Area	CSIC	B/R
Qingdao Beihai	Shandong	The Yellow River, Heilong River and North China Coast Area	CSIC	B/R
Shanghaiguan	Hebei	The Yellow River, Heilong River and North China Coast Area	CSIC	B/R
Xingang Shipyard	Tianjin	The Yellow River, Heilong River and North China Coast Area	CSIC	B/R
Cosco-shipyard (Dalian)	Liaoning	The Yellow River, Heilong River and North China Coast Area	COSCO	B/R

Geographically, China's shipyards are mainly distributed between Jiangsu, Shanghai, Zhejiang, Shandong and Guangdong, with Jiangsu ranking first. No concise and verifiable statistics about the total number of shipyards in China have been available hitherto. Approximate statistics provided by the Commission of Science Technology and Industry for National Defence (COSTIND) show that in 2005 there were more than 2,000 shipbuilding companies, which employed a labour force of around 400,000, of whom 315,000 were employed by the 480 largest companies. So far, these figures have not been updated. This is partly due to reporting delays but also because the fast changing market has often made the firm numbers fluctuate. But the number of large shipyards has been relatively stable over the years, according to the statistical information from classification societies (Germanischer Lloyd, 2005: 15). According to the 2007 Yearbook of the Shipbuilding Industry of China (Zhang *et al.*, 2007), there were 430 prominent shipbuilding enterprises, including SOEs, Joint Ventures (JVs) and privately owned companies, which earned more than 5 million RMB of annual sales revenue. Although state-owned enterprises have absolute dominance in numbers among these 430 enterprises, private enterprises show strong competitiveness, according to all three major industry indicators, occupying almost one third of the list of top 10 shipbuilders and private firms are constructing half of the ships built in the country (Munoz, 2009). Thus, "private enterprises officially have been recognized among the mainstream shipbuilders in China and theoretically are entitled 'citizen treatment'" (quoted from interview transcript with CEO of Converge, DATE.).

### ***Factors influencing the development of private shipbuilding enterprises***

Shipbuilding is virtually a high risk industry due to its location in the middle of the industry chain. Apart from the impact of global trading on the shipping industry, the prices of raw material, labour cost, the currency exchange rate and the regulatory changes in international society, the Chinese private shipbuilding enterprises are faced by challenges from China's institutional environment. The shortage of funding is regarded as their biggest problem at the stage of reinvestment and expansion, given the capital intensive nature of their industry. However, this has to be understood as one of many related institutional factors, including some related to the role and intervention of the government, the conditions and features of private enterprises, the status of SOEs in the industry, of the labour market and of other institutional authorities.

If the entry of private capital into the shipbuilding industry is accompanied by government macro-economic control, its transformation into a strong competitive force in the market benefited greatly from the adjustment of product strategy by state-owned shipbuilding companies. By the end of 2003, China had become the third largest shipbuilder in the world, following closely behind South Korea and Japan. The large central government-led

shipbuilding companies started to concentrate on developing technologically-advanced large tonnage ships, which gave private companies the chance to fill the market segments that were ignored by SOEs and EU shipyards (Zhou, 2008). In addition, private companies often charge 10% less for ships than their Japanese and South Korean rivals, which has led to surge of orders in their direction.

Due to their relatively short history and lack of valuable assets for mortgage, most private shipbuilding firms suffer from low credit status and are highly unlikely to be able to borrow much from domestic banks (Zhang Xinlong, Deputy Director, China Ship Marketing Research Centre). It should be noted that private firms usually win contracts from their SOE rivals through their low price strategy and charge less in advance. Some of them even risk investing their own funds and some of their current earnings in new yards and facilities, which makes their financial situation even worse. By contrast, SOEs with their sound credit status are better supported by the banks. Most large SOEs, for instance, CSSC and CSIC, not only enjoy solid financial support from their own finance companies but also benefit from the direct financing of their subsidiary companies through IPOs. "Although the central bank of China has been taking measures to support the development of the capital market and expand the direct financing of shipbuilding enterprises, it goes without saying that the preference are still given to SOEs. As a result, private firms are forced to consider the international capital market" (21 Century Business Herald, 2008 August 1st).

The issue of talent forms a critical problem for all shipbuilding enterprises. During the process of transforming their system from a closed, low mobility system to a market-oriented open system, mechanisms for recruiting and developing talent in the Chinese shipbuilding industry has gone through fundamental changes (Lu, 2005). Traditionally, the professional personnel in the shipbuilding industry enter by three channels: skilled workers and technicians from technical schools, engineers from colleges and subcontracted workers from the rural labour force. Often, SOEs take an active part in developing talent by means of joint programmes with universities and colleges and establishing their own technical schools (Xi, 2005). However, since the take-off of the Chinese shipbuilding industry, the existing talent development mechanism has been unable to cope with the great leap in demand. Both privately- and state-owned enterprises are threatened by increasingly fierce competition for qualified human resources. Despite the high staff turnover rate reported by the media, SOEs in the labour market stand firmly as the most favoured employer due to their relatively mature plans for career development and their welfare schemes (Huang, 2007); while private enterprises have been striving for equal policy support from government, such as permission for non-local employees to qualify for collective registered permanent residence.

Government intervention in particular from local government is another factor that plays a central role in nurturing the development of private enterprises. This intervention manifests itself in every facet of the business and includes, among other things, official approval, financing, business relations, and strategic cooperation with related institutions and industries. An immediate example is probably the success of the private economy in Jiangsu's shipbuilding industry, the biggest in any province. In recent years, Jiangsu Province has fostered over 1,000 private shipbuilding companies, which take a share of up to 80% of the provincial industry (Wang, 2008). The provincial government has taken the initiative to coordinate the cooperation between private shipbuilding firms and financial institutions, helping private firms to get access to better financial support. However, not all private firms are covered by government support. The available resources have been distributed between firms favoured by the government, 16 significant private shipbuilding companies, which amount to 90% of the industry's share of the private shipbuilding sector (Wang, 2008). This suggests the great difference between private enterprises which have government support and those which lack it.

### **5.3 Overview of the case-study organisations**

#### **5.3.1 Profile of the case-study organisations**

To begin with, snapshots of the seven case-study companies are provided below (summarised in Table 4):

##### ***Converge Shipbuilding Group***

The Converge Shipbuilding Group (CSG) is a large privately owned heavy industry group whose business spans four segments, namely, shipbuilding, offshore engineering, marine engine building and engineering machinery. Founded in 2004, the company has soon grown to be the new industry leader with its astonishing records in total capital investment, infrastructure construction, first ship delivery and order book record. From the very beginning, the company set itself the goal of becoming a globally competitive and diversified heavy industry group. Equipped with advanced technology and information management systems, it started to target the high end of the market in 2007 and decided to focus on oil and on gaps relating to customers and markets. Currently, its shipbuilding segment contributes most of the company's revenue; however, the company is expecting business to become more diversified. With a successful IPO in 2010, the company acquired sufficient funds to carry on constructing a fourth dry dock. In order to further strengthen its market leadership, the company plans to make the best of its great capacity to leverage multiple resources, develop new businesses through investments, mergers and acquisitions and improve its efficiency through optimizing its production and management.

**Table 4: Overview of the case-study organisations (up to Dec., 2010)**

	<b>CSG</b>	<b>OSG</b>	<b>NSG</b>	<b>YSG</b>	<b>JSG</b>	<b>HSG</b>	<b>ASG</b>
<b>Year of establishment</b>	2004	2003	2001	1999	2003	2006	2002
<b>Province</b>	Jiangsu	Jiangsu & Zhejiang	Jiangsu	Jiangsu	Jiangsu	Jiangsu	Jiangsu
<b>Current ownership status</b>	Public listed	Mixed ownership with private ownership remaining controlled	Mixed ownership with private ownership remaining controlled	Public listed	Public listed	Mixed ownership with private ownership remaining controlled	Mixed ownership with private ownership remaining controlled
<b>Main Business/ products</b>	Shipbuilding (comprehensive, large to extra large vessels), offshore engineering, power engineering, engineering machinery; ship repair	Shipbuilding (bulk carriers, container ships, gas carriers and offshore support vessels)	Shipbuilding (oil tankers, bulk carriers, container ships and offshore platforms )	Shipbuilding (comprehensive), land use, large steel structure fabrication; ship repair	Shipbuilding (bulk carriers, container ships and ocean engineering vessels)	Shipbuilding (comprehensive, small to medium sized vessels), offshore steel structures, large-scale fluid cans	Shipbuilding (small vessels), steel structure fabrication
<b>Employees in main business (approx)</b>	26,000	20,000	21,300	21,000	4,000	2,300	2,600



	<b>CSG</b>	<b>OSG</b>	<b>NSG</b>	<b>YSG</b>	<b>JSG</b>	<b>HSG</b>	<b>ASG</b>
<b>Number of shipyards</b>	1	2	2	3	1	3	3
<b>Geographic Locations of the yards</b>	The Yangtze River Area	One in the Yangtze River Area and others on the East and South China Coasts	The Yangtze River Area	The Yangtze River Area	The Yangtze River Area	The Yangtze River Area	The Yangtze River Area
<b>Target market</b>	International	International	International	International, domestic	International	International, domestic	International, domestic
<b>Annual turnover (Fiscal year 2010)</b>	Sales revenue: RMB 12.7 billion; Delivery: 21 vessels Production: 3.51 million DWT	Sales revenue: RMB 10 billion; Delivery: 54 vessels; Production: 1.8 million DWT	Sales revenue: RMB 16.3 billion; Delivery: 29 vessels; Production: 3.6 million DWT	Sales revenue: RMB 15.7 billion; Delivery: 56 vessels; Production: 2.54 million DWT	Sales revenue: RMB 2.3 billion; Delivery: 10 vessels; Production: 0.55 million DWT	Sales revenue: RMB 3 billion; Delivery: no information released Production: 0.5	Sales revenue: RMB 1 billion; Delivery: 6 vessels; Production: 0.1 million DWT

**DWT – Dead Weight Tonnage**

### ***Ocean-Pacific Shipbuilding Group***

The Ocean-Pacific Shipbuilding Group (OSG) is renowned as the most efficient and profitable shipyard of all the leading private shipbuilding companies in China. With the purchase in 2003 of two state owned shipyards, each with a long history in the industry, OSG was established, followed by the creation of the necessary support mechanisms, including a design development centre, a competitive supply chain and a technical school as a talent training base. In 2005, the company conducted the second phase of its investment to improve the technical facilities and to expand the production capacity of its subordinate shipyards.

Since its inception, the company has adopted the business strategy of “achieving perfection in simple products and pursuing the leadership in niche markets”, which was put into practice primarily by differentiating the positioning of its subordinate shipyards, making one yard specialise in building bulk carriers, container vessels and liquid cargo ships and using the other for ocean engineering vehicles. This differentiation strategy was further deepened through financing differentiated items of equipment, infrastructure and the building of a talent squad between the two yards. As the operation of the company steadily matures, its production is gradually approaching the vision of “making ships like making cars”, one of the most fashionable production models advocated by many shipbuilders in the industry.

Within the last five years, the company’s annual ship output and production values have increased by 68% and 72% respectively. By 2010, the company’s annual output value had reached RMB 10 billion and its overall production capacity had also been much increased.

### ***NC Shipbuilding Group***

Since 2003 the NC Shipbuilding Group (NSG) has been China’s biggest private shipbuilding company in terms of annual production and sales revenue, ranked no.3 overall in the Chinese shipbuilding industry and no. 1 in the private sector. It is among the first batch of SOEs to have been privatised in Jiangsu Province. For its main business, NSG currently owns two yards, the old yard, which concentrates on building smaller vessels and the new yard which handles larger ones. In addition, the company recently purchased a marine design and research institute and invested in a technology centre. Although the new yard is capable of building vessels of up to 300,000 DWT, the company has positioned itself as the expert in building medium-sized vessels, from 73, 4000 DWT to 175,000 DWT in capacity. This business strategy derives from the survival principle formulated in its early days, to avoid competition with large state-owned enterprises. This has helped NSG to differentiate itself from the large SOEs whose production lines cover a wide range of products. During the last 5 years, the company has expanded its business to non-shipbuilding industries as well

as its part of shipping industry and has established two subsidiaries abroad, which made it a multinational business group.

### ***YJ Shipbuilding Group***

The YJ Shipbuilding Group (YSG) is the first company owned by a municipal government (The J Municipal Government, Jiangsu Province) to have been privatised and the first private shipbuilding company ever to be listed abroad. As it has the longest history of any privately owned group, it accumulated rich experience in building all types of ship. Lately, however, the company has been changing its focus to medium-sized or large container ships and bulk carriers and has recently expanded to the manufacturing of offshore vessels and oil tankers. This business strategy is based on confidence in its technological capability, the need to diversify its vessel portfolio and the desire to pursue additional profits from better margins. To fulfil its business ambition, the company invested heavily in better facilities and a more glamorous talent team for its new yard. Meanwhile, the old yard continues to supply the company's flagship products: 50,000 DWT bulk carriers and 3000 TEU container vessels, both medium-sized ships; the new yard is specialising in large ships, bulk carriers up to 100,000 DWT and container vessels 6,000 TEU. In order to further enhance the technological and production capability of the company, YSG embarked on a series of acquisition projects, purchasing an established ship design company and a matured shipyard nearby.

### ***JE Shipbuilding Group***

The JE Shipbuilding Group (JSG) is a medium- sized private shipbuilding company located in the Yangtze River Delta, one of the three shipbuilding clusters in China. With a history stretching back to the 1970s, JSG was successfully privatised by the J Municipal Government in 2003 and publicly listed abroad in 2007. The funding sourced from its IPO was applied to the construction of a new yard and the updating of its existing facilities. The company is a purely manufacturing enterprise with research and design functions wholly in charge of external designing institutes in the industry. It has long been viewed as a specialist in building medium-sized vessels, in particular, bulk carriers. Apart from these, it has produced ships and machinery of various types, including containers, oil tankers, floating docks, and large lifting engineering ships. In recent years, the company has been trying to increase its market share and enlarge its profit margin by expanding production capacity, shifting its focus to more technologically-advanced and higher value-added vessels, increasing efficiency, reducing completion times and venturing into other businesses related to shipbuilding, i.e. the ship repair business.

### ***HT Shipbuilding Group***

The HT Shipbuilding Group (HSG) is a production-oriented private heavy industry company, situated on the north shore of the Yangtze River and nearby national expressway, ferry and railway. The predominant geographic location and convenient land and water traffic create excellent conditions for its long term development. HSG as a famous brand has been in the industry for over two decades if its early development in outsourcing business is included. With its three subsidiary shipyards completed and fully equipped, one in 2006, one in 2007 and the last in 2009, the company is regarded as the leading medium-sized shipbuilder. Apart from shipbuilding and fittings, its core products cover Ro-Ro equipment, bridge steel structures, maritime cranes and other heavy lifting facilities. Currently, all three yards are producing similar products, introducing no clear differentiation strategy.

### ***AH Shipbuilding Group***

The AH Shipbuilding Group (ASG) is a well-established medium-sized shipbuilding company, well known to specialise in constructing small ships and steel structure fabrication for the industry. The history of ASG can be traced back to a private outsourcing company which engaged in ship block manufacturing for large state owned shipbuilding companies. Since its founding in 2003, the company has constructed three shipyards and made each concentrate on one specific production area. Its business strategy of filling the market gap for small ships (less than 40,000 DWT) and ship block manufacturing has won the company continuous and steady growth in the last decade. In order to further strengthen its position in the market, the company has been considering another round of expansion and investment in equipment and technology.

### **5.3.2 The development of the case-study organisations: a comparative view**

A comparative view of the case-study companies reveals some differences and similarities in the patterns of their development, among which ownership is found to be the crucial factor acting throughout the major stages and critical changes in their history. Following this thread, the seven private companies can be seen as originating from four main roots (see Table 5): NSG, YSG and JSG belong to the category of SOE privatized companies; OSG represents the private companies founded on the material resources of a purchased SOE; HSG and YSG are continuations of private shipbuilding companies established in the industry; whilst CSG stands by itself, having been established by a cross-industry investor. Their development can be understood as a coherent process containing two main phases, namely, the establishing of private ownership and the further development of this private ownership.

#### ***Establishment of private ownership***

The three SOE-originated companies, NSG, YSG and JSG followed a similar path in their

early development. They were located in the same geographical area but under the governance of different administrative departments of the J Municipal Government. In response to the central government's policy of restructuring the shipbuilding industry, the companies were put into an experimental scheme to privatise them. From 1999 to 2000, YSG conducted a first round of ownership reforms and was transformed into a joint share ownership company. The J Municipal Government maintained partial control over it, owning 28.8% of the shares. The plant manager and senior managers individually owned 25.3% of the shares; the company's trade union held 20.9% of the shares on behalf of the remaining employees. The Employee Stock Ownership Plan (ESOP) allowed employees to participate if they wished. The remaining 25% of the shares were held by related companies and organisations which were collectively owned by the plant manager and the senior management of YSG. In 2002, as the J Municipal Government was required to carry out the reform of separating the enterprise from its administration, the state owned shares of the company were sold to other related companies (those owned by top management of YSG) and individuals (i.e. members of the top management of YSG and its senior management team). Thus, when the privatization of YSG was completed, its ownership consisted of 90% of individual shares and 10% collective shares.

NSG's initial privatisation was launched after YSG's. Due to its better financial condition, all its employees were required to participate in ESOP. Among them the plant manager and the senior management were allowed to buy most of the shares open to employee ownership. A panel of 19 employee representatives was elected and charged with managing the rest of the employee shares, 45.8% of the total; while the J Municipal Government counted the right to use the land as its contribution and acquired 54.2% of the total shares. In 2004, NSG mounted a second ownership reform: the state's ownership and part of the employees' ownership were bought out by the management team. The company therefore was entirely privatized, with the top management team holding 51% of the shares and middle management, key engineers and technicians holding 49% of them. The former had full rights of voting and profit sharing, while the latter delegated its voting rights to top management and enjoyed profit sharing rights only.

Compared with YSG and NSG, JSG skipped the interim stage of being a private-state joint-share ownership company and was directly converted into a private company through a Management-Buyout Scheme. The plant manager acquired most of the shares and the senior management owned the rest.

After the move to private ownership, the companies reported a significant improvement in financial performance. For example, from 2004 to 2006, YSG experienced high growth in

**Table 5: Ownership Evolvement of the Case-study Companies**

<b>Firm</b>	<b>Stage 1 (Predecessor)</b>	<b>Stage 2</b>	<b>Stage 3</b>	<b>Stage 4</b>	<b>Stage 5</b>
<b>CSG</b>	–	–	Wholly funded by a private company outside the shipbuilding industry (Feb. 2004)	Mixed ownership through absorbing strategic investments (Oct. 2007)	Publicly listed in Hong Kong (Nov. 2010)
<b>OSG</b>	SOE	–	Purchased by a private company outside the shipbuilding industry (2003)	Mixed ownership through absorbing foreign investment and government funds and converted to JV (2004)	Preparing IPO
<b>NSG</b>	SOE (1970)	Half-privatized, state ownership remained dominant (Jul. 2001)	Fully privatized through MBO (Jul. 2004)	Mixed ownership through establishing a JV (Dec. 2004)	Preparing IPO
<b>YSG</b>	SOE (1956)	Half-privatized, private ownership remained dominant (1999)	Fully privatized through MBO (2002)	Mixed ownership through absorbing strategic investments and establishing a JV (2005)	Publicly listed in Singapore (Apr. 2007)
<b>JSG</b>	SOE (1973)	–	Fully privatized through MBO (2003)	Purchased by FIE (2006)	Publicly listed in Singapore (Dec. 2007)
<b>HSG</b>	–	–	Wholly invested by a private shipbuilding company (2006)	Mixed ownership through establishing a JV (2008)	No intention of changing ownership status
<b>ASG</b>	–	–	Wholly funded by a private shipbuilding company (Feb. 2002)	Mixed ownership through establishing two JVs (2006)	No intention of changing ownership status

SOE – State Owned Enterprise; MBO – Management Buyout; JV – Joint Venture; FIE – Foreign Invested Enterprise.

revenue and profit, which rose from RMB 988.8 million and RMB 170.4 million before income tax to RMB 2,325.0 million and RMB 518.9 million.

OSG's establishment is altogether different from the privatisation of YSG, NSG and JSG for three reasons. First, the acquisition was not a government-led administrative intervention, but a market-driven project – the investor for OSG was selected through a competitive bidding process. Second, unlike the privatised SOEs in which the management personnel and production system remained largely unchanged, OSG's take-over of the SOE shipyards was followed by comprehensive changes in management and production systems. The acquired shipyards were regarded as material resources only. After intervention from the Y City Government, the company agreed to keep the entire workforce of these yards. But it valued them too as basic resources only. OSG holds all the shares of one of its acquired shipyards and co-owns the other with the N Municipal Government, holding 51% of the shares. Thus, OSG controls both of the yards. In contrast to the financial performance of the SOEs before acquisition, OSG started the year after to make a profit from the initial acquisition and has sustained its rapid growth ever since.

From the very beginning both ASG and HSG were registered as wholly privately owned companies. Because they had inherited substantial material resources, human resources and sufficient capital from their predecessors, both companies enjoyed steady growth and a stable ownership structure in the first few years. By contrast, CSG conducted frequent ownership restructuring exercises immediately after its official registration as a wholly privately owned company. The constant adjustments of ownership structure and switches of type of ownership in its subsidiaries between JV, FIE and a domestic private company were consistent with the changes in the government's macro-control policies for the shipbuilding industry, in particular the policies regarding entry criteria, land use and income tax remittance. CSG had been trying to optimize the ownership conditions so that the company could adapt to the environment and maximize its support from favourable policies. In addition, given the fact that CSG was a newcomer to the industry, the start-up stage of the company suffered greatly from the absence of material resources, human resources and land. The preparation stage of the company was extended to almost 2 years, mainly because of the delayed land use approval for its first-stage project.

### ***Subsequent development of the companies***

The varied patterns showed in the establishment stage did not continue, however; the further development of the companies shared more similarities. Driven by the prosperous global shipping industry and high demand for ships, expanding production capacity was put on the agenda by all seven companies during 2004-2008. Constructing new shipyards was

regarded by the companies as the optimal choice to expand the production capacity, after weighting up the advantages and disadvantages of various options. Although there were many factors influencing their decisions, the factors from two standpoints were identified as decisive for this convergence of strategy. They were the factors related to government macro-control policies and measures; and the factors related to the companies' own financial conditions.

YSG's reinvestment and expansion set up the model for JSG and NSG. In 2005, YSG began to build its new shipyard, which aimed to be one of the top 10 yards in China. With the total cost exceeding 2.4 billion RMB, the company had to seek other channels for extra funds. In addition, due to increasing over-capacity, the government tightened the conditions for approving new construction projects and left more room for the SOE shipyards to expand. To cope with this situation, YSG established a strategic cooperation partnership with one of the key state owned steel companies and reached an agreement to co-invest in the new yard. In this way, the company not only by-passed the industrial entry barrier set by the government, but also acquired the necessary funds to maintain the progress of the construction project. From 2005 to 2007, the company determined to go public and launched its third ownership restructuring activity. First, YSG was incorporated as a holding company introducing four strategic investors in order to obtain further capital. Second, under the financial support of the strategic investors, the company acquired the entire equity interests of its two subsidiary yards. Individual employees, except for the general manager and senior management, were no longer holding any equity in the company. Third, the company issued an aggregate of US\$20 million in redeemable convertible notes to the strategic investors. In March 2007, these redeemable convertible notes were converted into an aggregate of 128,700,000 shares. In April 2007, the company held an IPO abroad and successfully recruited 5.5 billion RMB, which provided strong support to the construction of new yard and guaranteed sufficient cash flow for daily operation. Eight individuals, including senior managers and Chairman of the company, become the controlling shareholders after the IPO, among which the chairman remains the biggest shareholder.

Lack of funds hampered the expansion plan of JSG at post-privatisation stage, too. Although the company aimed to source funds from IPO for the new yard construction plan, it adopted a different strategy to optimize the interests of the company. JSG established a new holding company (JE International) abroad and sold the existing shipyard to JE International, through which, the ownership of shipyard was handed over to a FIE. As a newly established FIE, JE International was entitled full income tax remittance for the first two profit years and half of the rate during the following three years. However, FIEs are prohibited to conduct shipbuilding business in China, only allowed to do vessel trading, JE International thus



appointed JSG as the processing agent to carry out and complete the shipbuilding works. Under all-out support of the J Municipal Government, JE International completed IPO in 2007 and raised net proceeds of \$246.3 million. In line with the key business to expand operations, the company utilized 54.4% of the net proceeds for the construction project. The core management personnel continue to hold the majority equity of JSG. Among them, the Chairman and CEO of the company has effective control over approximately 54.3% of its post-offering share capital through his interests.

NSG turned out to be the most efficient company in new yard construction among all case-study companies. The whole reinvestment project was completed within one year, including the steps of establishing overseas company, investing in new yard and finishing acquisition between the overseas company and holding company. Due to healthy financial condition, the funds for reinvestment were extracted from NSG's own accumulated capital. By the end of the reinvestment project, NSG owns 51% shares of the new yard and the overseas company owns 49%. Since the overseas company is virtually owned by NSG and serves as a long-term raw material supplier and vessel trading company of NSG, it is not involved in the actual operation of the new yard at all. In 2007, in preparing for IPO in international capital market, NSG carried out third round of ownership restructuring exercise. Only three natural person shareholders were remained; they were the chairman, the vice-chairman and the general manager. The shares held by the rest of the senior managers, middle managers, core engineers and technicians were all sold to the three remaining shareholders. Due to global financial crisis, the company postponed the IPO plan twice for a better time.

OSG had similar plan to construct a new yard and make it a new JV so that it could make the best of the favourable policies. Unfortunately, although the land use right was approved by the government, the application for establishing a new company was rejected. Consequently, the planned new yard was incorporated into one of the existing yard as an affiliated site. But because the new site was originally designed as a new company and the construction project started before the official approval being finalised, the organisational structure of the site is maintained as an independent shipyard. Since then, the company adjusted its plan of expansion from constructing new yard to purchasing existing yards, which is also a response to the government control on aggregate production capacity in the industry. Beside, during the financial crisis, the local government helped to bring about an agreement between OSG and seven domestic banks, in which the banks provided USD 3.5 billion syndicated guarantee to the company. This is the largest sum of funds ever in this like and it supplies OSG great financial firepower to sustain its expansion.

ASG started to construct two new yards after its first yard realized full operation. Due to

limited land resource available around the original yard, the new yards were relocated in a neighbour county, a short distance away from ASG headquarter. Both of the yards were registered as JV, co-owned by YSG and a Japanese shipbuilding company. Since ASG is the largest shareholder, the Japanese partner doesn't get involved in the day-to-day operation and management but provided technical support and training.

CSG and HSG had been the advocators of "one-stop design", which means that the shipyard has been designed to satisfy a long-term development; therefore the land for follow-up investment was reserved from the very beginning. That's why both CSG and HSG's extension to the shipyard were built on the land adjacent to the original yard. However, the risks of having a once for all plan lie in the unpredictable regulatory environment and the market conditions. The land use approval process for both of them took longer time than usual. Similar to OSG, both of the companies started the construction project before receiving the land use approval from government. Given CSG's extra-large investment and construction plan, the project would have to be approved at central government level. In order to avoid further delay, CSG broke down the entire investment plan into several smaller projects, each bearing the registered capital no more than USD 30,000,000, so that the approval of the incorporation of the involved companies could be downgraded to the municipal government level. It also helped the company to avoid the direct competition for resources with large SOEs at provincial and central government level. As to the capital for expansion, HSG relied on its own capital; whilst CSG experienced a more complicated process, first introduced strategic investors and then bought out the strategic investors and finally went for IPO. In addition, the company's sophisticated registration and business structure made the IPO preparation even more profound. The local municipal government has been playing a pivotal role in creating a good investment environment for the company and helped it to source a very large sum of funds from the local banks. The company completed an IPO in 2010 and acquired sufficient funds for the entire building plan. The main investor remained the controlling shareholder at the post-offering stage.

#### **5.4 Conclusion**

This chapter outlines the complex of macro and meso factors which have influenced the development of the Chinese shipbuilding enterprises in general and private shipbuilding enterprises in particular. The development processes of the seven case-study companies were examined, among which interesting similarities and differences were identified regarding the origin of the company, business strategy, ownership change, reinvestment and expansion and finance strategy. At the founding stage, substantial differences could be found between the companies with different origins, which implies the impact of the historical

legacy on their internal organisation and the possible existence of different managerial consequences. At the stage of maturation and further expansion, significant strategy convergence was revealed between the companies despite their varied origins, which, on one hand, highlights the influence of institutional factors on the development pattern of the companies, while, on the other hand, it calls for further attention to the internal processes of the companies. In particular when considering the relatively tight macro-control, non-privileged material resources, in contrast with those of their state-owned counterparts, the striking growth rate and performance of the case-study companies direct much public interest to those issues related to their management.

Having analysed the world shipbuilding industry and China's shipbuilding industry and reviewed the development of the case study enterprises, the discussion on the issues, for example, the ownership change, implied in this context chapter will be resumed in the following chapters and their managerial consequences will be explored with the endorsement of empirical evidence.

## **Chapter Six: Managing in a privately acquired company: the case of OSG**

### **6.1 Introduction**

Based on the contextual information presented in Chapter Five, this chapter focuses on the Ocean-Pacific Shipbuilding Group to explore the transformation of its management system and the managerial work embedded in it. The description and the analysis are organized around six major themes stemming from the data, namely, the management system, people management, the managerial job, control, incentives and relationships. Under each theme, a string of subsumed issues concerning specific aspects of management and managerial work in the company are examined in detail. Despite the structural segmentation, the themes are interrelated and together draw a picture of OSG managerial life in the round. The chapter then closes with a brief summary.

### **6.2 The management system and restructuring: in pursuit of “lean resources, limitless innovations”.**

Since its founding, OSG has always been committed to pursuing change and innovation. Reengineering its management system is regarded as the central activity in attaining the goal of ‘less cost, more efficiency’. The belief that “there can be no tomorrow for those who are afraid of making changes” has been deeply rooted in the mind of top management. As the Chairman of the company said in his interview:

“From the very beginning, our people have been used to transformational changes and they continue to adapt by learning to be more efficient in the multiple processes of building quality ships. Over the last seven years, we have been concentrating on creating an environment characterised by cooperation, communication and shared responsibility, which has been translated into better planning and the systemized standardization of work ethics” (Chairman of OSG).

Two major management reform programmes are stressed throughout the documents and files provided by the company and frequently mentioned in the interviews with the main informants. One of these started straight after the establishment of the company and the other was launched in 2009, during the financial crisis. They can be understood as a single project dealing with different aspects of a big problem but which have driven the company in the same direction. Regarding the first of these, the primary concerns of the top management were to redesign the production system and to replace the SOE tradition with new work ethics:

“The yards had been owned by the state and the roots of the business were deep, it needed – like a tree – to be pruned and cultivated in order to flourish and bear fruit. This

would require a change in the company's competitive culture and in its philosophy of doing business in a global market. So we modernized the old facilities with new technology, changed the attitudes of management workers and hired the best talent to design and construct vessels. The transformation wasn't accomplished in one move – it took us several years. Actually, I often felt perplexed by the conflicting situations during the first two years, which was largely due to the great difference in the culture and thinking pattern between OSG and the acquired SOE. Hardware facilities are important, but they were not the biggest bottleneck. They had been put into place according to schedule. [...] From my point of view, the critical factor that marked the transformation from the SOE management to OSG management has to be the change in the mechanism. Shipbuilding is a process-oriented heavy industry. During the manufacturing process, whether 3 years or 5 years are set as a rolling duration, we need from the very beginning to design the production mode, modularize tasks and apply GT (group technology), which requires a large team, including world-class experts, to work together with talent and professionalism,. But, once the process is established, it must be independent of any man's will. That's why in our company, the ultimate duty of the general manager is to make sure of the stability of the process and ensure efficient production. This distinguishes us from most of the typical SOEs and part of the private enterprises where the leaders' will means everything. Our managers should bear in mind that we need to transform our management idea to a management process, to use process to manage people and to set the job for the process" (Chairman of OSG).

The management reform programme closed the gap between management and production through defining production as the core of the business operation and management as the key instrument to impose the efficiency of the production system; consequently the management system must be organized to fit into the production system. During the process of redesigning the production system and reengineering management system, the company introduced a new management philosophy in which managers are located in the production system and their roles are defined by the jobs that they are doing. Apart from this, the company employed other methods to supplement the whole changing programme. Training and hiring 'new blood' were two main methods used to promote the new ideology. For example, at first, none of the employees in the commercial business department spoke English and neither did many senior managers. The company hired English speaking key personnel to work in the department and offered all key workers on-site English classes. While not mandated, any employee who took the Wednesday class at the yard and passed that week's examination would receive an extra 20 Yuan in his pay-check. After two years, most key personnel had embraced the chance to learn another language and English could be heard throughout the company. The company also started a pilot reform project in one of the shipyards and gradually extended it to the other yards as it was nearing maturity. Next, managerial staff were transferred from the yard where the project began to the others, to facilitate the restructuring programme.

The first management reform laid a solid foundation for the company to further refine its management system, on the basis of which the company tended to optimize the structure of the management system. Under the pressure of the global financial crisis, the company

decided to further improve its competitive capacity through upgrading its internal operations, which is known as the “One-body management” scheme. “One-body management” in the official statement of OSG means integrated management, moving from “group level – yard level” to a “one-body” type of organisation, which should manifest itself in a flattened management system, a reduced and restructured workforce, powerful control and efficient resource and information sharing at all levels of the company. One of the senior informants explained the underpinning principle for this reform:

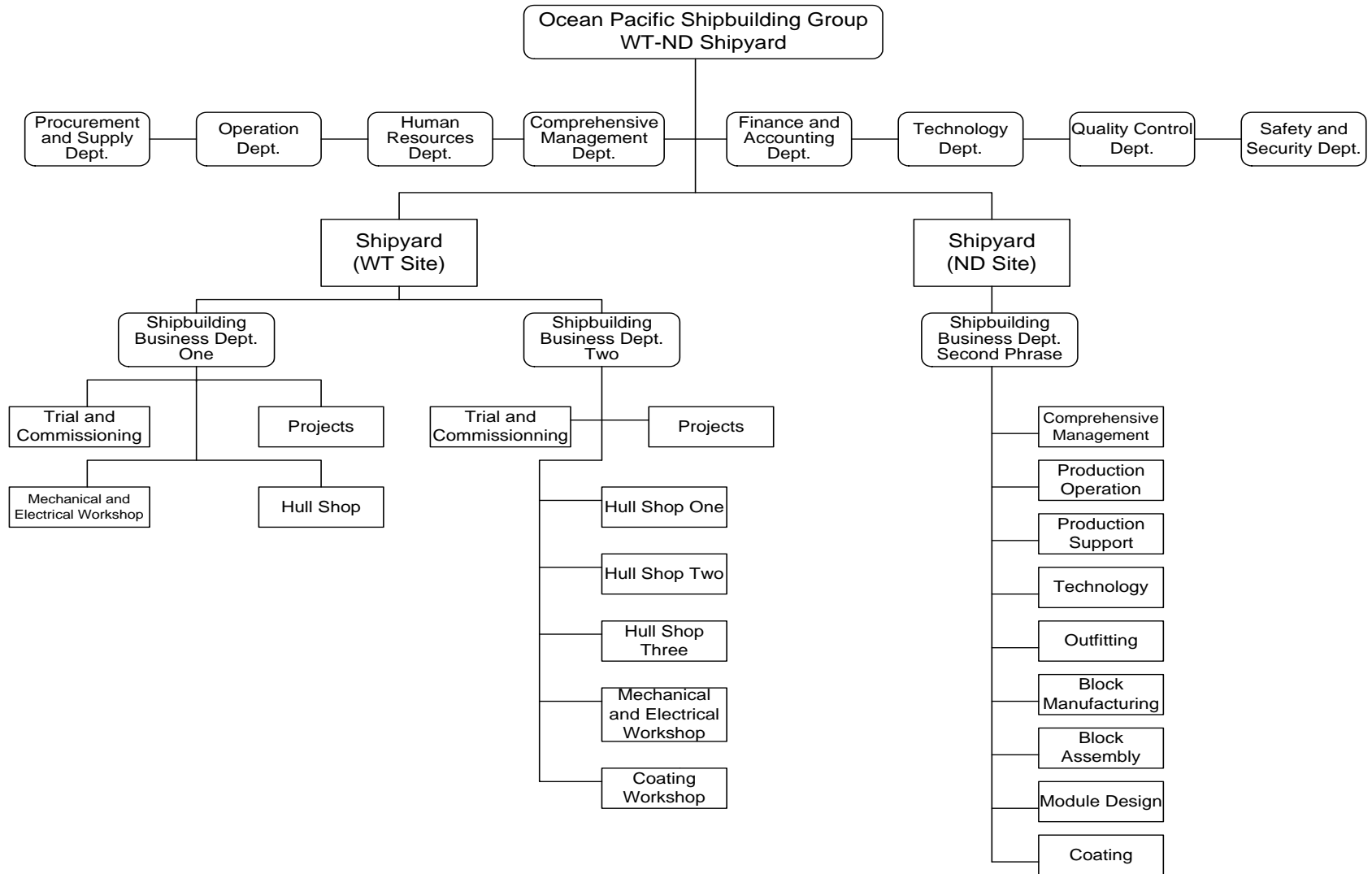
“With enlargement of scale in enterprises, the traditional way of increasing management efficiency is to build on the hierarchy, whilst our solution is to enlarge the span of control. When the management hierarchy was reduced and the span of control was enlarged, our previous pyramid mode of organisational structure was compressed to a flattened organisational structure” (General Manager of OSG).

The “One-body management” scheme started from individual jobs, continued with the restructuring of the departments and finally closed by integrating the management of the whole shipbuilding group. A HR consulting firm was hired to evaluate the workload for each job. In the merger, any posts that demanded less than 6 hours of work a day were cut; the ones requiring less than 4 hours a day were eliminated; those requiring 6 to 7 hours of work were combined to other job posts. Managerial jobs were given special attention and reduced in number from 540 to 350. At the department level, non production departments were the main target, some of which were eliminated entirely. At the yard level, meanwhile, management was basically integrated by appointing the same senior and top management team to the yards and unifying the management policies, processes and practices. OSG took it not as a temporary measure in response to the slow pace of orders for new ships during the crisis, but positioned it instead as an important action to ensure the sustainable, fast and healthy development of the company.

Thus, within the post-reform OSG, the entire management system is tailored to serve the production function with fewer layers, fewer staff, a simpler organisation structure and centralized resource management. The key indicators regarding production, cost, work efficiency and profit were significantly improved, as the 2009-2010 annual statistics of the company showed.

The company has three yards, all of which were reorganized in the same way. In this research, apart from the chairman and the GM of OSG, the informants were all working in the WT-ND shipyard, the biggest yard of the company. Figure 2 shows its organisational structure after restructuring. It consists of two sites: the old site derived from the acquired SOE which currently contains two business divisions; and the new site which was constructed at the expansion stage of the company. They are located in two different

Figure 2: Organisational Chart, WT-ND Shipyard, OSG



counties; due to the historical reason, the new site was structured as an independent company (please refer to 5.3.2 for the development history of the site), but its operation is integrated into that of the entire company. As one of the senior informants emphasized, although each yard of OSG may comprise more than one site and the sites may be situated at different places, they are still managed as one. Given the scenario of a successful Chinese private company which has been pursuing continuous improvement, the manager's work in OSG has also been widely affected by the management reform. A number of major aspects pertaining to the changes of managerial work are listed and discussed in the following sections.

### **6.3 People management: making the best of the manpower at least cost.**

"Our company is people-oriented". It was no surprise that, like many shipbuilding companies in China, OSG had senior managers who frequently mentioned this well-known slogan in their interviews. However, given the policies and practices implemented and the explanations given by these interviewees, the OSG interpretation of 'people-oriented' was found to be substantially different from the common understanding, in the sense that the common version lays much emphasis on creating a friendly environment or providing attractive welfare and wage arrangements for employees, but OSG dropped employee wellbeing in its interpretation and focused only on the other side of the coin. The statement extracted from the company brochure for recruitment expresses the meaning clearly:

"OSG is people oriented, focusing on the employees' overall quality, respecting individual performance and devotion and providing a fair and equally developing opportunity and platform to all employees. Our concern to be professional, responsible, enthusiastic and united is the essential drive for sustainable development" (OSG PR Brochure for recruitment, 2010).

Thus, rather than understanding it as people-oriented, it might be more appropriate to call this form of management 'people-based' since the policies and practices in people management convey the specific management maxim of making the best of its manpower at least cost. Certain basic rules and principles for working have never been changed since the founding of the company. The company sticks to a low pay strategy, offering almost 25% lower pay than the industry level, which was originally made possible by the low local income and consumption level and by basing the recruitment strategy on the local labour market. Benefiting from the geographic locations of the OSG shipyards, where fewer shipbuilding companies are located than in other regions along the Yangtze River, the company is able to recruit sufficient workers from the local labour markets at much lower pay. For the recruitment of technicians, the company favours new graduates from less developed areas. As one of the senior informants suggested:



“For the native people, there is not much more choice than outside. The mobility in the industry is limited by the less developed regional industrial level. Therefore, we don’t worry too much about the stability of local workers. Working for us, they can get around 2,000 RMB per month, which is much higher than the local average. The local average is only about 1,000 RMB. There are only two other shipyards in this area. Local workers need to consider their family. Unless you give them double pay or triple pay, they won’t move. Of course, the local market cannot satisfy our talent requirements at higher levels. For technicians, we explored other sources. For instance, one of the sources is the technical schools in Xu Zhou. Most of the students came from poor rural areas; they are a tough breed. Compared with people with rich experience or a high educational background, they are better in the sense that they are more committed to the job, more hardworking and their wants are few and are soon satisfied. See, we are not doing strategic consulting business, we are building ships; we prefer sweats to talk” (HR Manager of WT-ND Shipyard)

This realistic routine manifests itself in the staffing practices of the company.

“I was shocked when I found that the whole batch of professor techs from Jiang Nan Shipyard was competing with the local technicians who’d risen from technical school. The reality simply blew us away. They [the professor techs] were definitely affected by this situation. I remember my previous supervisor was a prestigious figure in the shipbuilding industry, graduated from Jiao Tong University, a professor tech, in charge of the entire commissioning function of the new site; whilst his counterpart and rival at the old site was a local engineer, old staff of SOE X (the purchased SOE), major in marine engineering too, but graduated from a technical school, 36 years old, fluent in English, knowing the entire operation of the shipyard, electrical apparatus, pipe system, electric machine, [...] just like the palm of his hand. My supervisor only knows marine engineering, a very narrow area; but that person started with low level labour work, working as a copper-smith, later a locksmith, all types of work. My supervisor doesn’t know English; his rival studied English by himself, capable of communicating with ship owners, can read any English written files. So, when comparing them, no wonder the professor tech part lost out. I shouldn’t be so pessimistic, but at least, this kind of example shows the massive difference between the management philosophy in our tradition and in a private company. Different ideas lead to different outputs. They don’t need any deco; they don’t pay attention to theories, either. In the past, we might show respect to seniority; but now, practicability means combat effectiveness. You don’t have any value unless you are making contributions to the company. Who cares about educational background? Show me your competence” (Manager of Commissioning and Trial Department, New Site, WT-ND Yard).

This “realistic” routine was extended also to the recruitment and selection of managerial staff. A newly enrolled middle manager admitted frankly that he was very surprised to see the management team in the flesh:

“When I joined the company, I was trying to contact some of my experts of my acquaintance to see whether they would like to join OSG. When I mentioned this to the assistant to GM, he told me that the company could not afford high salaries, above 5000 [RMB per month], don’t even mention it. CSG paid 200 K [per annum] for a chief engineer, 380 K [per annum] for an electrical engineer; here in OSG, people got 3000 [per month], 4000 [per month] for the same jobs. And, you know what, the Assistant to GM made it very clear to me, in OSG, the pay for supervisors was 3500 RMB per month according to the rules of the company. But in the market, the average pay for an engineer in my position is more than 100 K [RMB per annum]. What can I do? I really

feel helpless. A few months later, I found that most of the middle and senior management in OSG had risen from the frontline. They don't have a sound educational background, but they have good practical knowledge and skills. They are happy with what they get and the company gets 10 times as much in return" (Senior Electrical & Mechanical Engineer, WT-ND Shipyard).

With the increasing demand for skilled workers and qualified managers throughout the industry, the company has been faced by a high rate of staff turnover in recent years, managerial staff in particular. A high number of inexperienced staff were recruited as replacements is flooding both production and non-production departments. In order to deal with this situation and to approach the vision prescribed by "One-body management", the company introduced a new people management mechanism, based on four major principles. A senior HR manager summarizes them thus:

"[...] First, we assigned appropriate responsibilities to the position, based on the careful evaluation of the job structure, workload and work strength. Our goal is to make sure the work process and the quota can be managed in a dynamic way, on the one hand, making the best of our human resources and, on the other, maintaining the resilience of our organisation. The quota has been set according to workload and the job requirements; and it must be adjusted to correspond to the situation. Once the personnel become excessive in a certain department, we will lower the average performance salary to urge the department to adjust their quota accordingly. Through this kind of practice, they should be able to watch their use of manpower. Reallocating manpower to another department has never been a pleasant thing for managers; but since the introduction of the new personnel allocation system, managers are willing to transfer their people to another department, given the fact that the overall payroll of the department won't be cut if the number of employees goes down. In cases where a department has improved its work efficiency and this has been maintained long enough to be regarded as a normal state of affairs, we will need to reset the quota for them. In 2008, we managed to squeeze 100 experienced workers and more than 40 outsourced workers out of our old site to support the new site. In addition, under the current compensation and benefit scheme, the personnel allocation system helps us to control the quota of non-production functions. Second, we froze the quota to stop the inflow of new staff to the departments, through which the departments were forced to improve their internal management flow and to maximize the use of existing manpower. It is very important to encourage the department to develop new methods and tools to simplify their job, meanwhile, to enhance an individual employee's capability through training. With effort on both tasks, we can do more work with fewer personnel. For example, due to the high rate of employee turnover, 65% of the staff working in the procurement department is newly recruited, with less than two years' working experience. But they covered an average 10% increase in the annual purchase task, compared with what the department covered two years ago. Another example, from 2007 to 2008, is that the Shipbuilding Business Division One reduced their headcount of non-production functions by 9%, but their vessel delivery rate achieved a 157% increase. Third, we have been trying to standardize operational process for each job, put new staff on intensive training for the operation of simple and divided tasks so that the culture time can be shortened. In common practice, new staff can be turned into standardized operators for single tasks in about a month; and on that basis, they are required to learn to deal with the variations of the job, for instance, changing the mode of the parts, by doing the job in another one to three months. The last step of the training is conducted by supervisors or managers, for they are responsible for teaching the methods of dealing with emergencies and unusual situations; again, it requires the new staff to learn on the job, which will last 3 to 12 months. In addition, we encourage

experienced staff to help new staff by paying them a small allowance. Fourth, we adjusted our talent development strategy from buy-in to self-reliance. The OSG technical school became our biggest source of technicians and reserved talent in management. In order to combine the teaching with practice, our managers are appointed as guest lecturers to teach the students. In the first quarter of this year, we got 12 middle/senior managers to teach various modules; most of them are head of department. And, recently, they were compiling the new teaching materials. I am sure that by tapping our existing potential, we can improve our teaching quality even further” (HR Manager, WT-ND Shipyard)

Whether in an active or a passive role, managerial staff have always been situated at the centre of the personnel management. Middle and senior management are singled out to drive the new mechanism. As the general manager said at a meeting of middle and senior management:

“[...] Heads of department must learn to manage human resources professionally. To achieve this, I would remind you of three things: first, you should manage your team in a proper way. I know many of the managers have got used to being nice to your subordinates, by, for instance, handing round bonuses to as many of them as possible or putting in a good word for everybody. This kind of tradition is valueless for teambuilding. What we should do is to make our staff know clearly what kind of people our company likes most and what kind of people we dislike most. We don't want them to guess, we want them behave correctly from the very beginning. The most efficient way is to set up role models for them. The role model is the carrier of the culture. Institutions cannot be turned into practices without good role models. Second, the most suitable ones are the best ones. Loyalty is the highest praise for an employee. A capable person cannot be trusted and appointed unless he can assure us of his team spirit and loyalty. [...] Third, we need to pass our management values on to our team. The head of department must be able to identify those people who are willing to sacrifice personal interest for team interest and to help them to grow. How to identify them? The basic criterion is whether they can be tolerant of temporary losses. In fact, we are establishing the rule for them, that is, as soon as the team target is achieved, they become direct beneficiaries. But we cannot make it a formal contract, because it is not a business matter, it is a matter of principle” (General Manager of OSG)

Just as the company provides basic skill training to workers and encourages them to develop themselves further through doing their job, managers, despite being given high expectations, are not provided with proper training for updating their knowledge or skills. Their career development is very much self-dependent. In addition, the company's current strategy to make each shipyard focus on one or two products only and to lock managerial and technical staff into specific positions to pursue proficiency and efficiency limits managers' chances to develop. Managers complained in their interviews about the repetitiveness of their job and the low intra-organisational mobility:

“The company having a bright future and individuals having a personal interest are different things. As a technical member of staff, I look forward to trying different ships. In the last three years, I have been working on the same model. I have reached my peak, here; [and I] haven't made any progress for a long time. My performance in OSG has won me a good reputation in the industry. The whole shipbuilding industry is a small community; everybody knows everyone else. When CSG contacted me, the opportunity

seemed very attractive, given the challenges on new products. OSG focuses on building specialised ship and small ships, which limits the possibility of being challenged by the most advanced ships. As agreed with CSG, I will be appointed to work on the project of building DVP201 and 88, an even more advanced model than DVP offshore 202, the one built by Shanghai Zhenhua Port Machinery Co., Ltd. (ZPMC)” (Project Manager, New Site, WT-ND Shipyard)

In short, managers have been endowed with multiple roles, which is in inverse proportion to the compressed organisational structure and simplified management process. They are not only expected to fulfil the increased production target, but also to model the expected ideology, both of which are based on the assumption that their potential to develop themselves and to adapt to changes is limitless. Listed below are the critical features that are associated with the manager’s roles prescribed by the employer, which concern how managers are performing their duty, how they are managed and motivated and how their work relationships function at different levels and between different people. Consequently, they present and discuss more comments and summaries from the manager’s side and from impartial observation in answering the questions.

#### **6.4 Managerial job: simpler organisation, tougher survival.**

From the managers’ perspective, to survive in OSG has never been easy and it has become even more difficult after the recent round of management restructuring. Adapting to the changes is a far more complicated and stressful process than top management describes it. Surprisingly, in the interviews only a few complaints were heard from the managers’ side; most of the informants intimated that it was impossible for them to have anything else in mind than delivering ships. Their feelings about managing in OSG and about private companies were hidden behind their descriptions of their work status and how they were doing their job. Since most of them had experience of working in other types of shipbuilding company, they often referred for comparison to the practices in SOEs and in other private shipbuilding companies.

“Compared with other companies of similar size in the industry, we have fewer on-production departments and fewer managerial staff, but much higher work efficiency. I think it is primarily because of our management style. [...] The management hierarchy in OSG is flatter than that of an average shipbuilding company, especially when compared with our previous State Owned employers: maximum three layers, very simple structure. From General Manager to us (middle manager), everyone has a lot of things to deal with. Usually, in state owned shipbuilding companies, we only need to deal with our immediate supervisors and subordinates. Beyond that we are not liable. While here in OSG, frontline people won’t be surprised if they get orders from GM or other member of senior management. Similarly, if I find some problems on site, I can ask workers to solve them immediately; whilst in other companies, I may need to speak to the head of their department first and then the head will give the order to the responsible supervisor and let the supervisor contact the workers’ immediate leader. If the workers are employed by the outsourcing company, the supervisor should pass the information to the charge hand in the outsourcing team. But, whether the problem will

be solved is another story. By contrast, in OSG, I will fix a time with workers, say 9 pm or 10 pm and I will come back on time to check whether they have sorted out the problem. As our GM said, our management structure is flat; the flatter, the simpler, the better. We don't need hierarchies. A ship is built by people; so, efficiency is all about how much we can do" (Manager of Outfitting Department, New Site, WT-ND Yard).

The direct consequences of a simplified management structure are the increased workload and greater job responsibility for the managerial staff, which leads to inevitable alternations in work organisation. Working time is the most obvious and basic indicator of work life. The working time in OSG has not been changed since its foundation, that is, a working day runs from 7am to 5pm; six working days a week (Monday to Saturday on, Sunday off), no other holidays throughout the year. But this applies to average workers only; managers in OSG have to accommodate themselves to longer hours and extra days. A middle manager supported this point by giving example of their routine practices at night:

"OT is the norm for our work. Everybody does the same. My supervisor is Assistant to GM. His job responsibility accounts for managing two large SBUs in our top tier State-owned shipyards, including the on-the-spot management in dock. A massive workload for him. He is a very hard-working person and very demanding of his subordinates. Every night, after work, workers normally leave if there is no OT. We [managers] must stay on site and make an inspection tour of every ship being built. If we spot any problems, a site meeting will be called immediately. And, then, 9pm, we need to go back to the office to attend the meeting held by Ship Delivery Command, to coordinate with the other departments, such as R&D, Procurement [...]. Normally, around 11 to 11:30pm, we can go back to sleep. But sometimes, such as the trial of a main engine, the lubricating oil pump should run for at least 24 hours, non-stop. Sometimes, in order to sleep, workers switch it off and leave it in the middle, which will extend the trial. We normally go to the site around 1 am or even 2 am to check up on their work. Of course, the next day starts from 7:30 am, anyway" (Manager of Outfitting Department, New Site, WT-ND Yard),

Another middle manager provided a detailed illustration showing how he adapted to the OSG environment and how he managed to conduct his work in OSG:

"My first job was in Waigaoqiao, 8 years; then I moved to CSG, 2 years and now in OSG. I have been working in OSG for 3 years. Waigaoqiao, the best SOE (in the shipbuilding industry) in China, we all know this; CSG, private, but still growing; OSG, I have to say, is truly a purely private company. The company recruited me to set up the function of commissioning and trialling equipment. You know, it was very stressful at the time. There were eight ships waiting at the dock for commissioning, but all I got was a bunch of new graduates. For instance, the team of feebleness electricity consisted of 5 people; none of them had ever studied or worked in this area before, let alone the fact that two of them were female. Normally we wouldn't put female staff on this post. [...] Of course, it is impossible to even think of providing a proper training programme for them. Remember, this a private company. There is no budget for it. The only thing I can do is to organize training on my own. Every night after work, I devoted 3-4 hours to conducting seminars, trying to teach them the most practical and useful bits. In this way, their learning time was condensed to an **affordable** extent. I don't want to say that I was willing to devote extra time to training and sharing my knowledge with my subordinates because I was unselfish. No, it was because I don't have a choice and it

would be mission impossible to finish such a workload alone. In a simple illustration, the workload of my department equals that of the entire commissioning function plus part of the equipment installation of an electromechanical workshop in a traditional shipbuilding company. In traditional SOEs, my department would be defined as a management department, not a production department. For OSG, we are production people, although we are doing both jobs. Luckily, the students were studying very hard. Later, another batch of college students joined my department; they were hard working, too. It was in 2008, everybody knew that the economy was in a terrible pickle; finding a job out there was not easy. [...] That's probably why they never complained about anything in the job arrangements. At the same time, we have to keep cost consciousness in mind, don't we? This is what I have learned from OSG, which I could never have learned from my former SOE employer. In OSG, girls worked exactly the same as boys. In my department, girls need to do dangerous jobs, too, such as climbing to the Radar position to install lights. I have no choice they don't have any choice, either. The budget I was given for the headcount can only allow me to use the people at hand. For instance, we need to have at least one person with good English ability. So, I got one girl whose English is quite good, at least she can read English instruction books and is able to communicate with the inspectors from classification societies. If I had more, the cost would soon go up. Every morning at 7:50, after the pre-shift meeting, we have to go into the site to work, because we had no office space set aside for us. In CSG, after the pre-shift meeting, at least we can have a few minutes to sit in the office before work starts. Here, I am the only one who has a desk and a computer. For average staff and frontline supervisors, there is no place to rest. No office, no changing room and no locker for tools. They have to carry their bags and tools for the whole day, except for a short break in the canteen after lunch. There is not even a shower facility in the yard, which is normally a matter of basic welfare for employees in a shipbuilding company. To some extent, we were forced to work more. That's why, when I think back, I have to admit that CSG provides very good working conditions and facilities. In OSG, everything has been downgraded to the 'merely survive' level. Cost and efficiency are precisely counted. I gave you an example: for a normal three-day commissioning project, in OSG we often managed to finish it within two and half days. It is not only about saving time, but also about cutting cost. Because once the machine starts, it eats up electricity and fuel. You know what, for a proper [commissioning] training, we ought to switch on the machine, which was what we did in the SOEs. ***But, in a private company, the reasonable thing becomes a luxury.*** [...] Recently, my supervisor told me that we were going to conduct another round of rightsizing. Given the current workload, commissioning for 8 ships and a trial voyage for 2 ships, the minimum number of hands I'd need is 60. At this moment, I'm in charge of 90 people, including 30 trainees. So, I am prepared to lose 30 from the headcount. In any other companies, this would be impossible. [...] It means that our department will need to take up two related functions, redesign and combine the posts. Of course, we have got good examples in the past. One of my subordinates, for instance, is leading the feebleness electricity team. After the last round of rightsizing, she also took up the responsibility for instrument management, preparing the equipment and tools for the whole department. With this increased responsibility, she normally makes use of the one hour lunch break to collect the walkie-talkie, meters, etc., update the record and then board the ships to carry on her main job. At least in my department, we don't have anyone who is doing one job and no more. No full-time interpreter, clerk, assistant [...], but all incorporated into other jobs" (Manager of Commissioning and Trial Department, New Site, WT-ND Yard).

The above description highlights the pressure added to managers' work by the lack of necessary support and resources. As the restructuring is implemented as an on-going process, managers at all levels are forced to stay flexible till the last ounce of potential of the human instruments has been extracted by the optimization of the work schedules. It is not

rare to find managers at senior level and above working on several things at once. Senior managers often cover responsibilities at middle level – the assistant to GM of WT-ND yard is also the head of the Outfitting Department. The general manager of the OSG group serves as the GM in the two subsidiary shipyards. And the Marketing Director of the group is the chief engineer of all three shipyards. But their salaries remain unchanged. Moreover, the source of the pressure is not only the rearrangement of intra-departmental business; rather, it also comes from adjusting the interface between departments. With more auxiliary function in management transferred from support departments to production departments, one of the ways of streamlining the management system, managers have virtually become the link to restoring the integrity of the management function by absorbing more responsibility. An example may throw useful light on this issue. The HR department of WT-ND Yard was right-sized to 9 staff only, including an HR manager, 2 supervisors and 6 clerks. Two of these clerks are responsible for the payroll arrangements for all 13,000 staff on the yard. Each department manager is required to participate in managing the payroll:

“As head of the department, I need to cover the HR function, including the day to day coordination with HR department. Basically, I need to do two things: first, I need to decide the salary for each member of staff in my department according to their job and workload. Actually, each department is given an aggregate payroll; so what I do is to distribute it reasonably. Second, I need to work out the monthly payroll and distribute bonuses if they are applicable to our department. Using a computer, I normally spend half an hour to input the payroll data every day after work. And, at the end of each month, I need to spare two hours to finalize the payroll and send it to the HR department. [...] I need to print the payslips and distribute them. As I understand it, the HR department is not using any specialized HR software to process the personnel data, just Excel. So, I use Excel, too. Meanwhile, in order to keep the confidentiality of the payroll information, I have to process it alone” (Manager of Outfitting Department, New Site, WT-ND Yard).

Between production departments, the operations are also integrated through shared responsibility. To achieve this, the sections of the manufacturing process were dismantled and reorganized and the related allocation of manpower was adjusted accordingly. The alternations made to the Quality Control (QC) function exemplifies the establishment and the functioning of an interdependent relationship between different departments. The QC office of the Quality Assurance Department of WT-ND Yard has since 2009 been downsized to a mini group consisting of only 40 staff. Within the restructured production system, QC staff were assigned to each production department to work directly in the department that they would monitor, which yielded 3 managerial consequences: first, it helped to speed up the administrative flow by reducing the steps in the procedure. Previously, production departments needed to raise an application for each project, which consisted of requesting the QC service, coordinating the timetable between the parties and scheduling meetings for feedback and review. The new system allows for prompt inspection, feedback and correction without going through the delay of an administrative procedure. Second, from the

perspective of OSG's personnel management system the QC staff are under the supervision of both the production department and that of the Quality Assurance (QA) Department. The arrangement is that their salary is paid by the production departments, but the fact that their performance evaluation is conducted by the QA department secures their commitment to the job. Third, the close inspection on the production department gives the managers an incentive to strengthen their onsite management. Since managers are often 'accompanied' by QC staff when going into the field for their daily inspection, managers' activities are closely watched by QC staff as well. This puts substantial pressure on the managers, too.

The employment strategy of having outsourcing companies and managerial jobs in OSG seems irrelevant. However, it did impact on the managers' job. With the introduction of a restricted personnel quota in OSG, the company greatly reduced the number of its formally employed workers, while outsourcing more manual work to subcontractors. Meanwhile, In order to reduce labour costs, the outsourcing companies were tending at intervals to replace experienced workers with inexperienced workers, which resulted in a high staff turnover rate at the front line. Accordingly, the cooperation between the company and the subcontractors was disrupted. To cope with this situation, the company, like its counterparts in the industry, stretched the scope of its management to include the workers from the subcontractors in the daily inspection. Managers were required to bear the extra workload of coordinating and managing both parties at the front line.

### **6.5 Control: fabricating the invisible cage.**

The increased job responsibility and augmented workload do not necessarily lead to greater authority. Managers in OSG are performing in a prescribed space following fixed "orbits", i.e., the rules, regulations and procedures. A control mechanism was considered and built into the management process. Both before and after "One-body Management", the decision making power in OSG has always been concentrated in senior and top management; while the role of middle management is defined as implementer, in line with their position in the power structure. In addition, middle managers are often engaged in a collective process, instead of working alone. A middle manager illustrated this issue from the perspective of personnel management:

"Compared with us [production departments], although located at the same administrative level, the HR department enjoys higher status. According to the organisational structure, their report line is directly linked to the director of HR who is in the third highest rank in the administrative tier, next to the deputy GM, higher than our supervisor who is the Assistant to the GM. The HR director reports directly to the GM. Our salary and welfare scheme must be approved by him. This operation curtails the effect of nepotism. In payroll management, the nature of our role is to process the data. We don't deal with cash at all. The HR department will double check the figures and inform the accounting department to pay the salary to the employees. There is no



space for 'black case work'. There are some additional rules that we need to follow. For instance, for a sum of 300,000 (RMB), I am given a limited space to manoeuvre, say 10,000 RMB. That is, the aggregate of the payroll shouldn't exceed 310,000 RMB. For performance pay, I need to consult with the other managerial staff, despite the fact that I am the head of the department, gathering their opinions and balancing all the 'good' and 'bad'. These are the precautionary measures proposed by our GM" (Manager of Commissioning and Trial Department, New Site, WT-ND Yard).

Some further implications arise from this illustration. The no-cash policy implies strict financial control over managers in OSG. "Managers are not allowed to handle cash" is the primary principle that was insisted on by the GM. It has been extended to the company's business and social activities.

"I know the existence of a "Unit-owned Exchequer" at GM level, a special allocation of 40,000 RMB per annum for business entertaining. But there are detailed guidelines to spending this sum of money appropriately. For instance, our GM and deputy GM can claim up to 1,600 RMB for a meal. Heads of department can claim up to 400. Plus, the allowance to which you're entitled for social activities varies according to the guest's identity. That's not all; if you want beverages and cigarettes, you need to contact the GM office beforehand. They will get them for you and send them to the venue. Specially designated beverages, restaurant and set menu. A staff member from the GM's office will accompany you throughout. After the event, he will collect up what hasn't been used, if anything. So, the only thing for us to do is to enjoy the meal. [...] If we want to apply for reimbursement, we need it to be approved by someone of deputy GM level at least. Before the end of each financial year, we have to draw up the departmental budget for next year. If the business entertainment allowance is overspent, the excess is deducted from the departmental budget. [...] Very strict control. In SOEs, it was common practice to source funds from the "Unit-owned Exchequer" for buying alcohol or cigarettes for socializing with ship owner representatives. But in OSG, we have to use our own money to buy them" (Manager of Commissioning and Trial Department, New Site, WT-ND Yard).

In addition to financial control, the company exerts further control on managerial staff through various programmes to enhance their moral standing and work ethics. Culture change programmes and military training are the most impressive ones for managers. Initially, the culture change programme was designed to help local managers to overcome the weaknesses of their background, such as narrow-mindedness. Soon, it turned into a campaign to enhance managers' spirit of dedication to work and their executive power at work. It became a regular corporate cultural construction programme held annually. Each year, the special session for managers has remained almost unchanged from what it was at the outset. The top management, including the Chairman of the Group, deliver a speech at a plenary meeting with all the managers, which is followed by a workshop conducted by a retired government official. Both made a speech about striving for the development of the company and being responsible and professional. Some of the managers took this aspect of managerial life positively and others expressed doubts about the philosophy behind it.

"Our company arranged this kind of workshop to promote ideal work ethics. For

example, our CEO invited a retired senior government official and senior party member to give a presentation about his experience of working conscientiously for the nation and the people all his life. It had something of an effect on us. As I understood it, it was purely about offering up ourselves to the job. No corruption, no bribery, being generous, (and) able to work with all kinds of talents, standing high and having a comprehensive view in mind [...]; this is the expected image of an OSG manager. The company based its placed constitution on the presence of 'a clean and honest administration'; and we are required to abide by it. We know that the company wants us to feel that we are part of the business; we should view ourselves as being affiliated to it. But as our Chairman used to say, 'Business is business; profit is the first and foremost concern. I am a business man, so everything is business.' If the prevailing criterion for judging an entrepreneur's achievement is how much he has made from his business, the criterion to judge us will be how much we have made for the company. The truth is the management system is so efficient that we don't have a chance to make mistakes. And, as long as we are under control and working hard for the company, I can't see why they [the owner and top management] should be bothered by our moral standards" (Project Manager, New Site, WT-ND Shipyard)

In addition, regular military training is compulsory for managerial staff. By contrast with the average employee whose training lasts one week as part of the new staff induction programme, middle and senior managers, apart from the initial week, are required to attend follow-up sessions, which are scheduled on the first Sunday of each month. Picture 1 shows the military training of managerial staff in OSG. The strategy of strengthening executive power by physical training is rather popular in the shipbuilding industry, but OSG takes it further, using it to construct a quasi-military culture. As one of the senior managers suggested, the founder of the company, who is the father of the current Chairman, used to serve in the army and is keen on military culture. This is discussed in more detail in Section 6.7.



Picture 1: Military training for managerial staff in OSG.

The overall efforts made by the company to prescribe the code of conduct for managers leads to a climate in which there is one standard of judgment and one only, whatever the effect of this on the work. The irrelevant components of the managerial life have simply been filtered out by the control mechanism.

#### **6.6 Incentives: "carrots or sticks", simply the best.**

There is a considerable degree of overlap between the function and activities of incentives and control in OSG. Or, to put it in another way, the incentive can be regarded as the

continuity of the control mechanism. It is treated as a type of investment that is due to return with more payback. The primary principle underpinning the practices for motivating staff was summarized by the informants as “money is the efficient incentive”. Some interviewees admitted that monetary incentives work more directly on people than non-monetary ones. OSG is the adamant advocate of this belief, which was reflected in the English training programme from the early days of the company (see 6.2). Hence, the policies concerning staff motivation are simply polarized; at one extreme, rewards for good performance and at the other penalties for underperformance.

The payment strategy together with performance evaluation serves as the foundation of OSG’s incentive mechanism. The monthly payment consists of two parts, 70% of base pay and 30% of performance pay. Unlike average workers and support staff, managerial staff above middle management level are eligible for project bonuses and year-end bonuses, both of which depend upon production efficiency and the profit of the company. The performance of each department is evaluated through a combination of spot checks and regular checks. One of the informants helped to explain the functioning of performance evaluation in motivating the staff:

“Compared with other companies, we have fewer performance evaluation exercises, but each check is connected to the income of the entire department. The function of each department is divided into many items, for instance, safety; each will be given a mark. There are standard marks for each function and each project. If the aggregate mark falls short of the standard, the income of the department is reduced in proportion. I can give you an example. Here is a section of a ship. If my department completes the building of this section and builds it soundly, we will be given 3 million [RMB]. It is the standard cost for the operation of this project. The first step of an evaluation is to break down this task into separate items, each with a mark, the total being 100. Then the inspection team comes to check every item in this project. For any item not up to standard quality, points deducted from the total. If by the end of the day, we get 80 out of 100, the money we get from this task will be 2.4 million [RMB], which means that our department is in debt for 60 K [RMB] debt. Of course, the income of my people can be badly affected. As a manager, we have to be responsible for the staff in our department. Some months we can lose up to 30% of our salary and depend altogether on our base salary. It will be difficult to make ends meet for these months. So, we have to be very careful with everything” (Manager of Commissioning and Trial Department, New Site, WT-ND Yard)

The penalties show the other face of the incentive strategy, which works equally well in motivating people. The employment of spot checks in daily operation in all shipyards of OSG embodies the efficacy of incentives from this end of the spectrum. One of the main informants uses resource management as an example to illustrate how the rigid controls and penalties can act as incentives:

“From my own understanding, OSG is a purely private company in the sense that its cost control is extremely strict. For the use of parts, for example screws, you will be asked to justify your over-spend on even one screw. The inspection of this aspect is all-

pervasive. [...] It is true that the wasteful use of resources in a shipyard would run wild if left unchecked. The company assigned 5 people to monitor the dumping site to check whether any usable spare parts were being thrown out, such as wire or fire extinguishers. Even our GM and deputy GM frequently go there to check. Once this kind of waste is spotted, the related department and the responsible person are identified and faced with very harsh punishment. This forces us to go to the front line, to manage and to pay attention to every detail on site. My supervisor (Assistant to the GM and head of the Outfitting Department), 4 bars (the mark of the top rank of production management), was often criticized by name. Criticism in our company is circulated in a very degrading way. The warning is posted on the notice board at the main entrance, with the person's name, the details of the fine, the reason ... and the follow-up penalty if it happens again. We have many examples of managers being dismissed on the spot. We know that the follow-up penalty on the notice will be put into practice; it is not a joke. The string is under tension all the time. The entire management team is under pressure; we are all aware of the tension" (Manager of Commissioning and Trial Department, New Site, WT-ND Yard)

To strengthen the ideology underpinning the incentive strategy, the company designed special rituals which were carried out under the name of cultural construction. Among the limited observations conducted in OSG are the notes taken at one of the rituals. It was held during one of the management salons organised by OSG. Chaired by the Assistant to General Manager, the event gathered 50 middle managers and senior managers of the company. With the discussion revolving around "technique innovation" and "organisational structure reform", the atmosphere was charged with excitement and was crowned by a special session in which six managers made a promise to fulfil their job tasks on behalf of their respective departments.

"Our team (No.2) will launch six innovation projects next year. The first one is that, by the end of January 8th, we shall be able to apply Integral Hoisting of the hatch coaming to ship No. 121 and subsequent ones. Responsible person, G. If this project cannot be fulfilled, the team shall be subject to a 20% salary reduction for the month in question ..."

"Our team (No.3) will be responsible for seven innovative projects. The first one is that, from Ship No, 115, we shall be able to improve the hole boring technique, reducing the process from the current 14 days to 8 days with the delivery-check qualified rate guaranteed. Responsible person, L. Failure to fulfil the task will be subject to a 20% salary reduction for the month in question..."

"Our team (No. 4) will take on ..."

"A senior informant explained the functioning of this and added the following details:

This is not a mobilization meeting for production such as most shipbuilding companies hold, it is part of our corporate construction programme, through which we have unified and strengthened the belief of our management team. For the last three years, we have organised this cultural salon on a regular basis so that we can maintain the effect on our management team. So far, it has been systemized to match our production. We actually require our managers to present in a meaningful way that every project mentioned in their presentation should contain assessable criteria – "time, value and quantity". If the promise made today is kept for the next year they will be financially rewarded one to five times on the basis of their commitment; otherwise, they will face a

penalty” (General Manager of OSG)

But to drive people with harsh realities also carries certain risks. Managers expressed a feeling of mixed amazement and repulsion. On the one hand, the rigidity of the incentive mechanism does drive employees in the direction that the company planned; on the other, it forces managers to abandon any long-term commitment to the job and respond only to short term material incentives. A middle manager’s confession regarding this issue represents the feeling among most of the interviewees:

“You have asked me how we, as managers, feel about being managed in this way. Of course, I am not comfortable with these policies and the management culture in the company. No one would be comfortable with it. But we can live with it. It is mainly because of money. For the function as a production department of commissioning and installation of equipment in the shipyard, an incentive payment is awarded for every ship delivered. And, for project managers, if the wharf period of the ship is shorter than the standard period of 60 days, they get 10 K RMB per person for each day ahead of schedule. For top managers, there may be other compensations, such as shares of stock; but so far at least, we haven’t heard anything about this, just money. To be honest, it is the quickest and most reliable way [to motivate people]. In addition, the company compensates us with a big bonus at the end of each year, normally 100 K [RMB] to 200 K [RMB]. Last year, my supervisor and I both got 300 K [RMB]. You see, it is a trade-off. Everything comes at a price. Of course, we are worth rewarding. If the ship delivery is delayed, for each day, the company will need to spend several hundred thousand Yuan. So, 10K [RMB] a day is really worthwhile. So are waste management and recycling” (Manager of Commissioning and Trial Department, New Site, WT-ND Yard)

Similar comments were heard from senior management team. Although both parties described their feelings, senior managers developed the issue further to link it with trust, loyalty and work relationships in general, which are explored in the next section.

### **6.7 Relationship: “natives” vs. “outsiders”**

Work relationships penetrate the life of the organisation and are closely interwoven with major aspects of its management. Three types of work relationship concern managers in OSG: the relationship between managers and investors, the relationship between managers and the employees and the relationship between the company and managerial staff in general.

OSG is virtually a family business if judged from the background of its two major investors, both of whom came from the same family. However, the relationship between the top management team and the owners of the company features a relatively clear division of responsibility, in which, the owners are responsible for providing capital, while the top management is empowered to operate the company and deliver a satisfactory financial performance to shareholders. This distinguishes OSG from the stereotype POEs where

owners frequently interfere with the daily operation in one way or another. Within the scope of their authority, top managers can make a decision straightaway without consulting the owners. For instance, the GM of OSG is authorized to decide on any expenditure below 1 million USD. This level of empowerment attributes high managerial efficiency to the operation of the company, in particular, in negotiations with customers. Meanwhile, it conveys a sensitive message to the managerial team that the company is in transition from family management to professional management. An important sign is the retreat of family members and relatives from the administration of the company.

“There is only one person, as I know, the cousin of CEO is still working in OSG. He is now working as a project manager, a very tough job, needs to work overtime, day and night. We are treated all alike without distinction. He was assigned to the very bottom rung, taking up different posts and then was promoted gradually. There is no sign to show that this man is meant to be the successor of GM. In OSG, we have got used to this ‘rise from the bottom’ tradition. No exception has been found so far” (Manager of Colligation and Management Department, The new site, WT-ND Yard).

For manager-manager relationships, instead of the collaborative relationship that is alleged by the company, competitive and repulsive relationships were highlighted by my informants. Informal groups appeared spontaneously. Managers are labelled as “natives” and “outsiders” in reference to their geographic origin.

“In any Chinese enterprises, there always exists a certain “small circle”. I would like to introduce a bit of background of OSG. When OSG launched the construction of the new site of WT-ND Yard, they invested a lot in equipment, which, compared with that of the old site, was much more advanced. In addition, they hired a batch of famous engineers and managers from big state-owned shipyards. At that time, the old site had already become very efficient and profitable. Most of their employees were local people, old staff of the SOE that OSG had acquired. But at the new site, most of us were from Shanghai, previously working in big state owned shipyards, such as Waigaoqiao, Jiangnan, or Hudong [the shipyards of China’s most famous state owned shipbuilding group]. We all of us had solid educational achievements. By contrast, most of them didn’t even have a secondary school leaving certificate, let alone a background in higher education or a professional title. But the performance of some of our departments was not satisfactory at the time. And we were better paid than they were. Of course the old site people would be upset. We were outsiders to them and our existence was a threat. For the function that I was serving, the old site enjoyed certain advantages over the new yard from the beginning. Although the top management had decided to transfer some experienced technicians from the old to the new site, during the actual implementation, what we got were all juniors. I had never expected the old site management to be unselfish enough to offering help. There wouldn’t even be any possibility of borrowing anything from them. In Chinese shipyards, localism and departmentalism are common phenomena. And this was reasonable in our view because there was no ‘*Jiao Qing*’ (interpersonal relationship) between us and them; instead, the locals regard us newbies as coming here to rob them of their rice bowls” (Manager of Outfitting Department, New Site, WT-ND Yard)

Senior managers expressed similar opinions regarding the separation between local managers and non-local managers. Some of them even mentioned that they were regarded

as invaders by the local managers when they first arrived at the shipyard. The experience of the current GM of WT-ND Shipyard illustrates the logic behind the resistance to the local people.

“Our GM is not a local person, either. He reported for duty alone, without bringing in any previous subordinates, which is gesture to show friendship to the local managers. The local managers felt less threatened because there was no sign of replacing them, which avoided potential conflicts and stabilized production. You know, normally, the appointment of a non-local GM will lead to an ‘earthquake of personnel’, with his ‘old troop’ joining in. Our GM then started to make small changes to the production system, adjusting the allocation of management personnel for each department, during which the uncooperative managers were flushed out. But no collective resistance was seen at all. Because in their [the local managers’] eyes, he was gonna use their people [employees of the previous SOE] anyway, which wouldn’t damage the local people’s interests in general” (Senior Advisor, OSG)

For most of the managers, the “native” and “outsider” logic can be used to account for their career development in OSG. A non-local manager expressed his opinion in a pessimistic tone:

“For me, they [the managers at the old site] think that I am qualified for this position and my performance during the last three years has been satisfactory. But there is no prospect of promotion. They will only use their own people, those who have been following them for years, growing up with them, being loyal to them. We are doomed to fail in this competition, due to this affective factor. Our role should be understood in this way: at the beginning, we were hired when we had strength and advantages in some areas that were needed by the company. Once the local people catch up and overtake us, we will definitely be replaced. They are hard-working, asking for a lower salary, low mobility, having qualified skills, most importantly, having affective ties; how can outsiders compete with them?” (Manager of Commissioning and Trial Department, New Site, WT-ND Yard).

The company has been aware of the negative effect of this on its management and development, in particular, its people management and its efforts to reconcile the conflicts between local and non-local managers through corporate culture construction. The departmentalism and “mountain-stronghold” held by most of the managerial staff seems less significant after management restructuring activities have dismantled and reorganized the departments. However, the underlying philosophy has remained unchanged. As one of the informants commented:

“The company required us to be tolerant and keep an open mind about different opinions. But it is not a problem of moral standards or personality. And it cannot be changed by moving people around or dismissing them. It is human nature and again Chinese tradition. We came from the same background, live in the same area and work in the same yard, which make us feel a sense of belonging; and which connects people to each other. It would be regarded as exceptional to depart from our ‘group’” (Manager of Commissioning and Trial Department, New Site, WT-ND Yard).

For the employment relationship at the firm's level, there have been no traces of traditional practices in OSG. The trade union and party council are the only two traditional administrative organs remaining in it. The role of trade union and party council is defined as being affiliated to the management system and their functions and activities have been reduced to the minimum, which, in the managers' words, means "two meetings organized by the party council each year to supplement the annual worker's congress", no welfare and condolence activities and no collective bargaining or work relationship coordination from the trade union. The deputy GM of OSG is the only valid member of management available to manage these two institutes. At the departmental level, the organisation does exist but no substantial functions are available. As explained by a senior informant, the company pays little attention to the institutes which do not generate value, but must retain the "shell" as prescribed by the labour law and trade union law. The absence of intervention and coordination by the trade union in employment relationships is legitimized by the private ownership of the company. But it is believed to contribute to the high rate of staff turnover in the company.

## **6.8 Conclusion**

This chapter presents a study of managerial work in the type of firm whose management, both of production and in managerial ideology leapt directly into private business, attempting to abandon its SOE roots completely. At the corporate level, the reforms in management and production system instigated by the firm were designed exclusively to increase production efficiency, which dismissed any concern for employee wellbeing. In these circumstances, great changes have been made to managerial work in the sense that the content of the job has been enriched, the intensity of work has been increased, the work hours have been extended and the criteria for measuring performance have been modified. The managers' experience of work changed in response: managers were forced to engage in the changed work environment without respite; they are under intense pressure generated by the 'culture shock' of working in a converted firm and the new requirements demanded by re-defined jobs; they are suffering from the lack of a sense of security and have lost their autonomy as workers, mainly the result of the cruel internal competition, close monitoring and built-in control in the production system and the monetary based single incentive system.

Simple, standardized, straightforward, less flexibility, but full of rigidity, these labels add up to a concise profile of the production system which matches the core elements of an LPT interpretation. The only exception is the tendency among the managers to upgrade their skills, which opposes the skill degeneration thesis in LPT. The reforms in the case study firm so far have yielded impressive results, as the production indicators suggest. However, the changes were not imposed without resistance. Managers became less committed to their job



and tended to focus on short-term benefit without considering long-term career development. Managers' frequent job-hopping has been found as another side-effect of the reforms. In fact, this should be associated with managers' need for greater job security. In the same way, managers seek for assistance and support through certain social interactions, such as forming and joining a 'clan'. This mixture of relationships based on geographical origin, occupational relationships and those based on reciprocity or interest, instead of kinship or family relationship in this case, serves as the deciding factor of managers' behavioural patterns in social networking and associating, which implies the continuous existence of Chaxugeju in China's business organisation. Thus, the erosion in Chinese management of traditional values such as loyalty is significant in the post-reformed management system, but the basic social structure and principles of social relationship still remain valid, which could be exploited by individuals as potential resistance to the system to compensate for the absence of trade union intervention and protection.

Having investigated the management and managerial work in the privately acquired private enterprises in this chapter, the next chapter explores the managerial work in the firms belonging to a different category of private enterprise. The reforming process of these case study firms features a more complicated ownership transformation, less radical organisational restructuring and a milder transition of the management and production system. It thus implies the possibility that managerial work within the firms may experience different changing routines and have some unique features.

## **Chapter Seven: Managing in an SOE privatised company – the cases of NSG, YSG and JSG**

### **7.1 Introduction**

Following the description and discussion in Chapter Five of the firms' development tracks, this chapter presents the case of three SOE privatised enterprises, focusing on the changes in their systems of management and the impact of these on the manager's job and their experiences at individual level. Although the three case study companies are treated as the same type of firm due to the similarity of their original ownership and general development pattern, at firm level, the differences and the similarities in their respective management system and managerial work are both explored.

### **7.2 The transformation of the management system**

Along with the ownership transformation and the expansion of the shipyards, all three companies have been making efforts to adjust their management system, in which the organisational restructuring and technological renovation were closely interwoven. NSG has adjusted its organisational structure three times since 2005. The original structure was believed to be not conducive to production, due to its tall hierarchy and inflated functional departments. In addition, the production system inherited from the SOE time was regarded as a low efficiency mode, incapable of supporting the rapid development of the company. Thus, the objective of NSG's reforming activities was three-fold: to simplify the organisational structure, to increase the efficiency of both management and production; and to reduce the cost and at the same time improve the profitability. YSG and JSG were faced by a similar situation to NSG's and are moving in the same direction. All three companies adopted a less radical strategy, choosing to make gradual changes to their existing systems, instead of overturning its organisation altogether, which was largely attributable to their strong connection with their SOE roots. As suggested by a senior informant in NSG, the company preferred a smooth transition so as to minimize the negative impact on employees' interests on the one hand and pre-empt strong opposition, on the other.

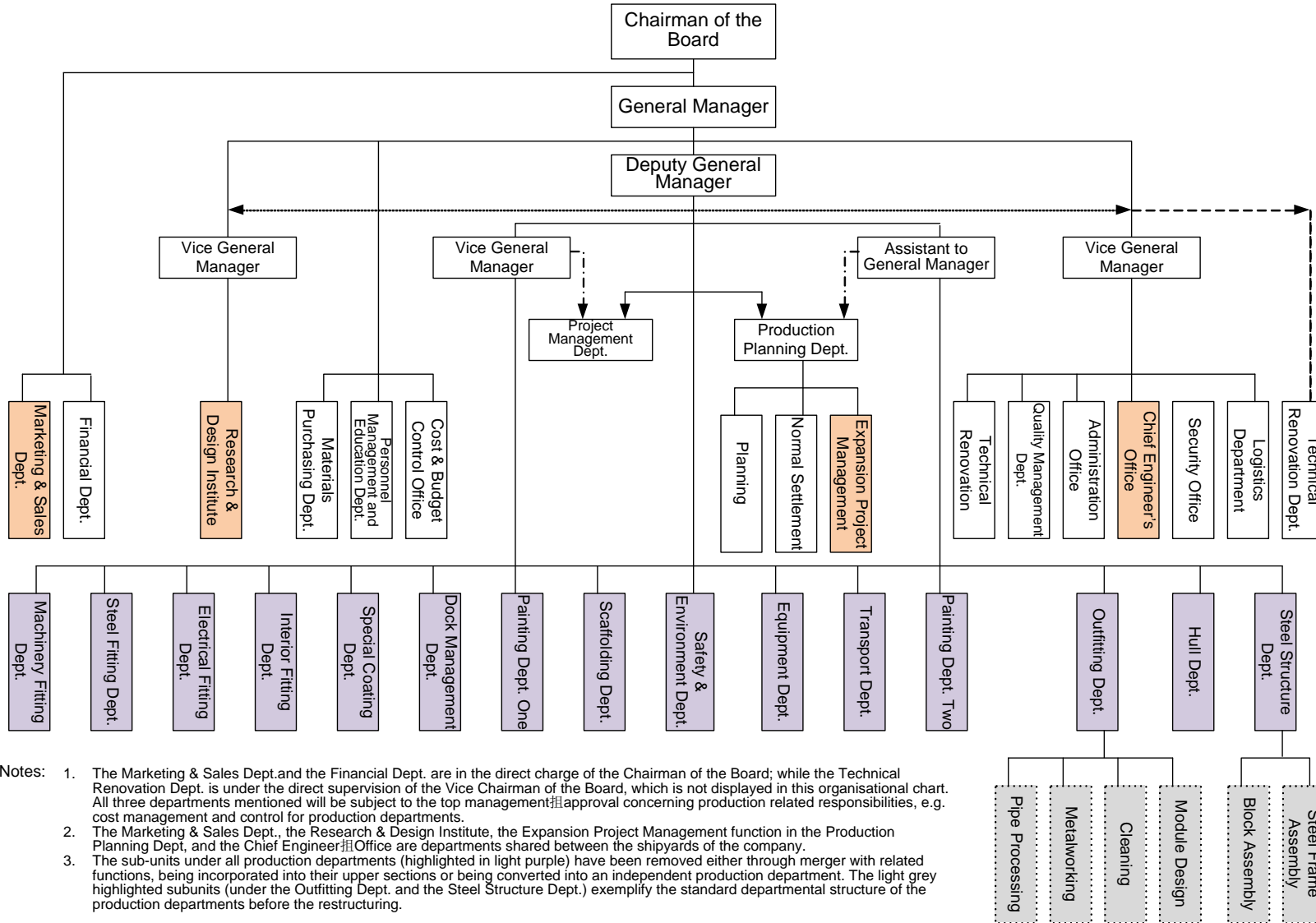
First, to simplify its organisational structure, NSG chose to flatten the structure vertically by merging the sub-divided workshops and departments and then either absorb them into a more comprehensive division or upgrade them to the nearest higher layer. For example, there were four workshops under the outfitting department, each with a discrete administration setting and management team. The company combined them and absorbed the functions into a "big" outfitting department, with the result that the previous four-layer production management system (from GM to second tier departments) was reduced to a

three-layer structure (see Figure 3). The adjustments on the structure removed the barriers imposed by the segmented functions and unified production and management. Another direct outcome was the removal of chief management positions of the merged second-tier departments, but the aggregate headcounts remained the same. In addition, there was an increasing trend in the company to enlarge the scope of resource sharing between two yards, both material resources and management resources – the former mainly concerned with equipment and tools and the latter with shared departments. Four functional departments – marketing, research and design, cost budget control and technological innovation – and one of the production departments were shared by the yards. Figure 3 shows the recent adjustments to the organisational structure of the new yard of NSG.

Second, to increase the efficiency of both management and production, the company launched micro-adjustments to optimize the operation flow horizontally, termed “Zhuan Mo”, (changing mode). “Zhuan Mo”, briefly, was intended to integrate the production flow. In building a ship, there are four main phases: first, pre-processing the steel material, making the ship components (blocks) and configuring them into sections; second, configuring the sections into larger sections; third, configuring the larger sections into ships; and fourth, finishing the outfitting, installing the equipment and commissioning. Since the third phrase must be conducted in the dock and the fourth finalized at the wharf, both dock and wharf are often regarded as the core resources in the line. Thus, optimizing the use of dock and wharf constitutes the essential step in the approach to production efficiency. What NSG did was to accelerate the production by rearranging the sequence of the manufacturing process, in which some steps which were previously planned for the dock or the wharf were moved to the first or second phrase so as to reduce the time spent in the dock and the wharf; meanwhile, the blocks of the ship could be maximized. Through “Zhuan Mo”, more steps in the process were taken out of the later stage of the shipbuilding and slotted into the pre-dock stage. Once the use of dock and wharf tends toward optimum and the blocks are maximized, the entire building cycle is shortened:

“When the blocks are maximized, the configuration in the dock becomes simpler. Sometimes, it only takes a few lifts of a gantry crane to finish the configuration of a ship. And, when the block is produced as a finished product, the related installation of parts, such as pipes, will proceed alongside the manufacturing of the block. This kind of arrangements helps us to save a lot of time when doing outfitting for the ship. Up till now, we have successfully forward-moved 58 items and realized 90% of the pre-outfitting of a ship. In 2007, we needed 60 days for the dock period of a ship; back in 2000, we needed 90 days, but now [June 2009], we only need 38 days. And we are making efforts to further shorten the dock period and will be approaching 26 days in the near future, which is the topmost level in the Chinese shipbuilding industry” (Vice Chief Engineer, NSG)

Figure 3: Organisational Chart, New Yard, NSG



- Notes:
1. The Marketing & Sales Dept. and the Financial Dept. are in the direct charge of the Chairman of the Board; while the Technical Renovation Dept. is under the direct supervision of the Vice Chairman of the Board, which is not displayed in this organisational chart. All three departments mentioned will be subject to the top management approval concerning production related responsibilities, e.g. cost management and control for production departments.
  2. The Marketing & Sales Dept., the Research & Design Institute, the Expansion Project Management function in the Production Planning Dept., and the Chief Engineer's Office are departments shared between the shipyards of the company.
  3. The sub-units under all production departments (highlighted in light purple) have been removed either through merger with related functions, being incorporated into their upper sections or being converted into an independent production department. The light grey highlighted subunits (under the Outfitting Dept. and the Steel Structure Dept.) exemplify the standard departmental structure of the production departments before the restructuring.

Third and finally, to reduce the cost and meanwhile improve the profitability, the company paid extra attention to two aspects, i.e. the rate of use made of raw materials and the labour cost, in addition to these moves to increase production efficiency, more than 1 billion RMB has been invested in new equipment and technological innovation during the last 5 years, which has helped the company enhance the research design and production design and therefore economized on raw material. For instance, more accurate steel cutting has led to less waste. The labour cost was controlled through two techniques, personnel quota control and outsourcing. NSG at the post-privatization stage has never been committed to any radical reduction in the number of employees; instead, all employees from the SOE era have been retained, unless they volunteered to resign or retired. With the expansion of the company, neither the old yard nor the new yard has raised the quota of formally employed personnel; the need for additional labour was satisfied through third party employment or employees from subcontractors.

There were considerable similarities in the practices adopted by NSG, YSG and JSG in the process of management and production system transformation. The same methods, such as “Zhuan Mo”, personnel quota control and using outsourcing companies, are observed in YSG and JSG, too. They also invested large sums in new facilities and renovating the existing infrastructure. Only a couple of differences are found in their methods of adjusting their organisational structure. YSG, in addition to its vertical adjustment, simplified its organisation by simplifying its business activities – the ship repair section was shut down and the ship breaking section was relocated. In addition, unlike NSG’s strategy of sharing some of the functional departments between subsidiary yards, the old yard and new yard of YSG share no departments; while in JSG the new yard shares all functional departments with the old yard.

### **7.3 People management: from “people foremost” to “cadre focused”**

The reforming programmes did not lead to a sudden change to the personnel management system in the companies; instead, the old SOE personnel management was gradually replaced by a new mode. This explains the interim system in the post-privatised period lasting for several years, which featured both SOE characteristics and those of private enterprises. As suggested by one of the main informants in NSG:

“We don’t think the SOE organisation and private organisation are mutually exclusive. As long as the parts are of use to the company, they can be retained and incorporated into the new system” (Section Chief of Human Resources Department, New Yard, NSG).

The impact of the reform programmes on the management ideology was not as immediate as is implied by the organisational structure and the production system. Some official

interpretation of managerial ideas remains the same as in the SOE era. For example, all three companies stick to the line of “people foremost” to account for the strategic orientation and the general trends in their management, in which the employee’s interests are highlighted as the essential concern of the companies:

“We cannot deny that we all grew up under the nurture of the Party. As far as money goes, we have made sufficient. Just think, how much can we spend over a lifetime? So, rather than being motivated by money, we have been driven more by the pioneering spirit of hard struggle. There was a time when the company was in trouble, we worried a lot about the future of our staff. If the factory had closed down, they would have lost everything. And the pressure from the local authorities was enormous. So, we just had to grit our teeth and persevere. A few years later, we were required by the local government to privatise the factory. So, we took it in this way – we were offered the opportunity to run the factory on our own, we must strive for our staff and for ourselves, because everybody has a stake in the company. When the company was getting bigger, we realized that if it stopped growing, it would soon fail. So, we were forced to compete in the market. I mean, the priority of our company is to survive in the market; money is a plus. In all companies with a long history, there must have been a leader who was willing to take the risk and guide his people. In our company, we are far from the stage of celebrating our achievement; we’re rather at the stage of pioneer work. This will go on for a long time. At least, we provide a job for our staff and give them a stable income, don’t we?” (Vice Chairman of the Board, NSG).

“The idea of “people oriented” must be incorporated into our work. We need to improve the working environment for our employees, regard their troubles as our own troubles, put ourselves in their position and shield them from disturbance in the background” (General Manager, NSG).

“Our top management has always thought about the well-being of our employees. What we have been doing recently is all about increasing the income of our employees. For every new investment project, our top management will take a lot of conditions into consideration, such as who will benefit from the project, who will be willing to join the project. Our employees’ opinion will be considered seriously because the ultimate goal is to benefit more people. Meanwhile, we are trying to make the welfare policies equal for everybody [...]” (Head of Human Resource Department and Vice-general Manager, New Yard and Old Yard, YSG).

However, the actual personnel management practice does not reflect much concern to be ‘people oriented’ or to ‘all employees’ well-being’, as the firms state. The policies and practices in the case study firms have changed little in their regard for average employees (those formally employed by the company) since the privatisation programmes were completed (see Chapter Five, Section 5.3). The term ‘average employees’ in this context is used to include workers, non-managerial staff, factory-floor managerial staff and ordinary technical staff. The policies of personnel management regarding such employees can be summarized as follows:

- **Recruitment and selection:** all three companies stick to ‘local first’ recruitment for average employees and an internally based cadre development strategy for factory floor managerial staff. A number of graduates are recruited every year to fill the frontline

technician team; these constitute the major talent pool for the development of frontline managerial staff.

- **Mobility:** a limited degree of internal mobility is allowed, which is up to the judgment of the personnel management; no formal policy or procedure is formulated. External mobility fluctuates with the general situation of the industry; there are no staff retention policies for the employees in this group.
- **Payment structure:** the payment schemes for average employees consist of base pay and floating pay. For a specific position, the base pay includes the components of the basic pay of the position, the fixed allowance for the position, the fixed skill allowance for the staff (such as English ability or a professional qualification); and the floating pay includes the monthly reward for fulfilling the production task and the annual bonus for profit sharing.
- **Training:** all new recruits are required to attend induction programme comprising cultural orientation, safety and health training and military training; follow-up training is focused mainly on skill upgrading and obtaining professional certificates.
- **Probation:** six months' probation and 20% off the base pay during the period are compulsory for each new member of staff, regardless of the level and nature of the job.
- **Welfare and social insurance:** state mandatory welfare and social insurance are provided. No extra accident insurance, retirement scheme, or medical scheme is provided. Regarding welfare, all three companies maintain the tradition of arranging a bi-annual health check for employees. A high temperature allowance and festival allowance are also granted.

By contrast, the policies and practices concerning managerial staff (excluding factory floor management) have experienced constant changes. The role of managerial staff as a critical resource is highlighted, which implies a transformation from personnel management to human resources management:

“In recent years, we have made rapid progress in human resources management; before 2006, we didn't really know the concept of human resources and our department was called the 'personnel management office'. In 2007, we formally renamed it the 'HR Department'. I think the difference between the old and the new practices is that we started to direct our policies to our cadres, to motivate and retain them. We realized that they are the most important part of our production system. So far, our beneficial policies cover cadres at the middle level and above. [...] The middle level includes heads of department, deputy heads, assistants to the head of department, section chiefs and assistants to section chiefs. Above the middle level is our senior and top management” (Section Chief of Human Resources Department, New Yard, NSG)

Similarly, YSG and JSG distinguished human resources from the labour force and stressed the need to develop an efficient mechanism to identify and develop human resources. Unlike the scope of human resources as defined by NSG, YSG added key technical staff to their

human resources, while JSG limited this concept to the level of middle management and above. All three companies excluded factory-floor managerial staff from the class of valuable assets.

The major aspects of the human resource policies and practices in these three case companies can be summarized as follows:

**Recruitment and selection:** the recruitment of core human resources is shifting from relying on the internal market alone to combining the internal and external market. A number of key technical posts and managerial posts above middle management level were filled through open recruitment in the market in the past few recent years, in order to compensate for the slowness of the mechanism to develop internal talent. However, in the most recent policy adjustments, all three companies have decided to stop recruiting top-level managerial expertise from outside.

**Mobility:** there is very low internal mobility for managerial staff and core technical personnel once they are assigned to a specific position. Most of those hired in the job market left after completing their contract, but the turnover rate of native managerial/core technical staff is extremely low. The companies are willing to recruit staff who re-apply after leaving as long as their skill and knowledge are scarce. If not, their motives for leaving and rejoining are carefully examined.

**Payment structure:** core human resources are all on an annual salary system, in which the floating pay – a monthly performance-based reward, annual profit-sharing bonus and project-based reward – preponderates. In a few cases, those who were hired from external market and whose working contract is less than 5 years can negotiate a better package with the companies.

**Training:** there is no specific skill training or knowledge updating programme for this category of personnel. The companies have been aware of the need to institute management training, but very little money and effort have been invested in it, let alone in formal career development schemes.

**Welfare and social insurance:** apart from the state mandatory insurance and the welfare provided to all employees, core personnel are granted additional welfare, such as a house-purchase allowance. See section 7.6 for more details.

A general trend can be observed in the human resources management system of all three companies: that is, the steady widening of the gap between ordinary employees and core personnel. Managerial staff and key technical personnel have become the group which could benefit from the development of the companies in the long term, or, in other words, have the potential to develop shared interests with the employers.



#### **7.4 Managerial job: managing is not just about hard work; it is about being dedicated to the job.**

The naming system for jobs, to some extent, sheds light on the nature of the managerial jobs in an organisation. Judged from the relevant HR documents on file, no changes in the three companies have been made to the titles of management positions below senior management level since their time as SOEs. The people who are undertaking all kinds of managerial jobs are always referred as the “cadre”, not as “managers” or other more fashionable titles. The answers from the main informants suggest the continuity of SOE values and behavioural expectations of managerial staff:

“As a cadre and party member, safeguarding the interests of the company is important; but protecting employees’ lawful rights and interests is one’s top priority. Whether in good or bad times, cadres must set themselves as examples, must be the first to bear hardship, the last to enjoy comforts” (GM, New Yard and Old Yard, NSG)

In NSG, the managerial staff are required to get used to hard work and overtime. Those at and above middle level, in particular, have got used to working long hours and through holidays and take it as a basic condition of being in the cadre. As one of the informants said:

“Every morning we arrive earlier than the average workers because we need to organize the morning gathering. And we get off work later than them too. From our chairman to us, it has been like this for ages. It is the tradition of our company. Our top management works even harder than we do. Our Chairman, for instance, has never taken a holiday in the past 10 years. And our GM is often the first person to appear at our pre-shift meeting. He would like to inspect progress on the spot. At night, if we go to his office, we rarely find that he has left work. Our workers used to say that the light in his office is a sign of NSG’s bright future. He could squeeze out every bit of time for work even in illness. Last year, the old wound on his right hand played up again; but he just didn’t want to delay the work. So not until the doctor had conceded that his stay in hospital could be reduced did he agree to have surgery. Surprisingly, a few days after his operation, he slipped out of the hospital and returned to his office to work; of course, he had to use his left hand to sign documents. Our top management exemplifies the quality of the cadre we need” (Director of Finance and Accounting Department, New Yard and Old Yard, NSG).

Informants in YSG and JSG mentioned similar standards from managerial personnel and also addressed the dramatically increased workload in their jobs. This applied to the non-production departments in particular, for instance, the human resources management department, met major changes. The personnel management department of the New Yard of YSG contains only 4 people, but handles the entire people management function plus part of the support job for the trade union; the Non-Local Employee Support Unit of the Human Resources Department, in the old yard of NSG, contained 3 people, but is responsible for the inspection of employment status and lawful rights for the 7,000 workers from outsourcing companies. As the main informant in JSG commented:

“An outsider’s impression would almost have called our job conditions idleness; 10 years ago, I would agree with that. We are in different times now. The quota of our department remains the same as 10 years ago, but we are dealing with 10 times as many employees [including all the people working on site] as we were then. And we also take on other jobs, although they are irrelevant to people management. I don’t really understand why these functions were assigned to our department. But, for us, a cadre member should always comply with the company’s arrangements. Sometimes, we were not able to finish the job on time, or were criticized for all sorts of underperformance. But it wasn’t a question of competence nor knowledge, nor work attitude nor moral standards; the workload itself is irrational” (Head of Personnel Management Department, JSG).

Apart from the workload, the above comment implies the complete obedience required in managerial jobs, in which orders from the top, correct or not, must be implemented without question. Although the job description samples provided by all three case study companies suggest that managerial positions at middle level and above are granted a certain degree of decision-making power, the feedback from the managerial staff shows the opposite – decision-making power is concentrated at the top; even senior executives need to consult top management for very small things and routine practices:

“I asked our GM whether we could start the distribution of towels and cold drinks to frontline workers yesterday, because the temperature was very high. He thought it was a bit too early. So, I deferred it. If the hot weather continues in the next few days and he doesn’t give the order, I will have to mention it to him again. It is not good to take him for granted [...] I mean, our role is basically executive. We receive the orders from the top and implement them; we bridge the communication gap between the top and the bottom; we coordinate the departments; if the top management wants to hear our opinion, we will propose solutions. But we don’t decide” (Head of Personnel Management Department, Old Yard and New Yard, YSG).

The group of leaders (the top management team) is regarded as at a level of existence above the management system; it enjoys the ultimate power to interfere in and adjust policies and practices, in particular the Chairman of the company. An internal survey of NSG reflects that the overlap of leadership along the command chain has largely been eliminated on the factory floor and at middle level, but is still common at senior and top level since the reform programmes were instituted.

Management efficiency is believed to be far from satisfactory, although the managerial infrastructure of the companies has been substantially improved, shown by the clearer interface between departments, the precisely defined workflow and procedures, promptly updated management policies and regulations and resource sharing design in the organisational structure. For one thing, management efficiency is discounted by the inefficiency and incoherence of the method of information release and feedback within a frequently amended system. All three companies rely on long-established “red tape” documents to inform staff of changes, but the formality and slowness of this method limit its effectiveness. Often information halts at the department head’s level, as the main informants

in all three companies made clear. At the same time, the cooperation and coordination between departments often appear sluggish. Conflicts arise when different departments have different interests or hold a different understanding of a job:

“At this moment, there is severe conflict between our HR department and the other departments. They want to add as many people as possible to fulfil the production target; while we want to control the quantity of the labour force and to increase labour productivity per capita, which we believe is the indicator of the real competitiveness of a company. So, they complained a lot when we froze the quota and fixed the payroll amount for each department. I am sure they ‘hate’ us very much” (Director of Human Resources Department, New Yard and Old Yard, NSG).

Disturbances in the job of manager are also generated by the people’s inertia. Although certain procedures, such as bypassing the immediate leadership and presenting one’s appeals and complaints at a higher level, are prohibited according to current management rules, they are part of all sorts of informal management practices. Managerial staff often suffer from the consequences of a clash between these two systems. As a senior informant in YSG put it:

“In recent years, we have introduced an advanced quality and management system. However, we have such a long history of being a local enterprise. Many of our people have known each other for ages. I wouldn’t be surprised if they broke the rules simply to return a favour. A lot of people still have their heart set on the old values. And, often these values do work in some way. I can give you an example. Our Chairman’s office is located in the 10th floor of the administration tower, but he has said the door is open to everybody and he likes to chat with people at all levels. Sometimes, he asks me, ‘Why did you do this to him...?’ The person he is asking about has just been fined for misconduct on site. I can see that someone must have tattled to him. It has been really exhausting to defend myself when someone has heard a distorted version. But I understand how our Chairman thought – at some times, when people talk to him, he is not only the leader of a company, but an old friend who can offer a hand. Of course, it is annoying to experience this kind of thing again and again, but it is a common problem. He and the other top managers [except for the ones hired from outside] like to hear this kind of informal information and have got used to reacting to it. So, I don’t take it to mean that ‘he dislikes me’ or ‘he doesn’t trust me’. As long as he hears the whole story, he will take the correct side. But it is just like a volcano; the information travels so fast between people. And you will never know when and how the questions will come to you” (Head of Human Resource Department and Vice-general Manager, New Yard and Old Yard, YSG).

As a consequence, the job of manager requires sound management knowledge and skills and in-depth understanding of the companies themselves. The extended workload obliges managerial staff to take on multiple roles; for instance, a line manager is required to play an important role in managing human resources. However, very limited management training has been offered so far to managerial staff. In YSG and JSG, no management training programmes have ever been provided for them; while in NSG, the HR department organized workshops for managerial staff, but due to their tight production schedule, they were forced

to cut most of the hours. In addition, the budget allowed them to use only video training, rather than a trainer who would delivering the courses live. Thus the desired effect failed.

### **7.5 Control: constructing a total control mechanism.**

The control over managerial staff in all three companies is carried out by a compound mechanism composed of management auditing, financial control, the inspection and supervision of discipline, political education, military training and the control of public opinion.

Management auditing was introduced to the companies during the course of preparing the IPO. In NSG and YSG, an audit department was established to perform the internal management auditing, which bore three major responsibilities: to guide and assist the establishing of standardized management procedures and regulations; 2) to inspect the operation of management functioning and managerial behaviour; 3) to process the information to formulate the files and documents for submission to external auditing. A middle manager in YSG described how the audit mechanism works, how it controls the management and production system of the company and how managerial staff feel about it:

An auditing firm from Singapore is responsible for our annual (external) management auditing. Every time, we conduct an internal audit first; if the result shows that we are qualified, we then contact the firm to schedule the next step of the work. The standards for a public listed company are very rigid. So, if they find any problems, all of us will be affected, not only the old yard, but also the new yard, because the auditing covers all related companies. This impelled us to improve our management. Every year at this time I just felt that I couldn't breathe. Internal auditing followed by the external [auditing], very busy, very tired and very vexed. Often we were asked very sharp questions [by external auditors]; very frightening, but we had to answer and provide evidence to support what we said. Very frightening! The auditing concerns almost every facet of our management and production system – daily operation in production, equipment, work flow in production, safety, finance, human resources. So, it lasts at least two weeks. During the time, our human resources department and our audit department need to work closely with them, but the other departments don't have to deal with them directly. Last time, they spent two days assessing our human resources management; I had to be there with them, answering very specific and very detailed questions. It was a very painful process, but we have improved a lot under the pressure of this kind of external mechanism. (Section Chief of Human Resources Management Department, New Yard, YSG).

Since both JSG and YSG are listed on the same stock market, they have been following the same standards and their audit mechanisms operate in the same way. In NSG, however, since the company has yet to complete its IPO and there is no internal audit department, the annual external management auditing is carried out by a consulting firm which specialises in IPO preparation. And the internal auditing is conducted by the HR department and finance and accounting department. All the practices in NSG emulate the standards and procedures adopted in public companies.

If the audit mechanism can be regarded as a mechanism to control the quality and standard of the entire management system, the financial control mainly aims to maximize cost effectiveness and strengthen the authority of top management. In NSG, the financial approval process is very rigid. An application for reimbursement or expense claim will need to be assessed by all the departments concerned and to be approved by departmental heads and then passed on to the vice general manager, general manager and finally the Chairman. Solid evidence and files are attached to the application form; and the comments from the managerial staff engaged in the process also need to be included. A little problem in the process may delay or frustrate the application, because “without the chairman’s signature, no funds can be moved”. The JSG practices resemble those of NSG; while YSG distributes the power of approval throughout the top management team. The General Managers of YSG are empowered to decide the use of up to 3 million RMB. However, the Chairman of YSG reserves the authority to check up on GMs’ use and intervene in the exercise of their power.

The financial control on managerial staff is supplemented by the discipline inspection and supervision, which is carried out by the Secretary of the Commission for Discipline Inspection (SCDI). Similar to the organisational settings in SOEs, the SCDI serves as a subsidiary of the party committee in all three companies. However, its major responsibility has largely deviated from its original political function, concentrating on the surveillance of the managers’ economic and managerial behaviour. It works by encouraging every employee to take part in the supervision over managerial staff. It uses an offence reporting system with telephone numbers, an email address, a mailbox and office hours for face to face communication. Meanwhile, an in-house magazine and company website are used to propagate what is expected as managerial behaviour, which combines both good and bad examples from life. To implement this function, a batch of amateur correspondents was selected and trained to collect, write, edit and present related news and articles.

In a related area, political education is regarded as an indispensable tool for companies to promote consensus and strengthen the leadership. One of the members of top management, (Vice Chairman of NSG, Vice GM and Director of HR Dept. of YSG and Vice Chairman of JSG) leads this function, which guarantees the cooperation of other departments and the supply of sufficient resources for the learning activities. Managerial staff takes it as an opportunity to unify their personal understanding and action with aims of the company and even regards it as a career development mechanism for attaining the core management team. A young middle manager explained how political education is organized and how it impacts on managerial staff:

“Our party council organizes meetings for democracy life four times a year. Because it is used as a regular learning mechanism, the frequency is double that in normal practice<sup>20</sup> and the learning content is not limited to purely political matters. In addition, the Secretary of our Party Committee is also our vice Chairman, who is in charge of the production of the new yard at board level; the study has been extended to discussion about the production of the company. We had just conducted a session regarding the implementation of the spirit of the 17th National Congress of CCP. In fact, more attention has been paid to taking this opportunity to highlight the importance of reform and innovation in an enterprise and to remove any resistance coming from our old tradition. I have just resigned from the Communist Youth League and made an application for party membership. I often borrow the study materials from the party members and have found them of great use in my job, especially for how to give correct guidance to our employees and how to improve our personnel management through innovations in the system” (Section Chief of Human Resources Department, New Yard, NSG).

Similarly, the interviewees in YSG and JSG expressed the same idea that political education helped them to understand the general development trends in society and understand how their company could adapt to the environment and what they, as individuals, should do to carry out the duties of qualified managers. Picture 2 shows the top and senior management in NSG attending the inner-party democratic salon; while Picture 3 shows managerial staff and party members in NSG attending the mobilization meeting for “Studying the Principles of Scientific Development”.



Picture 2: Top and senior managers of NSG attending the inner-party democratic salon.

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<sup>20</sup> According to 《 Regulations Concerning the Meetings for Democracy in Party Organisations and State Organs at and above County Level》 (Issued by the Party Central Committee, May 25, 1990), the Party Organisations and State Organs at and above county level must organise meetings for democracy and the frequency should not be less than twice a year.





Picture 3: Managerial staff and party members in NSG attending the mobilization meeting for “Studying the Principles of Scientific Development”.

In addition, in order to strengthen the efficacy of political study, all three companies arranged special military training sessions for managerial staff at middle level and factory floor level and managerial staff at equivalent levels in the outsourcing companies. Picture 4 shows the special military training for middle managers in NSG. The above mechanisms work together to form an all-pervasive control mechanism to safely guarantee the proper behaviour and thinking among managerial staff.



Picture 4: Military training for managerial staff in NSG, 2009

## **7.6 Incentives: paradise for “the minority”.**

Despite the strong influence of the SOE tradition which advocates non-financial incentives, financial incentives were found the most effective factor for employees. As the internal survey conducted in NSG shows, the major factors that motivate employees are salary, welfare, the work environment, credit given by leadership, training, promotion, challenges of the job, good management and good interpersonal relationships. The current incentive mechanism employed in all three companies is distinguished by its polarized design which covers only valuable human resources (see the definitions of human resources in section 7.3) and its rigid performance-based practices of rewarding and fining.

The incentive mechanism of NSG comprises three schemes: first, the long term stock share plan for core managerial staff. In the last round of ownership reform, the shareholders of NSG were reduced to three people, the chairman, the vice chairman and the general manager (see section 5.3.2 for more details), which was the arrangement for preparing the IPO. In order to compensate those shareholders who withdrew and to motivate the core managerial staff (including the department heads, senior management and top management), the company established a new investment company and offered its stocks to them according to their administrative ranks. Each year, a sum of funds is extracted from the profit of NSG and injected into the investment company. Managerial staff covered by the scheme could receive annual dividends from the company; the scheme was designed as a perpetual form of compensation, which ends only at the death of the individual and cannot be inherited by family members or relatives. With this scheme, NSG secures the commitment of this group of people, who would hardly consider leaving NSG, given the huge loss such a decision would bring them. Second, there is a special reward for core managerial staff. In 2007, the company linked production with the floating pay of middle management – for each vessel completed beyond the yearly production target, middle managers were rewarded with 10% of their yearly salary, which has been adopted as regular practice. However, since the above two schemes cover certain people only, excluding all the managerial staff hired on the job market, to some extent they generally de-motivate staff and were regarded as factors encouraging inequity within the firm. Third, the company introduced monthly performance-related pay to all positions. The performance appraisal is conducted on a collective basis. All departments that fail to meet key indicators lose money from their aggregate payroll and thus from every worker’s income. Since the general pay of NSG stands at the average for the industry, its rigid performance appraisal often results in an income lower than the average for the industry. In consequence, the entire incentive mechanism leads to a situation in which only a minority is motivated. The following statement is quoted from the management auditing report of NSG; it summarizes the employees’ feedback regarding the incentive schemes:



“Senior and top management enjoy the highest satisfaction regarding the incentive system; the average worker’s satisfaction is found to be low and the frontline manager’s satisfaction is the lowest. Among managerial staff, the satisfaction is significantly related to rank – the satisfaction is proportionate to the rank of the holder. The body of individuals holding advanced academic degrees is not valued. The satisfaction among ‘non-local employees’ is low as well, which reflects the tendency in the company to feel ‘opposition to non-local people’. Only 4.7% of the participants think the pay and welfare in the company is ‘not bad’. In general, the incentive mechanism not only lacks external competitiveness, but also lacks of internal equity” (NSG Management Auditing Report, 2007-2008, p.74)

The incentive mechanism employed by JSG could be regarded as simplified version of that in NSG: first, the company offers stock to senior and top management only; second, the performance appraisal system contains fewer items than the one in NSG, making productivity and quality two basic indicators; third, the management experts brought in from the market are not included in any long-term incentive schemes.

Compared with NSG and JSG, YSG’s incentive mechanism is distinguished by a broader coverage and more diversified incentives. Following its IPO, the company launched several investment projects and encouraged its core managerial staff (see the definition of human resources in section 7.3) to buy the stock, so as to be included in the profit sharing of those projects. In addition to the shareholding scheme, the company offers attractive non-momentary reward to its core personnel, which includes a preferential policy in purchasing property – YSG has its own real estate development project; qualified employees are allowed to buy a flat or house with financial aid from the company. For a 100m<sup>2</sup> flat valued at 300,000 RMB, the employee needs to pay only 1/3 of the price; the company provides an interest free loan of 100,000 RMB and the remaining 100,000 RMB is discounted. If the employee can serve the company for another 8 to 10 years, this is long enough for the 100,000 loan also to be discounted. The managerial staff hired on the job market are also included in the schemes as long as they meet the requirements of a long enough service period and a high enough administrative rank. The senior informant added some details to this incentive mechanism:

“The primary goal of our incentive schemes is to construct a positive atmosphere to retain our talents so as to maintain the continuous development of our company. The IPO brought the company sufficient wealth; we hope to convince our people that they will benefit from this wealth, too. Each year, those who join the investment projects can receive a good bonus. Now, they firmly believe the vision that our Chairman described at the beginning of the project – salary will constitute only a small part of our income; dividends will be the main income. Under our current incentive mechanism, very few managerial staff, I mean those who took part in the schemes, would leave YSG. The price is too high. For a person in my situation, I wouldn’t even think of it. And we also hope that the other staff will be motivated by the job prospects. Everyone has an equal opportunity. As long as they work hard, they will have the chance to be promoted and join us. And, meanwhile, we are making efforts to extend our incentive mechanism over more and more people” (Head of Human Resource Department and Vice-general

Manager, New Yard and Old Yard, YSG).

The incentive schemes did help the company stabilize the core managerial staff in a general sense. However, the statistics suggest that the managerial personnel recruited externally did not respond well to the incentive schemes, in the sense that almost all of them chose to quit the schemes and leave YSG at the expiration of their labour contract. This phenomenon was explained by the HR specialist of YSG as follows:

“The reasons they gave us were mainly personal or family matters. We didn’t have much in-depth discussion with them regarding this issue. All we can do is to respect their decision. From my personal point of view, they are professional managers and each move brings promotion in their career. For them, maybe this degree of loss is no big deal compared with their next job and future gain. In addition, most of their investment is returned to them when they leave the scheme” (Section Chief of Human Resources Management Department, New Yard, YSG)

In contrast to the incentive schemes for core personnel, no specialised schemes or policies have been designed to motivate the average employees (including factory-floor managerial staff). And there is little evidence that they respond positively to the vision described by the company; instead, the turnover rate of managerial staff at factory-floor is dangerously high, which suggests that the morale of such staff is dropping. A factory-floor member of the managerial staff in YSG made an interesting comment on the system: “Our company is professional in rationalising fines, so we don’t have a culture of incentives, but a culture of fining,” which implies that the average employees’ actual experience sharply contrasts with the promises of the company.

In general, a clear trend can be identified in all three companies that the widening gap of incentives, both monetary and non-monetary, between core managerial staff and average employees gives rise to two polarized camps, the stable upper management and the floating foundation. In addition, the low occupational mobility at medium and senior management leaves limited space for the career development of junior management, which further intensifies the antagonism between the two groups.

### **7.7 Relationship: from “dweller” to “traveller”**

It was found that the working relationships in all three companies were not only decided by the nature and organisation of the work but also influenced by the social relationships between employees. The issues involved in the forming and changing of working relationships in the companies centre on the ways in which managers perceive their roles and obligations in the company and those in which companies respond to the consequences of the changes in working relationships. Among these consequences, four inter-related issues emerged as the focus of attention of all three companies: the relationship of

professional managers to native managers, the local/non-local relationship, the managerial consequences of corporate culture and industrial relations.

**First, the professional managers and the native managers.** Informants in all three companies admitted the existence of a clear separating line between the “professional managers”, the personnel hired from outside and the native managers (more commonly referred to by the interviewees as “our cadre”) in all three companies. The main informant from NSG explains the approximate difference between the two groups:

“Honestly, I haven’t come across any clear definitions of a professional manager. But, in our industry, a hazy understanding will be “they are travellers”, such as our previous GM and his followers. They were hired for a specific purpose. It is very clear that there was nothing else linking them to the company but a contractual relationship. When they finish their contract, they will move on. Of course, we hope to retain them. [...] Some of them leave for a higher salary. The others, like our previous GM – he had made enough money, so he went back to his home town. Compared with them, we are ‘dwellers’. The relationship between us and the company is more than an employer-employee relationship. Although there is no lifetime employment any more, if we don’t want to leave, no one will kick us out” (Director of Finance and Accounting Department, New Yard and Old Yard, NSG).

The explanation highlights the mobility of professional managers and the long-term commitment between the native managerial staff and the company that they serve. Similar comments could also be heard from JSG and YSG. The main informant in JSG suggested that behind the mutual commitment lies the patronage that the company provides to native managerial staff:

“Nowadays, people become more and more realistic and often fail to resist temptation from outside. If a company offers someone 200,000 RMB a year, which doubles the salary that he could earn here, most likely he would ignore the risks in the market. We have seen so many people leaving us for a higher salary who shortly afterwards lost their job. If they had stayed on, they might have made less, but they could have secured their rice bowl in the long run. For staff who have worked in the company for many years, the company would never sack them even at a difficult time. I should put it in this way: we work for the company, the company will look after us. This is not business, it is tradition” (Head of Personnel Management Department, JSG).

Implied in the above comments, long-term commitment is considered the key criterion that determines who the “own people” of the company are. However, the fact that most non-local managers failed to satisfy this criterion, as opposed to the “loyalty” shown on the native side has given rise to the impression that the factor of geographical origin is probably an important indicator of employee “loyalty”.

The criteria imposed on professional managers regarding performance is different from those on native managers. Professional managers are under more pressure in respect of

short-term targets. The practice in YSG suggests that professional managers are expected to make significant changes and contributions within three months, counting from the date they report for duty. Failure to meet this criterion will lead to immediate termination of the labour contract, sometimes even without notifying the contracted party beforehand. This kind of short-term expectation undermines the foundation of any long-term cooperation between professional managers and the employer. Meanwhile native managers are treated less rigidly. The tests on them are normally long-term and underperformance on their part leads not to immediate dismissal but very probably to demotion.

**Second, local/non-local relationship.** Informants from all three companies denied any conflicts ever existing between staff of local and non-local origins and attributed the dominance of local personnel in management to external factors and the characteristics of the company at the time, the consequences of the preference for local managers. The answers from a senior informant in NSG represent the opinion from the employer's perspective:

*Q: How would you explain the personnel structure of current management team?*

A: At the present time, all senior and top management have been serving the company for many years. Of course, we hired experts from outside. For us, their contribution to our company is significant – they introduced new ideas and good management methods, in particular, production management. So, during the last couple of years, our company has always been in a condition of change. Now, we have arrived at a new stage and are faced by new tasks. Almost all the external experts left when their contracts expired, except for one who renewed his contract with us. We have faith in our current management team because we know each other very well, which helps us to keep a high degree of conformity in action.

*Q: Does that mean the company prefers local managers?*

A: I wouldn't agree that it does. It is a phenomenon caused by many factors; it doesn't lead to the answer that our company favours local people. Similarly, we have been treating every staff member equally in terms of career development and pay level. No difference between local and non-local. The statistics might be misleading when the absolute total of local staff is much higher than non-local staff.

*Q: Would this fact lead to a corporate culture featuring a significant local bias?*

A: it is possible. But I feel that a company's culture should largely be a culture about production, about product, or decision-making. Whether it is local or non-local doesn't matter that much (Vice Chairman of the Board, NSG).

However, the practices were found to deviate from the espoused principles of equality in some specific aspects. An informant in YSG stressed the gap between the employer's perception and the situation in practice:

“At the new site of YSG, our management team is composed of people from different places, such as Dalian, Shanghai, Jingjiang and so on. Some people complained that we have discriminated against non-local people. That's absolute nonsense. Our GM used to say that nobody is privileged in the company; the difference between him and

us is just the work in which we are engaged. We all agree with this point. But in daily life, we do find that people join up according to geographical origin; to put it in their words, we now have the gang of Jingjiang, the gang of Jiangying, the gang of Shanghai, the gang of Dalian, etc.” (Section Chief of Human Resources Management Department, New Yard, YSG).

In addition, the companies’ equal principles also face a challenge brought by the differences between institutional factors in different administrative regions. To take social insurance policies as an example, the calculation of each specific item within the insurance (pension, health and care insurance, housing funding, unemployment insurance, work injury insurance and maternity insurance) is different in different parts of the region. Therefore, to employ a non-local manager means a more complicated procedure in terms of residential registration, different salary standards, different social insurance and different regional laws and regulations to apply<sup>21</sup>. All these factors together add up to managers’ views being disconnected from those of the company.

**Third, the managerial consequences of corporate culture.** In fact, the dominance of local personnel in a management team inevitably leads to tendency in favour of a localized corporate culture, revealed by the exclusive use of local dialects in communication, a less formal atmosphere between supervisors and subordinates and complicated social connections between employees. Its managerial consequences are mixed. On the one hand, it builds solidarity among most of the managerial staff and strengthens the authority of the top leadership. As suggested by senior informants, the smooth implementation of the ownership restructuring should largely be attributed to the “values of a big family” advocated by the corporate culture, in which the company is likened to a family and individuals as family members should unconditionally support the decisions made by the head of the family. On the other hand, it is regarded as the source of resistance to the further modernization of the management system. In NSG, personal relationships pose serious problems for management. An example provided by one of the main informants illustrates this issue very well:

“In an enterprise with a long history, most employees are linked with each other by some sort of social relationship. Often, the whole family of an employee is working in the company. For example, the father is working as the director of the pipe processing workshop; his son is a frontline supervisor in steel fabrication department; and his daughter-in-law is an accountant in the finance and accounting department. If you want to dig deeper, you may find other people are also connected with them, such as good friends, relatives, old schoolmates and so on. Mostly, when we launch a new management policy, let’s say performance management, even it only concerns one or two departments, we will be under pressure from other departments, given the social network between them. It is a chain. In addition, even dealing with an average staff

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<sup>21</sup> To employ non-local people without changing their residential registration, two common solutions are often adopted by employers – hiring the staff through local subsidiaries or through a “third-party employment” service provided by professional HR firms.

member could be a very tough task, given his underlying network. Never underestimate the destructive force of anyone. That's why, to manage a company like ours, 70% of the time and effort have to be spent on balancing all kinds of social relationships. Looking back on our talent strategy, the reason we hired external experts is two-fold. First of all, we did need new management knowledge from them; but, more importantly, they were expected to sort out the interference capacity of social relationships. Most of the managerial staff, have been working with our Chairman for many years. They are attached to him. When the enterprise took off, it became difficult for the Chairman to manage them directly, due to the longstanding connection between them. But external experts can break through this restraint, helping us to achieve the stage of managing through rules and regulations" (Director of Finance and Accounting Department, New Yard and Old Yard, NSG)

The informants in YSG and JSG mentioned the same problem of the interaction between social relationships and management system. They elaborated on this issue by more personal experience. The examples in JSG highlight the dilemmas that individual managers faced when their personal interest clashed with the general interests of the company, whereas the YSG examples concern the blurred boundary between personal life and work life. Although the chairman of YSG appealed openly to keep managers' private lives separate from their jobs, managers' family affairs were repeatedly brought up in formal discussions at management meetings. And, it isn't unusual for managers or their family members to seek advice or support from their supervisor regarding personal matters which have arisen outside working hours. Seniority is still widely respected in the companies, especially in plans for succession at middle and senior level, which triggers discontent among younger managers.

All the examples point to the inseparability of private life from work life in enterprises of this kind, whose management is experiencing the transition from a traditional and locally focused system to a market-based modern system.

**Fourth and finally, industrial relations.** Although its full function is still preserved in all three companies, the trade union has been widely regarded as an insignificant welfare department which is gradually losing ground. The appointment of the chairman of the trade union encapsulates its awkward status in these privatized enterprises. In YSG, the position of chairman is undertaken by the head of the human resources department and she concurrently holds the position of vice general manager:

"At that time, everybody agreed that I was the best choice for this position, because my experience and seniority made me suitable. And also they felt that it was a smart arrangement: not only could it make the HR department work more but also avoid the need to add extra hands" (Head of Human Resource Department and Vice-general Manager, New Yard and Old Yard, YSG).

In NSG and JSG, the chairmen of the trade union also hold more than one position at senior or middle management level. The fact that contradictions and conflicts inevitably lie between

the responsibility to represent employees and to performing the duties of management discounts the effectiveness of the trade union in some of its basic tasks, such as collective wage consultations. As the chairman of the trade union of YSG stated, the optimum outcome is not only to safeguard the interests of the company but also protect employees' rights, but this becomes almost mission impossible when the management strategy of the company becomes more and more profit-centred:

“We have to be more realistic. We are no longer providing extra welfare to the employees, such as a transportation allowance, because we think that if employees want to work here, they should be prepared for the problems they might encounter. They should be able to solve their own transportation problems. From our end, we have been trying our best to negotiate with our boss [the chairman], asking for better welfare for them. But the company is not an SOE any more; we have to consider the cost and profit. I am the chairman of the trade union, I ought to stand on the employees' side, but I cannot help them unless our boss approves our proposal” (Head of Human Resource Department and Vice-general Manager, New Yard and Old Yard, YSG).

From the perspective of management, the trade union is expected to act as a useful instrument for consolidating public feeling and buffering the antagonism between labour and capital. In addition, it supplements the formal management functions by organising blood donations, fundraising, skill competitions, recreational activities and all kinds of events related to public relations. Picture 5 shows the blood donation event organised by the trade union of NSG.



Picture 5: Blood donation event in NSG.

## 7.8 Conclusion

This chapter looks at the management and managerial work in the type of private enterprise that emerged from an SOE and was privatised through several rounds of ownership reform, including MBO. Accompanying the ownership transformation, management adjustment, the technological re-engineering of the production system and remodelling of the organisational structure were introduced to propel the firms' transition to a market oriented modern manufacturing enterprise. Although in some respects the firms are still speaking the language of SOE, for example, the continuing use of some old-fashioned job titles, the remaining classic SOE interpretation of certain views on people management and the existence of political work organs (i.e., the Party Committee, trade union, the committee of the Youth League and the Women's Federation), the actual management policies and practices point to the adverse fact that the firms' roots of management in an SOE have been undermined and their purpose in wearing the 'SOE coat' is in some ways either a sign of inertia in top or senior management or a tactic to create a nostalgic and employee-friendly atmosphere so as to buffer the conflicts caused by the organisational changes.

Evidence shows that the managerial work has undergone profound changes within this context. Apart from the changes in the managerial job itself, including the job requirements and content, the identity of the people who occupy management positions and the way that they undertake their job have also changed. The managers' group derived from the cadre category, but each of them is attached to different roles in the workplace, with manager now being a professional category and cadre having a marked political meaning as well as indicating a position or status at work. The identity shift from cadre to manager featured more preference policies for managerial staff, in particular on the areas payment and financial incentives. Technology and the re-engineering of the production system were found to play an important role in the emerging process of manager as a profession in the sense that new values and criteria in judging managerial staff performance were determined and enforced by these innovations, while the importance of some traditional values was downgraded in the assessment. Apart from the changes on the nature of the manager's job, his subjective experience of life at work is also changed; the sense of inequity and of job insecurity intensifies among employees as the reforming programmes continue.

In general, these changes support what LPT argued about the role and function of technology in the capitalist production mode. Moreover, the development trends found so far in the case study firms in management and production suggest that the firms will keep pursuing this mode to achieve continuous improvements in production and cost efficiency.

However, the transition from SOE production mode to market oriented capitalist production



mode inevitably involves conflicts and compromises between two different economic systems. Evidence shown in this study indicates that that people's social behaviour could severely disrupt the manager's task, but in the meanwhile managers also rely on interpersonal social interaction to survive the changes in the environment and secure their jobs. This issue manifests itself in several significant ways: the differentiation between the managers who form relationships based on geographical origin and those who form occupational relationships; the impediments of informal social groups to the implementation of new management policies; the interference of individual relationships in managers' judgement and the informal channels based on relationships through which information travels. Thus, the social aspects of managerial life in the workplace are still functioning in Chaxugeju and follow its rules, whether supporting or opposing the course of economic evolution in the firms. Broadly speaking, both LPT and Chaxugeju throw light on the changes in managerial work and managerial life in the transition process of these three case study firms.

Having studied the management and managerial work in the SOE privatised enterprises in this chapter, the next chapter investigates management and managerial work in the type of private firm that originated from a small family business. The smaller size of firms, fewer employees and simpler structure in firm organisation and management may present uniqueness in the forms of management and managerial work.

## **Chapter Eight: Managing in a family business – the case of ASG and HSG**

### **8.1 Introduction**

Following the same criterion of classification as Chapter Seven, this chapter concerns two private firms with the same ownership origin, that is, a family business. The chapter uses the same structure as Chapters Six and Seven and the findings of the case study are organised and presented by themes, as theirs were. In order to deepen the understanding of the management and managerial work in the case study companies, these two firms are also compared with one another.

### **8.2 Management system**

Having completed the expansion projects, both ASG and HSG have reached a stage of steady increase in their output and profit. However, both of them believe that the management system needs continuous improvement so as to sustain the development of the enterprises. As defined by the general manager of ASG, the current management system is obviously lagging behind:

“I feel it might not be suitable to call our enterprise ‘a company’. Although it has passed the stage of accumulating capital funds, the enterprise is still at an early stage of development in terms of management. At least I don’t think it has become a modern corporation” (General Manager, ASG).

On the one hand, this immaturity is regarded as an unavoidable phrase in the process of transforming from a small business to a medium enterprise; on the other, external factors are believed to have a serious impact on the construction of a management mechanism:

“We started as an outsourcing business, working for large SOEs for over 10 years. At that time, we were just a group of workers led by a head contractor, with no formal organisation or formal management unit established. Gradually, our business expanded from pure steel fabricating to other related equipment building and we finally started to build complete ships. Then we registered as a company in 2006. We have always followed the market. And we made product and production issues our priority. Previously, we didn’t really get time to think about management issues; the only thing we thought about was how to survive, although we were aware of the importance of management, such as human resources management” (General Manager, HSG).

In general, the organisational structure and management machinery in ASG and HSG share some basic characteristics, including a simple organisational structure with very few functional departments, a less formalized and normalized management infrastructure (e.g., rules and regulations, procedures and process) and a comprehensive administration unit with roughly defined responsibilities to cover the entire management function. As suggested

by the senior informants of both companies, the simple organisational structure fits well with the production system and therefore should be maintained, but the management infrastructure is still far from satisfactory and is yet to be constructed and standardized. In practice, the companies have devoted intense effort to this task, but the actual implementation of new policies, regulations and procedures encountered some degree of resistance, which, to a large extent, was attributed to the rationale of a family business. To deal with this problem, ASG emphasized the need to change the management culture through diluting its family ownership:

“In the long run, we hope that this enterprise will not be owned by our family. We plan to absorb key management personnel or our business partners into the shareholder group so that the family ownership can be diluted. I don’t care where these people or organisations come from, possibly domestic, possibly from abroad, possibly external experts, or senior managers who have been serving our enterprise for a long time. The most important thing is they will constitute a **complete company**. From my own point of view, I will withdraw from being in direct charge, because I have found that my expertise and knowledge are not sufficient to guide the future of the company. I guess three years from now I will have to pass this responsibility on to others. By that time, we will be free from the limitations of being a family business and won’t be bound by a family’s culture, values and responsibilities, etc.” (General Manager, ASG).

Unlike ASG, HSG’s solution left the ownership issue untouched but stresses the need to construct a diversified management team and avoid the involvement of family members in managing the company. Management experts and technical personnel were hired from the job market, most of them with a rich SOE background. The shareholders’ family members and relatives have been obliged to resign from managerial positions over the last three years. So far, all of them have left the company, which was considered a sign that the company was being detached from its roots as a family business. The top management of the company also announced a policy never to consider shareholders’ family members and relatives in the succession plan for managerial positions at any level.

Both of the companies addressed the fact that management improvements and programme changes cannot all be completed at once; it has to be a long-term process that involves negotiations between different interest groups, internal and external factors and culture systems, which manifest themselves in practices as complicated phenomena with mixed features.

### **8.3 People management: loyalty must be at the top of the list**

ASG’s people management has been combined with its long-term strategy to pursue less cost, greater efficiency and higher profit. A detailed account was provided by the general manager of ASG to justify the firm’s strategy, in which issues related to labour, technology and production were synthesized:

“The practice of compressing the scale [of our staff] is very closely related to our development strategy. You may feel that at 2,500 employees the enterprise is far from being overstaffed, but compared with its peer group average in advanced countries, such as Japanese shipyards of this kind, the labour force we hire is at least five times as big. I visited several Japanese shipyards; with one-fifth of our labour force and one-fifth of our footprint, they could produce the same output, or even higher than ours. It is awe-inspiring. I realize that we should pursue this model and we should set it as the indicator of our target. Meanwhile, from the perspective of risk control, a larger scale doesn't mean less risk in the shipbuilding industry; sometimes, it can even lead to higher risk. My father entered the shipbuilding business in the early 1990s. He experienced both downturn and peak time in the industry from then on. So he understands the risk and agrees on my strategy of compressing the scale, improving the productivity and replacing workers with machines. In addition, the labour cost is a crucial factor for us to take into account. In the early '90s, the labour cost was 2 to 2.5 Yuan per hour per worker. By last year [2008], the price had risen to 12 Yuan per hour per worker. This only covers the direct labour cost; the indirect part, for instance, work injury compensation, isn't included. If you count in the indirect labour cost imposed by the new labour contract law, which is for insurance, the average hourly cost would reach 15 Yuan [per hour per person], about five to six times what it was in my father's time. That's why reducing staff size is an inexorable trend. In the long run, we are expecting to reduce the aggregate staff number of our three shipyards to 1,200. That's still to 2.5 times the total in those Japanese shipyards. I think it is a realistic goal, because the quality difference between the Chinese worker and Japanese worker cannot be made up in the short term. But technology could help to make a big difference in a short time. On a global scale, China's low cost labour advantage in manufacturing industry is faced by the increasing challenge from other emerging economies, for example, Vietnam, India and the African countries which provide cheaper labour. To enhance the competitive advantage under conditions of rising labour costs, using more machines and fewer workers must be a solution for Chinese manufacturing enterprises” (General Manager, ASG).

Similarly, HSG has shifted its attention from its previous focus on investing more in recruitment and training to purchasing more advanced machinery. The reason behind this strategic choice lies in the fact that the production of the company was under threat from the increase in the mobility of external labour:

“This year the situation is not too bad; but in previous years, when the market was still prosperous, the job-hopping was crazy. Both managers and workers moved frequently from one shipyard to another. It pushed salaries to an irrational level. Now especially, since after the promulgation of a new labour contract law, the mobility of workers in the market is shocking and workers have quickly become far more consciousness of safeguarding their legal rights. Employers like us were dragged into difficulties by the changes in the provisions. It is unfair to us. For example, we hired college graduates and signed formal labour contracts with them, stating that we provided three months' training for them and in return they should work for us for a certain period. But, by the end of the day, they could just break the contract after the training without fulfilling their obligations or paying any penalty, because the labour contract law doesn't provide any protection to employers. So, we got into a situation of investing in training at least 1,200 new workers, trained them and then watched them leave for a better-paid job. Under the current labour law we could do nothing to remedy it. So, we have had to adjust our hiring strategy and reply on other factors to reduce the risk and cost” (General Manager, HSG).

The key words consistently highlighted in the conversation with senior informants in both

companies regarding the advantages of machinery over human beings were, for example, zero absenteeism, stable performance, zero fatigue and discomfort and zero invisible cost; these suggest the companies' desire to pursue a stable and reliable labour force. In recruitment, ASG follows several principles to make sure the right person is being hired. First, for all managerial positions, the general manager conducts the final round of interviews and makes the final decision. Second, loyalty and moral standards are viewed as the primary criteria by which to judge a candidate. The company explicitly stated that those who had changed jobs more than three times would not be considered, even if their expertise was on the 'most needed' list. Third, candidates who have social connections with the company are preferred, for example, those recommended by current employees. The practices at HSG are slightly different. Apart from the similar rigid selection procedure and criteria, the company tends to employ more mature personnel as a remedy for managerial staff turnover. In recent years, the company has favoured retired experts or those who are at a late stage in their career. Moreover, the company emphasized that they do not follow the fashion for poaching talent from other companies. The long term perspective urges both companies to stick to the strategy of growing their own people, which is reflected in the employee statistics that the managerial staff who have been working for them since their early career and who have been promoted from the front line are their mainstay . As the general manager of ASG claimed, once a person is hired, the company would not fire him, unless he errs in matters of principle.

Consistent with the recruitment principles, the pay strategy of both companies is found to be long-term oriented. The salary level stands at the average for the industry. But the companies try to draw their employees' attention to the long-term benefits:

“I told my managers and my workers that if you think the company would exist only for one year, it is reasonable for you to bargain with me for one year's payment. If you believe that ASG would exist for another 10 to 20 years, you should calculate the aggregate income over this ten-year period and then evaluate the financial value of this job. I ask each candidate in the interview to consider overall how much he can make, not only in the present year, but next year, the year after next ... I assure them of the vitality of our enterprise” (General Manager, ASG).

In practice, ASG provided an annual average pay rise of 10% of for non-managerial staff over the last 6 years (2002-2008) and a 5% annual pay rise for managerial staff, which earned it the employees' confidence. The intention was also to create an environment promoting an atmosphere of relative equality. Since there is a big gap between the worker's and the manager's salary base – for example, the salary for an average employee is around 30,000 Yuan per year, but for an middle manager, it reaches 200,000 Yuan per year - a high pay rise for average employees would not provoke discontent from the managers group, but could reassure average employees that the company was trying its best to raise their

income and gradually fill the gap between managerial and non-managerial staff.

The top management of HSG expressed a similar idea underlying its pay strategy, which aims to obtain employee commitment from both managerial and non-managerial staff. However, due to its shorter history, the efficacy of this similar pay strategy in HSG is less significant than that in ASG, which is reflected in the statistics on employee turnover showing that ASG enjoys the lowest staff turnover rate in the entire industry, whilst HSG still suffers from instability in both middle management and frontline workers.

#### **8.4 Managerial job: normalized hardship**

The hardship in managerial jobs in the shipbuilding industry lies in the long working hours, heavy workload and tough working conditions. Conditions in ASG and HSG cannot be exempt from these common features. In ASG, managerial staff must work 7 days a week, non-stop throughout the year, except for the national day, New Year's Day and the Spring Festival. However, even these holidays were often occupied by tight production schedules. It is taken for granted that all managers on an annual salary have an obligation to keep continuously at work and should not expect to be paid overtime. HSG makes no explicit announcement that managerial staff should work on Saturdays and Sundays, but most managerial staff have to work during the weekend, according to fieldwork observations. According to the general manager of ASG, this kind of practice prevails in both domestic and overseas shipbuilding companies:

“We don't know the practice in the U.S., but in Singapore and Japan, at least, managerial staff has a maximum of one day off per week. Of course, this is only in theory; in practice, the managers don't have much chance to enjoy that day off. For us, our shipyard is running all the time, so our people are working every day. Except for sick leave, all the rest of the time they work regular shifts” (General Manager, ASG).

The workload on each managerial staff member in ASG has increased with the ever-growing business and yet the size of management team, which accounts for less than 4.7% of the employees working on the site, is rigidly controlled. Since the management at the front line is considered the core of production, most of the managerial staff work on the spot, in particular those in production and quality control departments. In HSG, managerial staff amounts to 6.5% of all employees. With sales growing rapidly, managers are also faced by a tighter production schedule.

In both companies, managerial staff are required to have hands-on knowledge of the jobs under their supervision. In production departments, managers must not only need monitor each worker's quality of work, but also offer field coaching to subordinates. During the plant tours to ASG and HSG, a common sight was middle managers engaging in patrols around

the site to check the progress and working status at the front line. On occasion, middle managers were seen coaching the workers by demonstration. As a rule, frontline managers take the responsibility of guiding actual practices. Both companies admit that managers of production departments at all levels are required to attend the skill training sessions offered by equipment manufacturers, normally scheduled shortly after the purchase and instalment of the machinery. Since both companies organise no additional technical training, this kind of learning opportunity has become very precious. For non-production managers, general knowledge about the shipbuilding industry and actual production processes is compulsory. Thus, most of them were selected from production departments. Apart from technical training, no management training has ever been organised in ASG; HSG, in contrast, has provided it. For example, last year (2008) the company invited a professional trainer to conduct a workshop on soft skills in management. But this was regarded as exceptional, since no follow-up activities were ever scheduled.

The information collected from the administrative department shows that no formal career development scheme has ever been introduced. Both ASG and HSG claimed that their top management were aware of the importance of speeding up the development of talent through facilitating self-development for managers. However, this cannot succeed unless it is underpinned by a mature mechanism of human resources management and practical regulations and policies. At present, both companies are still in the early stages of constructing their management machinery and the more traditional values and criteria are favoured. Thus, personal qualities, for example, seniority, interpersonal relationships, personal qualities, and social networks, could play as important a role as competence and skill; however, educational background is not considered critical to one's career path.

### **8.5 Control: self-discipline, centralized power and surveillance by the masses**

Under the current management system, neither systematic procedures and methods nor specific regulations and policies have been developed to exert control on managerial behaviour in either of these case study companies. Gaps and deficiencies exposed in the conduct of managerial jobs and in evaluating and managing the quality of management are filled either by individual judgment or some informal mechanism. In the words of the general manager of ASG, the use of informal mechanisms is vital for the smooth operation of the company:

“For a complete company, for example, a bank or a big SOE, its business operation does not depend on individuals, but is based on a system. They can lose anyone without affecting the business. In other words, no-one's departure will disrupt the work of the company as a whole or in part. Everyone's job and responsibilities are clearly defined; they have well designed mechanisms to expose managerial underperformance and misconduct; and they have formulated detailed rules to discipline the relevant

person for each responsibility. So, their management is system-driven. Obviously, our management hasn't reached that point yet. Often we found ourselves in a situation of having no standard procedures and guidelines to refer to. We have to rely on our managers to drive the management function. In other words, ours is **people-driven**. It is the managerial staff that determine the outcome of our management, not the system. That's why managers' treatment of the same problem could vary considerably. We have cases where two workers have made the same mistake, but one was fined only 100 Yuan and the other was fired. It seems irrational from the angle of modern management theories, but actually it reflects the nature of our Chinese management – we are pursuing a balanced status where all the relevant factors can be taken into consideration and an acceptable conclusion reached. A lot of complicated factors, job-related, family-related, social relationships, managers' individual competence, personal factors [...] work together. It is hard to tell whether it is good or bad, fair or unfair, efficient or inefficient; it is the way that we think and we behave" (General Manager, ASG).

Highlighted in the above comments are the uncertainties contained in the current management system and the absence of a formal control mechanism over managerial staff. Moreover, it implies the strong influence of traditional managerial ideologies upon managerial behaviour. Fostering a manager's self-discipline is believed to be the best way of preventing managerial misconduct. Top management in both companies has been making an effort to educate their managers and to help them to strengthen their moral awareness and sense of right and wrong at work; this effort was seen, to a large extent, through informal and private activities, such as using oneself as an example, shown below:

"My managers know very well what they should do and what they shouldn't. We had a lot of communication about this issue. When we have lunch or drink tea together, I tell them in a relaxed atmosphere what I expect and what the bottom line of the company is. They all understand what I mean. I don't think contractual stuff could work well; things like signing an anti-corruption agreement with their managers, as they used to do in SOEs, is basically useless. Helping them to understand their position and their obligations, winning their trust and being open and honest with them are much more useful. I still believe that someone with these basic values – propriety, right behaviour, integrity and honour – won't make big mistakes either in work or in life. Normally, I choose to trust them. Of course, they should be absolutely honest with me. For example, if they receive any gifts, they tell me and bring them to me. And I give these gifts back to them. We are working in the same company; whether boss or subordinate, we must behave in this way so that we can trust each other" (General Manager, ASG).

Meanwhile, power is concentrated at the top. In ASG, decisions are made by the general manager together with the chairman; whilst in HSG, although all three shareholders take part in the daily operations and each takes charge of one shipyard, any important matters have to be approved by the biggest shareholder. In ASG, the general manager carries out all financial examinations and gives or withholds approval. Without his endorsement, no funds can be spent in any case. In HSG, only the "three big heads" can approve expenses. Top managers in both case study companies fix four time slots per month for the batch treatment of finance-related applications. Outside these fixed times, no applications can be processed, even in the most urgent cases. Given all these practices, the chairman of HSG commented



on his role in management control:

“At this stage, my role can be best described as an inspector and repairer. In our current management, loopholes are inevitable. If some parts of the mechanism were flawed, I would step forward to sort them out. When they were improved, I would hand them over to someone else. In the long term, we will distribute the power to managers according to their expertise and position. But at this moment, I have to ...” (Chairman, HSG).

In addition to self-discipline among managers and monitoring and control from above, an employee appeal mechanism from below supplements the control on managerial behaviour. In ASG, the onsite management unit in the production department is responsible for collecting employees' complaints and queries in relation to management and managerial behaviour, among which the important cases are handled directly by the general manager; the others are dealt with by the head of the production department. In HSG, the task is assigned to the comprehensive administration department; similarly, top management reserves the right of final decision in important cases. The informants from both companies stated that the introduction of this mechanism allowed the company to observe managers from a different angle and enhanced its control over them.

#### **8.6 Incentive: seeking a sanctuary in a material world**

It is no surprise to find that monetary reward plays the most important part in the incentive schemes of both case study companies, which is closely related to the employer's perception that what drives managers most is money. Thus, apart from direct income items, for instance, salary, project bonuses, annual bonuses, both companies designed compound welfare schemes for key managerial personnel. In ASG, managers at middle level and above are given extra allowances, including an allowance for purchasing a house, a car, and children's education; these increase in line with a manager's seniority in the company. In some cases, senior managers were awarded free flats and cars for their loyalty and contribution. HSG's compensation schemes covered most of the items introduced in ASG, except for house and car purchase. The top management of the company has envisaged building flats and houses for managerial staff, which it will put into practice in the next two years. As the chairman of HSG claimed, the welfare competition in the industry is the norm; if other companies provide certain facilities, HSG will have to follow. Otherwise, it is very likely that the company will have difficulty in motivating and retaining staff.

However, statements from the managers suggest that they are not simply responding to financial incentives but to a combination of connected conditions. An informant in ASG cited examples in the industry to explain the critical elements of a job that concern managers:

“The former assistant director of the production department of Kawasaki [Nantong COSCO Kawasaki Ship Engineering Co., Ltd.] joined a private company last year, with the position of vice general manager and 600,000 Yuan annual compensation. Early this year, he resigned from that company. He had been there less than a year. I think he shouldn't have left Kawasaki in the first place. Moving from Kawasaki to that private company, he suffered not only a financial loss, but also the networks and resources he could draw on in that position, let alone the invisible income. A high salary is attractive, but we have to ask ourselves 'Is luck on our side? Are we doing well? How long can we keep it up?' In the most recent case, a company nearby poached a production manager from JSG and promised him one million Yuan a year. However, at the end of the year, the guy was told that he could only get a half million because the financial performance of the company wasn't satisfactory. OK, this kind of example is too common nowadays. In a private company, the boss can fire you for no reason; he can also make life very difficult for you. Every time we heard about this kind of thing, we felt that we were so lucky to work here. Our boss is a very human person, considerate of others. We have been on middle management level since 1992. Back then, we were already making 100,000 Yuan a year. Very high salary at that time. Up until last year [2008], our average annual salary increased to 250,000 Yuan. Maybe it is just the average level in the industry, but taking into account the last 16 year of 'stable income, who would give up such a job?' (Administrative manager, Comprehensive Administration Department, ASG).

Similar accounts were heard from other informants, too. Apart from monetary reward, job security, the internal working environment and external conditions were repeatedly nominated as the major reasons that could secure managers' commitment and maintain their morale at work; while the way in which the employer interacts with managerial staff is an add-on component of the other four factors and often plays a decisive role in managers' choices.

### **8.7 Relationships: simulated family relationships and individual based loyalty**

As suggested by the information gathered from interviews and observation, the relationship between managers and the company should be explored at two different levels, the relationships at collective level and those at individual level, so that a complete picture can emerge.

At collective level, there are no indications that organized activities, for instance, collective bargaining, have been adopted by managerial staff in dealing with employers. The employer's account of this issue attributes it to the sustained, rapid and healthy development of the enterprise:

“Our enterprise has been in a good state of development since 2002; that's why the conflict [between capital and labour] is not significant. But, if we were going down and needed to reduce wages, then you would see a problem. At this moment, we are increasing employees' income every year. It is unnecessary for them to [...]” (Administrative manager, Comprehensive Administration Department, ASG).

The account given by managers suggests that the absence of a valid organisation to represent employees is the reason that people can hold out no hope of collective action.

Although the administrative organ of an enterprise trade union has been established in both the case study companies, following the formal procedure prescribed by <The Trade Union Law of the People's Republic of China (Trade Union Law)>, no substantial functions have been performed so far, except paying sympathy visits to staff in trouble. All informants believe that a trade union is an affiliated and ornamental unit of their enterprise:

“So far, a trade union is still a decoration. At least in Chinese enterprises, it hasn't been given equal status. According to the trade union law and trade union accounting system, an enterprise should allocate 2% of the total amount of employees' salary in the previous year as trade union funds. This is why I said the Chinese trade union is not independent from the enterprise” (General Manager, ASG).

Some of the informants linked it to a consideration of the financing and cost of the enterprise:

“For us, it is compulsory to establish a trade union; otherwise, it will result in certain financial problems. Small firms don't need to have a trade union set up, but the trade union funds and membership fees must be handed to the federation of trade unions of the local government. In this case, we might as well establish our own trade union and spend the funds on our employees. In addition, the trade union funds can be deducted before deducting enterprise income tax, which helps to reduce costs a bit. In our daily operation, employee disputes are handled by personnel management people, not by a trade union. You know the conditions in China, a trade union is useless. As we understand it, it is a welfare unit of our enterprise. It is very difficult for them to solve pay wage issues and labour protection issues through a trade union” (General Manager, HSG).

Similarly, the administrative organs of other organisations, including the Party Branch and Branch of the Communist Youth League, are all established in the companies, but their operations are all very limited. Given this situation, work relationships in both companies are coordinated through activities at the individual level. Accordingly, the issues concerning managers in this respect revolve around two interrelated questions: how the work relationships are defined and how they are reconciled.

The work relationships in both case study companies are influenced by a strongly familial atmosphere. Parallel with managers' official position and administrative rank lies the informal organisation that locates managers in a social network where owners sit at the centre. Managers were divided into different groups according to the degree of their intimacy with the owners, which exerted a significant effect on their daily cooperation at work. In the case of ASG, there is a clear line between the general managers' campaign and the chairman's campaign. The father-son relationship between the chairman and the general manager is extended to influence their roles and those of their subordinates at work. As the general manager put it, the senior managers who have been working for his father for many years may be regarded as the elders in his family and should be treated with respect. He personally would not confront them if they were involved in any issue; instead, he would

hand over the case to the chairman, regardless of their different report line. The cooperation between managers matches the pattern of their social interaction, in which the quality of the interpersonal relationship directly impacts on the outcome of the job.

In HSG, “brotherhood” is the term used by the main investors to evoke relationship between them. The brotherly feeling was developed during their cooperation in the previous company and was brought into the new company. Although the top managers did not promote this kind of social interaction intentionally, the managerial staff started to emulate their relationship skills and introduced them into their daily working life as a basis for reconciling conflicts and promoting tolerance in the workplace.

In the same way, family related activities are used instrumentally to narrow the gap between owners and managers and create harmonious family-like relationships. Informants nominated several routine activities at work:

“For example, if a manager gets married, our boss will normally give him a red envelope; the amount varies, but a minimum 2,000 Yuan. Of course, it is a personal gift from our boss. The company will give him something else” (Production Manager, HSG).

“During certain important festivals, such as the Mid-Autumn festival and the Spring Festival, our boss [the general manager] will invite some managers and their spouses to have dinner with his family. We are very happy to have this kind of chance. Each time, only a few of us were invited. [...] The first year I joined the company, I was recommended by my friend; my boss and his wife invited me and my wife to his villa for a weekend. This vacation changed my impression about private owners and from then on, I believed that I had a good job here” (Chief Engineer, ASG).

“Last year, we organised holidays for our managers. Our boss [the general manager] and his wife joined two of the parties. This kind of group activity helped a lot in improving the relationship between managers” (Administrative manager, Comprehensive Administration Department, ASG)

Through all sorts of social activities at individual level, the companies sought to strengthen the ties between them and their managerial staff. However, managerial staff tend to take it in a more personal way – rather than committing themselves to the company they are serving, they instead gave more credit to the interpersonal relationship with their owner managers and expressed loyalty to them, because most of them equate the company with its owner managers and consider there is no difference between the interests of the company and the interests of its owner.

## **8.8 Conclusion**

This chapter presented a study of the management and managerial work in the type of private enterprise which still retains most of the significant features of a family business and has relied on technological advancement to drive the growth in its productivity. The rigid

production management presents a striking contrast to the 'loose' administrative and personnel management (i.e., the production supportive management system). But these two aspects are not diametrically opposed. Rather, they complement each other – the upgraded production system helped the firms to make the leap in production although with less manpower; changes on managerial jobs were imposed, while the supportive management system helped to accommodate the changes and reduce the resulting negative effects on the managers' lives at work.

It is clear that the management ideology and the actual implementation of the production system in the case study firms correspond to LPT's core theses, in particular, the classic theory of the individual's role and that of technology in production. But with regard to the remainder of the management system and managerial life within it, LPT seems too simple to account for their complexity. Although both the case study firms have tried to move away from family management through, for instance, diluting family ownership and/or limiting the part played by the family in managing, their bases have not fundamentally changed. Informality is rooted in the implementation of management rules and regulations; high uncertainty in decision-making is the result of the concentration of power in the hands of the owner managers; clear conceptions of traditional values are contained in the firms' policies and practices for personnel management. In this sense, the Chaxugeju perspective provides a better insight into managerial life in such a context: managers rely on social interactions to fend off the sense of job insecurity; firms depend on a fictive traditional kinship to secure managers' loyalty and commitment to their work; individual and privately based social interaction acts as the main medium to enhance the employer-employee connection. Thus the case shows that the social aspects of managerial life serve as the foundation on which firms can load harsh changes on production managers. Although the managerial job itself evolves with the mode of production and technology, managers' behaviour as well as the firms' people management still follows the principles in Chaxugeju.

Having studied the management and managerial work in the family business originated private enterprises in this chapter, the next chapter focuses on management and managerial work in a newly established private firm which came from the most market-oriented category of China's private enterprises. Although its development has the shortest history among the studied firms, its evolution contains even more complicated corporate restructuring exercises, restructuring of the organisational structure and accompanying management adjustments. The managerial work in such circumstances is thus experiencing profound changes, too.

## **Chapter Nine: Managing in a company based on private investment: the case of CSG**

### **9.1 Introduction**

While Chapters Six, Seven and Eight explored in turn the management and managerial work in three different types of Chinese private enterprise, this chapter aims to present the case of the fourth and last type, that is, a company founded by private investment. This is the longest and most detailed case of all four. Again, the structure of the chapter and the main themes adopted remain identical with those of the previous three chapters, but a few of subsumed issues are relocated to fit the specific conditions of the case study company and to maintain the relevance and coherence of the chapter.

### **9.2 Management during a time of constant change**

CSG's unusual development path – becoming extra large and growing extremely fast – although justified as a necessary response to China's turbulent business environment, as elaborated in the above statement, led to the situation that its internal organisation (including structure, functions and operation) needs to be frequently adjusted or restructured to fit the fast pace of its expansion. The most recent and influential change in its programme was launched at the end of 2007; it involved an internal corporate restructuring, subsequent production reengineering and the related adjustment of its management system.

The specific reasons behind the corporate restructuring were concern for the business realignment of CSG, the purpose of tax optimization and the conditions and procedures for governmental approval (see sections 5.2.2 and 5.3.2 for more details). But, from a long term perspective, the corporate restructuring was a necessary step towards an appropriate structure for its initial public offering and integration in the global market. The five strategic investors who were introduced in September 2007 took an active part in the implementation of the corporate restructuring, in particular, in guiding the process and providing the international standards. Thus, a holding company was formed as the main body for listing it abroad in the future. Further down the hierarchy, the company established a series of off-shore companies to constitute several layers of firewall for protection against financial risk. Five of these companies signed a joint venture agreement with CS Jiangsu Investment Co. Ltd (CS Investment) to form five joint venture companies (JVs) in China. The JVs were designed as the financial channels for the funds raised in the public offering. Next, a wholly foreign owned enterprise (WFOE) which was owned by another Group Off-shore Company was made into a Management Company to control and monitor the shipbuilding activities for the whole group. It also became a contractual party as the main contractor to all the

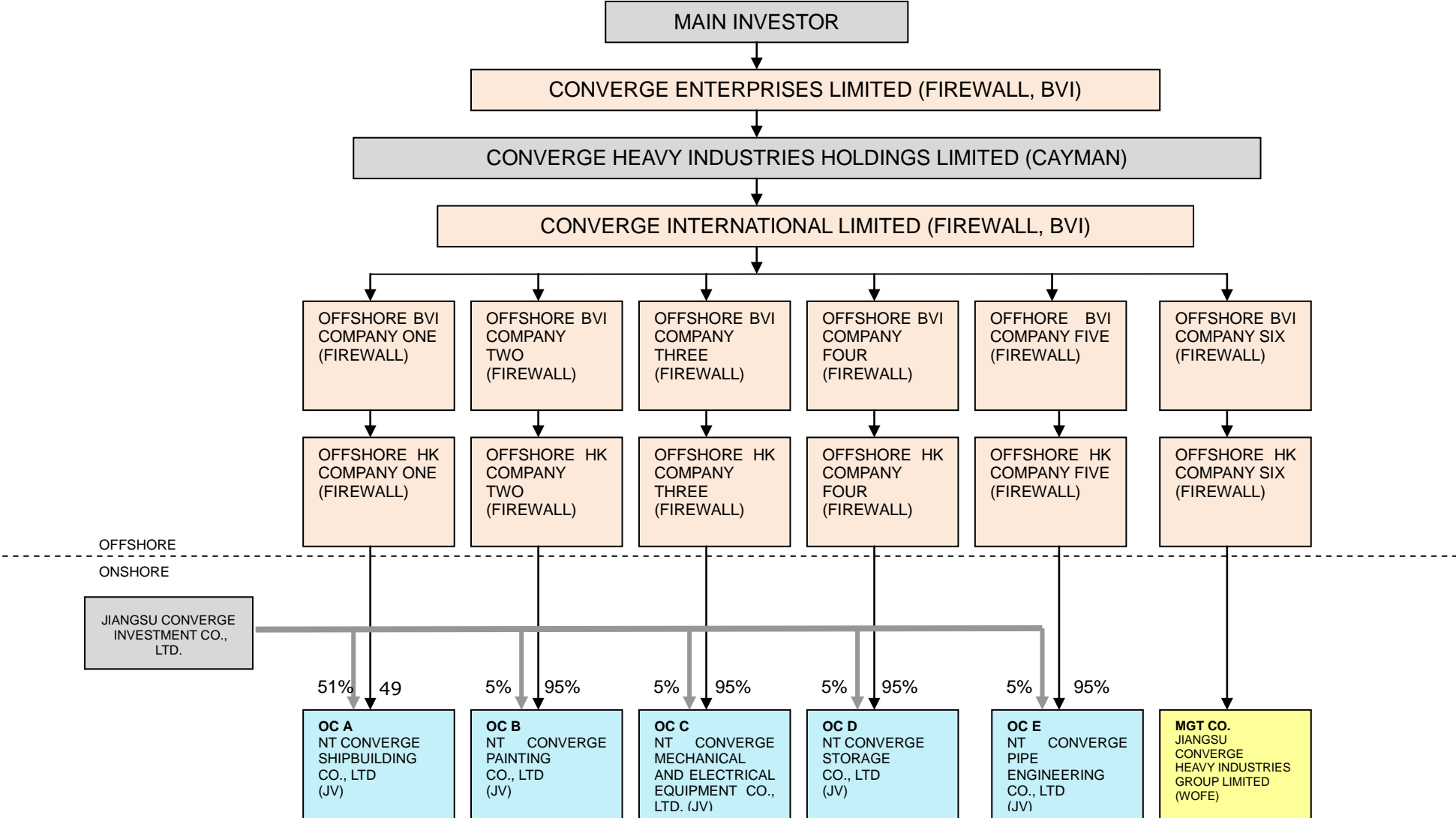
shipbuilding contracts that had been entered into or would be entered into with ship owners and is now responsible for the performance of the shipbuilding contracts.

Meanwhile, the entire shipbuilding process was re-divided into several specific functions; each of the five JVs (labelled A to E), all of which are collectively known as the “Operating Companies” (OCs), is responsible for one or more functions. Figure 4 shows the corporate structure and ownership structure of CSG after the internal corporate restructuring. Consequently, CSG allocated its operating assets for shipbuilding to these five companies by their functions. A description of the business interface between the Management Company and the Operating Companies is as follows:

- The Management Company is responsible for the research and development of products and receiving sales orders, the detailed design of products/designs in manufacturing, purchase of materials, management of construction projects, management and supply of public utility systems, assets management, protection of back office support and the business operations that include all production by stages, assembly of warehouses by stages, construction of hull and living quarters for crew members, overall organisation and annexation of parts (including metal structure). In addition, the Management Company owns all raw materials and ships-in-construction in the whole process;
- The Management Company and OC A entered into a contract for the exclusive use of docks, with OC A responsible for the provision of docks to the Management Company;
- The Management Company and OC B entered into an anti-corrosion engineering contract, with OC B responsible for painting of ships by segment and painting of the whole ships;
- The Management Company entered into a contract for the installation of mechanical and electrical equipment with OC C, pursuant to which OC C will lease to the Management Company various types of integrated platforms, various types of cranes situated on docks, installation of mechanical and electrical equipment and equipment for shakedown tests;
- The Management Company entered into a contract with OC D for provision of storage services to the Management Company;
- The management and OC E entered into an engineering contract, with OC E responsible for the storage of materials, storage and collection of manufactured stocks, pipe pre-fabrication/processing of machinery, construction of the upper deck/manufacture and installation of technical components.

(Source: Memorandum on the Restructuring of CSG)

Figure 4: CSG Corporate Structure and Ownership Structure



NOTES: BVI – British Virgin Islands Company; CAYMAN – Cayman Islands Company; HK – Hong Kong Company; OC – Operation Company; MGT CO – Management Company; NT – Nan Tong; JV – Joint Venture; WOFE – Wholly Foreign Owned Enterprise.

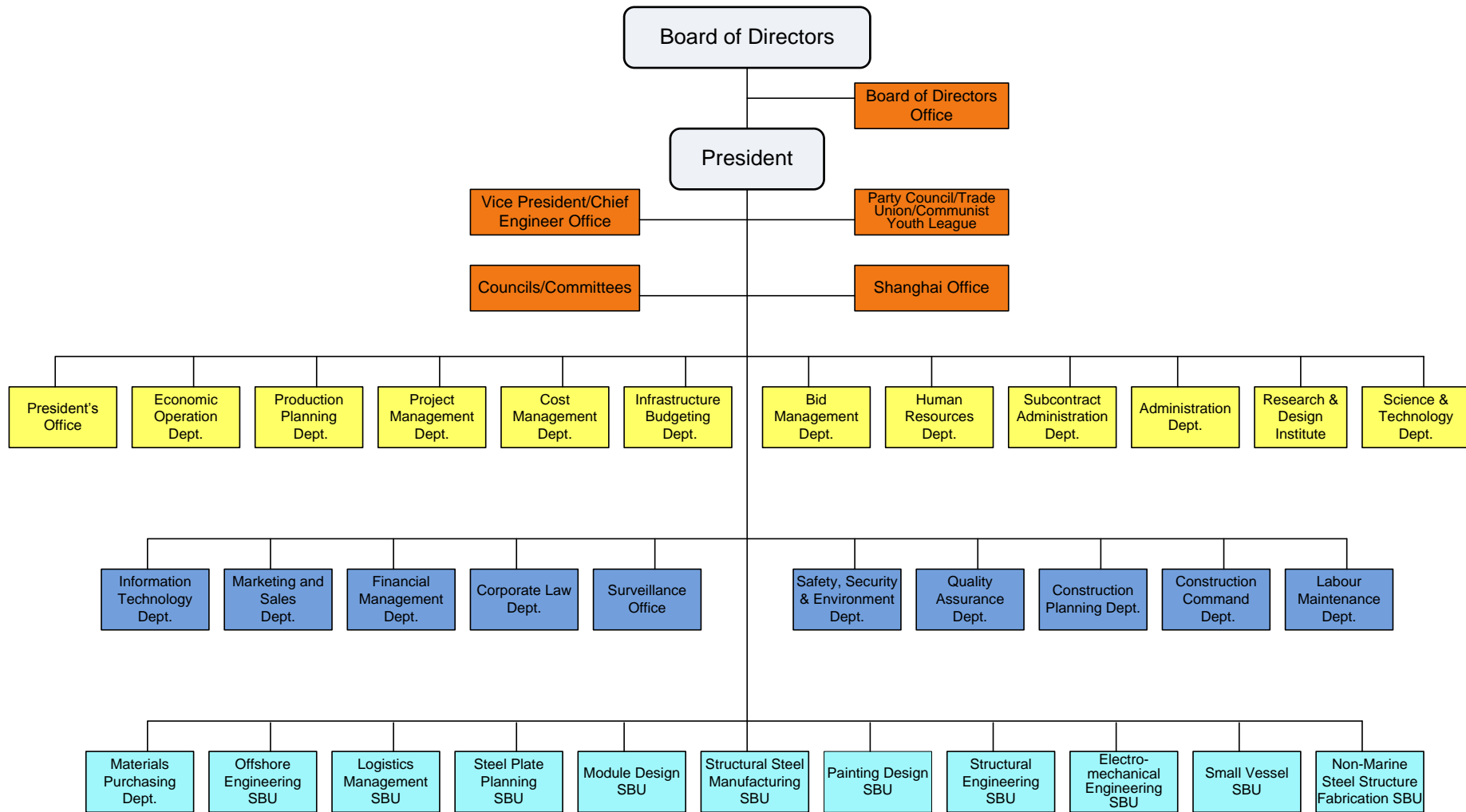


The corporate restructuring involved no change of shareholding interests in CSG. The controlling shareholder of the company remains the same and the company is continuously managed by the same management team. From the perspective of production and management, all the operating companies, except for OC E, which operates independently, are treated as virtual companies. The decision-making group tried to confine the corporate restructuring to a pure “strategic game” on the top, detached from the production and management in practice and only the top management, senior management and a very limited number of middle managers participated in the corporate restructuring project. The subsidiaries are known to the rest of the CSG staff not as independently registered subsidiary companies, but as departments, workshops, or business units of the “big CS Company”. The structural boundary between them was deliberately ignored; that is, they were all treated as constituent parts of an integrated system. The organisational chart used within the company does not reflect the complexity of its organisational structure, either. Figure 5 is the most recent organisational chart published by the President’s Assistant Office of CSG.

In its actual operation, the post-restructuring management flows less smoothly than expected. With the functions along the production line being further divided and more subdivisions and units being created, it demands more sophisticated treatment to deal with cross-departmental (or cross-subsidiary) cooperation, in addition to resource distribution and capital allocation exercises via the accounting process. More severe challenges were encountered when CSG introduced “the Management System of Simulating Artificial Person” (also known as “the Strategic Business Unit System”) to the production system.

The goals and the major principles of this system can be summarized in four features: first, it aims to introduce a market mechanism in the organisational units of the enterprise and make them operate independently, with sole responsibility for their profits or losses. Second, it aims to help the enterprise adapt well to the conditions of a market economy, improving its competitiveness and profitability through tapping its own potential, reducing cost, simplifying its organisation, adjusting its functions and exploring markets. The management system is the upgraded version of the “Internal Contract System”. Third, the management system highlights the whole interest of the enterprise and tends to further divide the accounting units. It pays attention to the result as well as the process. It breaks down the main target into smaller and more specific ones and assigns them to the Simulated Artificial Person at every level; it carries on until the responsibility devolves on each individual. It is a system that requires managers to improve their management capability and to take the initiative in their job. And it is a bidirectional process, operating from both top downwards and bottom

Figure 5: Organisational Chart, CSG



- Notes:
1. The organisational chart was published in October 2010;
  2. The title “President” equals “CEO”, with the former used in written documents and formal occasions and the latter in speech and on informal occasions.
  3. The Module Design SBU and Painting Design SBU grew out of the original Shipbuilding SBU.

upwards. Fourth and finally, it aims to strengthen the internal budget management and control, allow the delegation of controllable management to business units/departments/workshops (together, they are called Strategic Business Units) and introduce a compound collaborative relationship between them, which not only highlights the linking up and matching of neighbouring procedures and functions, but also encourages competition and surveillance.

Despite the exciting vision promised by the newly introduced management system, the efforts required to implement it are enormous. Given a newly established company in such a turbulent market, there is great risk in predicting its outcome. The reactions from managerial staff vary according to their positions in the company. Apart from the top management, who firmly advocate this system, some of the senior management are optimistic about it:

“I don’t know how our CEO would elaborate on this issue, but for me, it is simply a method to make those departments, especially the production departments, aware of their responsibilities and rights and to connect the fruit of their work with the interest of our enterprise. In the popular view, their work can be weighted in a monetary scale. Gain or loss, as simple as that. It is also the idea of changing these units from cost centres to profit centres. This is a trend that is driven by the global market. Both domestic companies and foreign companies are exploring this method. I don’t have experience with it. But I assume problems and difficulties are inevitable. It is hard for me to predict the outcome, but it must be better than the current one” (Chief Marketing Officer, CSG).

Others cast doubt on its practicability:

“The Management System of Simulating Artificial Person originally derived from the management reform in State Owned Enterprises. Back in the time when I was working as factory director of Beihai Shipbuilding Factory [a state-owned enterprise in the north part of China], we had already experimented on it. They [the units/workshops/departments] were expected to operate independently, but they could not be really independent. The internal connections were always there and they had to give priority to their fellow departments, rather than going for the cheapest external suppliers. As we joked, it was just like moving money from one of the boss’s pockets to another.” (Assistant to CEO, CSG).

While middle managers have taken a relatively conservative attitude, the managerial staff below middle level show little interest in management issues such as this. In general, CSG’s changing programmes signalled its market-oriented strategy and its profit first philosophy.

Hitherto, the implementation of this system has yielded mixed results. On the one hand, the assumed efficacy, such as increased internal competition, more initiative in managers’ work, clearer financial targets and responsibility for each unit involved, has taken place; on the other, certain derivatives of the system persistently perplex the situation in its daily operation, which include an unusually tall hierarchy in the management structure, the dramatic increase

of managerial personnel and the fierce internal competition for resources and power. All of them, whether positive or negative, exert a significant impact on managers' work and life in the company. In order to obtain a better understanding of CSG management and managerial life, the key aspects of people management, the managerial job, control, incentives and relationships, will be examined in detail.

### **9.3 People management: moving towards a market based system**

Being virtually a newcomer to the shipbuilding industry, the construction of CSG's human resources management system has always been market based; its human resources management and practices have had to be market oriented as well. Unlike the other private enterprise firms in the industry, human resources in CSG are valued as exceptional resources which have played a more important role than the other basic resources, e.g., capital, throughout the company's history so far. On many occasions, this was directly linked with the explosive development of CSG. The CEO of CSG elaborates on this point:

"[...] I feel that the capital difficulty in RS is an exceptional case and what helped us out of this difficulty in the first place was human resources. Launching a company requires a lot of resources, material resources, such as land, geographical conditions, raw materials and non-material resources. But the key resource to success is definitely human resources. Ultimately, it is people that exert use and configuration on all other resources. At first, the main investor of RS didn't prepare sufficient capital. He had only a little fund to run this project. However, we had acquired a substantial market share before we actually started building the ships. This is because the ship owners had confidence in our management team. They had ordered many ships at the stage when our company hadn't even built any infrastructure. Again, from the investors' perspective, including our dominant shareholder and those newly joined strategic investors, the decision that they made on the amount to invest and the way to invest it were based on their estimate of and faith in the management team. [...] Let's talk about this in more depth. [...] Our competitors in the markets are all mature companies – they have mature infrastructures, sufficient capital, equipment and workers; while we have nothing except for our managers. But we won those ship orders. The only reason for that is the value of our human resources. [...] We have been added to the case study by the China Europe International Business School. One day I sat at the back of the classroom and the students were discussing the case. The students, who were all CEOs, commented that this was a crazy case. They felt that only a madman could have achieved this. I interpret their comments in this way: that the success of this company has been beyond the common understanding. This is the first point I want to emphasize – a company's success is attributed to the company's key personnel, the ideas, the concepts, the goal and the persistence in pursuing the goal. I believe the success of those great companies and the recent failure of General Motors is closely related to human resource issues. Therefore, human resources are critical. Human resources have different manifestations at different layers. On the top layer, it is the senior and top management" (CEO, CSG)

The above definition of human resources and the case associated with its value have been widely accepted in CSG and creatively applied to other related areas. For example, they were extended to account for CSG's marketing strategy as well:

[...] All these changes are associated with the environment, but the core to the shipbuilding business is the customer's needs. Some customers hope to have the ship as soon as possible; the semi-manufactured products mode will be very beneficial here. The others may want to follow routine; the company is able to build the ship in a conventional way. I think the world is changing; all we have to do is do the job in such a way that people sit at the centre of the strategy. This is human resources. The customer is associated with human resources as well. Essentially, all the practices revolve around people. How to achieve customer satisfaction? In the past, we might have replied that this depends on our products. Now, I would like to develop the answer further – the products are media, the core of customer service is through people plus the product as the medium. So, a product-centred sales strategy is dated. We are implementing a people centred customer service, or a human resource based customer service strategy. Moreover, at this moment, it is a buyers' market; the customer has become more powerful. If a company can fulfil its customers' needs, that company stands out in the market. So, we feel the whole management mode, sales mode, commercial mode and business mode in the shipbuilding industry are undergoing profound changes" (CEO, CSG).

In line with the importance given to human resources in CSG, the company sticks to the guiding principle that ***the establishing of a qualified talent group must be synchronized with the construction of the shipyard, the launch of shipbuilding project and the pursuit of high profit***. The HR practices and policies also reflect this management view, in particular in their recruitment and training practices. For example, the hiring of managerial staff was scheduled even before the shipyard location was chosen. Key personnel were located and contacted during the preparation period between early 2004 and late 2005. By the time the first pile of the shipyard was driven into the ground on 28 October 2005, the company had recruited approximate 500 key personnel for managerial positions across the production and management functions. Among them, the senior management and the middle managers who were included in the core talent group were given ex-period training. The pay strategy of CSG, in which the salaries for managerial jobs are the highest in the industry, conveys the company's strong determination to attract best people and to achieve success through people.

However, when the shipyard construction and shipbuilding projects entered the stage of material implementation, the human resources management became the least satisfactory function. The HR department was accordingly regarded as the weakest link in the management system. Complaints against this department concentrated on such issues as the delay in recruitment, inaccurate employee statistics, and lack of effective intervention in staff retention. Most of the CSG people assumed that the leadership of the HR department should take the biggest share of the blame. The following excerpt conveys the impression given by the HR department and its leader to the rest of the group:

"Q: How would you evaluate the human resources management in your company?

A: It is in a mess. Our HR Director's too ineffectual.

Q: Currently, do you have an HR strategy or plans of any kind, short-term, medium-term?

A: No, complete chaos. I don't think even she knows what is going on. If you want to research on this topic, you are doomed to disappointment. If you ask her questions, you are wasting your time. But, you can take it as material by negative example.

Q: Who is the right person to ask about the HR issues, then?

A: Our CEO. Our HR concepts were all developed by him; while all the theories and ideas you can hear from our HR Director are all copied from him. But the fact is that our HRD (Human Resource Director) is unable to put them into practice.

Q: What do you think of as the biggest problem in your current human resources practices?

A: Our HR Director has been trying to manage this huge shipyard with the methods and techniques that suit small family workshops. Perhaps I shouldn't blame her so much, because she knows nothing about human resources management in the shipbuilding industry”

(Manager, Marketing and Sales Department, CSG)

If it was unexpected to hear such harsh comments on the human resources management of a large, promising company at an interview, it had to be a shock to find that this opinion was almost unanimous from all the interviewees in CSG, except for the HR people themselves. Clearly, the opinion of the HR people is different. The HR director told her side of the story, in which external factors (i.e., the market and the pressure from stakeholders) and the unusual speed of the company's development were highlighted as the critical factors impacting on the performance of HR management:

“As we all know the company has been booming, with astonishingly rapid development in the last 5 years. In 2005, we employed 500 people; in 2007, it grew to 2,000; then, by the end of 2008, the number had increased to 12,000; now, according to the figures for of last month, it has reached 15,000. Yes, I have to admit that I don't have much experience in the shipbuilding industry. But, thinking only of the workload for recruitment: wasn't it a great achievement to supply such a huge amount of people before the deadline, given such a short period to do the work? CSG itself is a grand design. Between 2007 and 2008, the shipbuilding industry was so active and so many private enterprises entered into competition. Since it is such a highly specialized area, the talent pool is limited. Most of the big shipbuilding companies have existing human resources to back their further expansion. We are big, but at that time, we had nothing to attract people. What we had were merely those piles in the ground. In the shipbuilding industry, social networks are extremely important for recruitment. Our first batch of core management personnel was sourced through our CEO, our senior managers and even our main investor, but it couldn't help that much. In terms of the human resources of the company as a whole, the recruitment is virtually market based. We had to go for the pool of inexperienced students. We visited almost all the universities and colleges that offer shipbuilding and related engineering programmes. But the graduates were so popular in the job market that very few would consider us. In 2005 and 2006, we couldn't get one student major in shipbuilding or a relevant specialty. We had to hire what we could find in the market. Our shipyard is on an island, a place that was very poorly developed. That was another weakness when we competed with the shipyards in Shanghai, Guangzhou, or other big cities. Two years later, the situation was getting better, given the fact that more human resources became available in the market after many small and medium-sized shipyards closed down in the financial crisis. In the entire year of 2008, our recruitment went forward very quickly, on average 2,000 new employees per month. It was followed by another challenge – how to accommodate so many people at the same time. You won't believe the living conditions on this island at that time. It was a desert, inadequate supplies of water and electricity and a wind that blew dust everywhere. The local government would never have thought

of building a new power plant and water plant without this company. Since shipbuilding needs a good supply of water and electricity, we had to give the priority to production. This increased the hardships for our workers. The staff turnover rate rose to almost 50% in 2008. In winter, there was no hot water. Again, our first ship was almost handmade. Because the electricity supply failed us, we had to use gas cylinders for welding and cutting. There were many challenges. At that time, almost everybody was sceptical about these new employees. But due to their hard work, we were able to deliver the first ship on time. Today, most of our employees are young people, accounting for 85 per cent of the entire workforce on the yard. I am very proud of them. Even so, as the head of the HR department, I am always under attack from all sides at board meetings. Our main investor suspected that the rapid growth of personnel had led to an ineffective corporate culture; managers complained of not having sufficient personnel to do the job; even group leaders blamed the quality of staff. Almost everybody tried to ascribe their underperformance to problems with people. For a long time, I didn't want to attend management meetings, because I didn't want to get entangled in such meaningless arguments. I remember clearly that in the last management meeting [in 2008], I was forced to produce a report about the status of our human resources management. The strategic investors wanted to know why CSG was failing to hit the annual target. Everybody at the table kept quiet, waiting for my explanation. I knew I couldn't talk about money, because the investors would reply 'we have provided money'. I couldn't talk about management, because the bad management wasn't caused by one department. I could only talk about people. The strategic investors' question hit home. I told them, 'It has been three years since our shipyard began operations. In the first year, we delivered our first ship. Up to now, we have delivered 5 ships, another 3 are waiting to be delivered and 4 are in the dock, nearly finished. I went to the universities to recruit staff and the students asked the same question. But after hearing what we have achieved within the past three years, they all think it is really admirable. You asked me why we delivered 5 ships out of the target of 15 ships. I can only tell you that we have tried our best.' There was total silence after my presentation. After the meeting, our chairman of the board came to me and said that we had done 'a great job'. And our CEO also felt that we outperformed the other new shipyards in the industry, because we were the only yard that had delivered ships" (HR Director and Vice President, CSG).

Although the views of the HR and the non-HR parties diverge regarding the current management of human resource, both parties agree that the company is in an urgent need of an integrated talent group and a unified corporate culture. The market-based talent configuration did foster a certain flexibility in employment, staffing and career development, but it hampers the formation of a normative system and provokes discontent among employees over the existing norms and regulations. The account from the HR department emphasized the influential factors at industry, firm and individual levels. With regard to the market, the HR Manager of CSG used a comparison with an SOE to explain the concept of market-based configuration:

"During my last campus recruitment trip, I met someone who had been my senior at school and who is working in GSI [the Guangzhou Shipyard International Company Limited, one of the major state-owned shipbuilding companies in the southern part of China]. He told me that human resources management is much easier for them than for us. They too were building a new yard, but they had their 'own army' to start with. CSSC transferred 800 cadres from its other subsidiary yards and research institutions. This kind of talent allocation enables the needs and the supply to be perfectly matched and was executed in a well-established framework. They knew what kind of people was needed for each specific position and they could choose the most suitable ones from

their internal pool. In CSG, except for the first batch of managers who were recruited by our top management, staffing was purely dependent upon the supply from the market. We knew who we really needed, but it was impossible for us to follow the example of an SOE. We could only take pot luck with the candidates from the market. Even when we got people with the right experience on their CV, we would still face some risk from intractable personalities and attitudes” (HR Manager, Human Resources Department, CSG).

A similar account came from the HR Director with special focus on the impact of individual factors and the development of the company’s HR services:

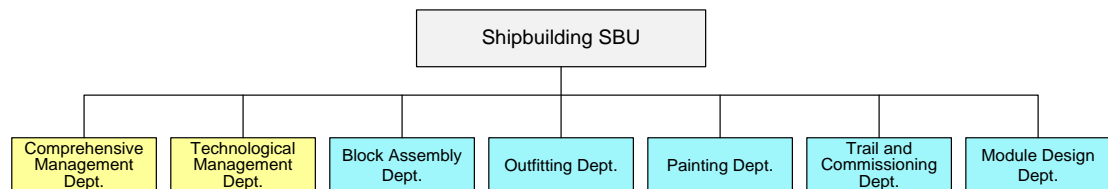
“We haven’t got an integrated team; the situation is only a little better than ‘a heap of loose sand’, let alone building our own culture. This is turning into a bottleneck. [...] Almost everybody came to the interview with the idea that he was indispensable and could negotiate a good price with us. Unfortunately, under the pressure of the market, we had to make exceptions in particular cases. That was really annoying. Consequently, we have people working in similar positions who get paid differently. They forced us to break the rules again and again. The presence of these exceptional cases damages the trust between us and our employees. I know what they say behind our back. I know we had to tackle this problem; otherwise, there would be no parity. Therefore we conducted a salary review, trying to improve our work. So far, it is on the right track. [...] But don’t forget, the company is experiencing rapid change; keeping up with it is a big challenge to us. [...] The large influxes of personnel simply made the situation worse. On this issue, I won’t shift the blame onto others. There are cases to correct which have been overlooked. At least, we should be given a reasonable time for this effort. But no one seems to take the question of time into consideration” (HR Director and Vice President, CSG)

The adoption of the “Management System of Simulating Artificial Person” caused more profound problems for the human resources management. Although the company never put their intention into words, the managerial staff from the production departments took it for granted that the management system could remedy the current unsatisfactory state of human resources, reckoning that the responsibilities in this area would gradually be transferred to the Strategic Business Units (SBUs), which would be able to deal directly with the problematic employees and the HR related issues. Each SBU in structure consists of three layers, the SBU level, the subordinate sub-departments and the specialized sections under each sub-department. Among the sub-departments are two management departments. One of them provides the management support for production, while the other, which is called the comprehensive management department, takes charge of the rest of the administrative support for the SBU. The human resources management function belongs to the comprehensive management department, acting as one of its section offices in the third layer of the hierarchy. Apart from the HR staff working in the HR section, HR assistants were assigned to each sub-department to perform the day-to-day personnel management. They were all subject to dual supervision, from the HR section office, which supervised the HR-related responsibilities and from the heads of the sub-departments, overseeing the administrative leadership. For example, there are seven departments under the Shipbuilding



SBU. Apart from two management departments, the five production departments are the Block Assembly Department, Outfitting Department, Module Design Department, Coating Department and Trial and Commissioning Department (see Figure 6).

**Figure 6: Organisational Chart of Shipbuilding SBU, CSG**



The aggregate staff on the record total 7,000, among whom the attendance rate oscillates between 5,500 and 6,000. As the head of the Shipbuilding SBU summarized, the most significant change brought by the SBU system lies in the fact that the SBUs and the HR department need to re-divide the boundary between them regarding the management of people so that the existing weaknesses can be overcome by enhancing the strengths of both parties:

“We discussed before the performance of the HR department. Now, the problem is they don’t know how to support our job. For example, they used rank at first as the only criterion in deciding salary. So, all the people who worked as group leaders were given the same salary, regardless of their job category. Can you imagine a group leader in the cleaning function getting the same pay as a group leader in the equipment installation and commissioning function? The HR people have been very ‘creative’ in naming jobs, which in itself led to chaos. In addition, we were excluded from staff rewards and punishments. In many cases, they overruled our decisions simply because they had heard only one side of the story. So, the current SBU system is a great improvement for us, because our big boss [the main investor] decentralized the HRM to each SBU, giving us authority to handle most of the HR function. Otherwise, we wouldn’t be able to carry on with our work. Our department was the first to disentangle all the jobs, positions and ranks. Now, regarding the appointments and removals of cadres at middle management level and above, we have the right to nominate people and submit our list to the CEO for approval. The HR Department is informed of the result and helps with the filing and archival function. As regards to the cadres under middle management level, we can decide on their appointments and removals and rewards and punishments. And I have authorised my subordinates to do the same. Within the given responsibilities and authority, they have absolute power to manage their people. [...] We are still not sure how independent our HRM can be. The framework is still under construction. In fact, we had a meeting today, discussing the interface between us and the rest of the departments at the corporate level. The meeting was held by a third party, the Economy Planning and Operation Department. For HRM, the representatives from each SBU and the HR Department were negotiating our new responsibilities so that we can decide which part should be managed by us and which part by them. I don’t think the company should delegate the complete HRM to the SBUs, because it might have a strong negative influence on our job. For example, the Offshore Engineering SBU and our SBU [the Shipbuilding] are basically of the same type. If our salary level and

performance evaluation were different from theirs, it would jeopardise the consistency of management in CSG. So, we still need our HR department to formulate the primary principles for us and we will further develop specific policies to fit our actual operation. But the general framework has to be there and has to be the same for each of us. Currently, most of the high-level management is conducted by the HR department; while we do some basic jobs, such as summarizing statements, simple analysis and so on. That's why we placed the HR function at the lowest level of our structure. At this moment, what worries us most is carrying out the process of defining and transferring the HRM responsibilities. We don't want the HR Department to shed their responsibilities suddenly. And we don't want to see multiple reporting lines appearing in HRM, either" (General Manager of Shipbuilding SBU, CSG).

However, the renegotiation of the management interface between the two parties has turned into a protracted battle. The Section Chief of the HR section in the Offshore Engineering SBU described the cooperation with HR Department as follows:

"In fact, the wasteful duplication of HR work is inevitable. The data sharing between HR department and us is heading for a dead end. When we asked them to provide employee information, they refused. We had to establish our own database. When new employees came to us for registration, we simply wanted the HR Department to give us identity photos of them all because they are equipped to take photographs quickly. Again, they replied that the photos were confidential and must be requested by the employees in person. We had to take fresh pictures of the employees again. The department is just being ridiculous" (Section Chief of Human Resources Section Office, Comprehensive Management Department, Offshore Engineering SBU).

The account from HR Department tells the opposite story to the SBUs'. The Section Chief from the HR Department condemned the HRM of the SBU for a lack of professionalism:

"When I was assigned to the HR department, all the documents and data were held by the SBUs. They always passed the buck to us. The responsibilities were ours, but the credit had to go to them. That's what they did. The first thought that popped into my mind was that we must set up our own database, which would be the essential backup for our work. The SBUs don't listen to us at all. In a lot of matters, we have told them again and again the procedures they should follow and the standards they should meet. Often, the files and documents they submit to us are confusing. For example, they told us that two employees had failed to pass their performance evaluation, so their labour contracts must be terminated. Ironically, we found that the files state that they were given 'grade As' for their performance in the last two months. What a joke! 'A' is supposed to be the best grade. I mean, they condemn themselves by their inconsistency. Sometimes, they reach a conclusion on a random case; sometimes, they can be very arbitrary. When they want to dismiss someone, they won't show you persuasive evidence but talk about a 'bad attitude'. What's worse is that they seldom pay attention to issues related to labour laws and regulations. When things go wrong, we get pushed to the front to sort things out for them. Another thing, they are unaware of cost effectiveness. Often their reply to our suggestion would be 'we pay our HR assistants 2,000 Yuan a month; we don't want them to play the role of leg men who are paid 800 yuan a month.' They have tried to make their jobs as specialized as possible. So, they hire people merely to run errands, not considering the welfare costs for these extra personnel. We can't stop them, because we don't have the authority to correct them" (Section Chief, Staffing and Payroll Section, Human Resources Department, CSG).

The evolution of people management in CSG epitomizes the process of a management function struggling with the pressures brought by both the external market and its internal organisational target. The wide-ranging discussion revolving around the role of a human resources department, the appropriated responsibilities and authority and the actual performance of this one suggest that we should take a more comprehensive view. This would help us to understand the intricacy of the phenomena, in which a human resources department should not be considered an atypical case performing unsatisfactorily but an epitome of all those that have been involved in the same operation system, serving the same organisational goal, while interacting and competing with each other. As a consequence, the internal environment of CSG features high variability, instability and a striking correlation with the market. Working in such an environment has given rise to unprecedented challenges as well as opportunities for its managerial staff, which invites closer observation and study of managerial life and behaviour so as to understand the impact of organisational change and environmental factors on managerial work. The following section examines these issues.

#### **9.4 Managerial job: in search of the principles for survival.**

The following is an excerpt from my field notes:

“The fieldwork in CSG is now in its third week. Most of the managers on the recommended list have been interviewed. The general impression from my side is that they are having a tough time, not only because their jobs are very demanding, but also because of their deep sense of hopelessness and helplessness in their work and their lives. Yesterday, I planned to invite all the interviewed department heads to a dinner. After I confirmed the time and venue through Mr C, my previous colleague who is currently the investment manager in the Capital Management Dept., two managers came to apologize for not being able to attend the dinner. One of them had been informed of an urgent family matter in the late afternoon and had to go back to Shanghai. He hasn't gone back home for nearly two months. This time, he asked special permission from the production VP for a short visit only. Later, I was told that these department heads normally go back home once a month. The other manager was attending a long meeting with senior management for a delayed project. Then C was given the urgent task of preparing a fund raising evaluation report. The report wasn't approved until half past seven. I was waiting in C's office when the rest of the guests came over to say that they couldn't attend either because they all had to attend the daily summary meeting at 8:30 pm. I apologized for the arrangement, but they told me that they had got used to this kind of situation – their plans never keep up with the changes. Finally, C and I went to the restaurant to cope with a superb dinner prepared for 15 people. According to C, in the past they used to have quite a good social life, but due to an increasingly intensive production schedule, eight out of ten personal social events have had to be cancelled. The right time for them never comes. Managers in the production departments work throughout the day from 7:30 am to around 11:00 pm, with two meal-breaks for lunch and supper and two regular meetings a day, the morning meeting and the night summary meeting. Since their accommodation is just ten minutes' walk from their office, most managers tend treat working hours the same as private time. In addition, they are kept on 24-hour standby. Technically, the Shanghainese staff can go home on any day via the company shuttle bus. But it is practically meaningless for managers given their timetable – Saturday is a working day as well; while Sunday is normally scheduled for training or management meetings; and

overtime gets slotted in for all kinds of reasons. That's why each manager at department head and above must be given an ensuite single room. The managers' spouses are nicknamed 'army wives', for wives sometimes come, after long separation, to visit their husbands. C lives in the town centre 45 kilometres away, but he and the other local managers, too, also feels he owes his family something because he works too much and spends very little time indeed with his wife and son. Moreover, the overactive mobile is unstoppable – it can ring at any time of the day or night and serves as the round-the-clock communication channel for job related business. 'I can't switch it off; this is professional ethics,' C said.

No matter what the function, job related social activities constitute a compulsory part of the managers' job. For managers of production departments, entertaining ship owner representatives is a common task; while in management departments, such as the Capital Management Department, bankers and government officials are the important groups to interact with. Alcohol plays an indispensable part in those social activities. During the lunch with Y, the head of the Quality Assurance Department, a young man of 30 years old, I noticed that he ate very slowly and just pecked at his food. He told me that he has been suffering from stomach illness for a few years. Irregular eating and a surfeit of alcohol are the main reasons. Often at a dinner, he prefers white wine with spirits to beer because he cannot get drunk on beer or get his guests drunk relatively quickly, either of which would excuse him from staying on. 'I just want to leave early,' he confessed with a bitter smile. Obviously he is very clear about the potential damage to his health from alcohol, but he takes it as his responsibility to keep the ship owner representatives happy. So do the other managers. The health problems they listed are mainly gastric or liver disease and diabetes. After hearing so many managers speaking so unconcernedly of their health problems, I realize that they were taking it for granted that these were part of the package for managers. Grumbles are just grumbles; it's the same situation for everyone, so no one can complain. Last week, a young manager was admitted to hospital for severe alcohol related liver disease, which obviously drew little comment. Even the news about the CEO's health and more recently about the Marketing Director's just went in one ear and out the other. As C said, managers have to rely more on their own awareness to protect their health. On days without a dinner, although they are rare, he would eat only rice porridge and vegetables. But tonight, I am to attend a dinner party with C and his colleagues, which is organized for local government officials. The activities will include a dinner followed by KTV. C had a budget of up to 50,000 Yuan, which should be sufficient for a decent meal and the room rate at the luxurious newly opened KTV club downtown. It is definitely a good opportunity for me to get an insight into the other side of their job. C plans to leave KTV no later than 2:00 am and then arrange taxis for the guests, colleagues and his direct supervisor. Presumably, he will get home by 4:00 am, take a shower, have a nap and then jump into the car around 6:30 am to Nanjing for a meeting with Bank of China Officials and start another round of social activities. C may have got used to this kind of tight schedule, but it sounds really crazy to me. Anyway, I am waiting for nightfall.

It is 4:55 pm. The loudspeaker is broadcasting again: 'CSG workers have the power. Hey! CSG worker have the power. Working hard day and night. Hey! Working hard day and night. [We] built towers, railways and mines. [We] changed the world!' This is a song adapted from a classic revolutionary song written for steel workers in 1947. CSG modified the lyrics and renamed it 'A song for CSG workers'. It can be heard three times a day, in the morning about 5 minutes before work begins, during the lunch break and 5 minutes before people leave work. Junior staff and average workers have rushed to the dressing rooms to change. The managerial staff are still busy doing their work. Really, coming off work at 5 pm must be a luxurious thing to a manager. I am still waiting in C's office for them to finish off their paper work and then head for another 'battlefield'" (Fieldwork Notes, 11 August, 2009).

These field notes were written as a running tally of daily events, in case they were needed to

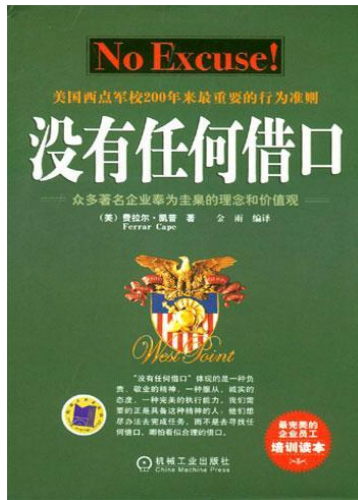
supply deficiencies and or used to glean data from the interviews. Looking back through them, these piled notes serve as a signboard to faithfully record the refraction of managerial life to an outsider's eyes: little art but pure fact. Managers, from top to bottom, advocate the spirit of dedication to work, which is embodied significantly in its erosion of their personal time and private life. Ideally, a manager is expected to put the job before everything else or to detach himself from the need to work altogether. The CEO's attitude towards his job was normalized and emulated by the others:

“Before I joined this company, I joked with my friends that the achievement open to us depends on how ambitious we are, what kind of aspirations we are pursuing and how open-minded we can be. So, first of all, it is a question of our ambition and aspirations. Most people work for living. It is ideal if people can align their aspirations with their job. If you are able to do this, you feel happy. I was asked what the indicator of happiness was. And some of my friends asked me: ‘are you happy with this kind of extremely busy situation?’ I replied: ‘I am happy.’ And they went on: ‘how can you feel happy when you don't even have time for shopping, entertainment or enjoying life?’ I answered: ‘If you think that travelling to somewhere so as to sunbathe is enjoying life, I cannot agree with you. In my understanding, it is wasting time. When I achieve something in my job, I am very happy. I enjoy my life through my job. We have different indicators and criteria to evaluate happiness. There is no universal standard.’ So, the way they define happiness is common knowledge. That doesn't mean they laid hold of the whole truth. Some people are busy throughout their lives; even though this man's life might end tomorrow, he would still be thinking about the development of the company. Such people are motivated by their spiritual drive. When people are driven by material greed, they tend to appreciate sunshine, beaches and fine houses. But those who have a spiritual drive cannot rest in small achievements but create world miracles. I feel they are two different kinds of underpinning – spiritual or material conclusions” (CEO, CSG).

Paired with dedication, the concept of executive power which emphasizes managers' obedience to superior orders is prescribed by CSG as the basic quality in managers. They have been fed with the infallible law that absolute obedience leads to high efficiency at work, through officially organized management training and guidance. For instance, as part of the management nurturing programme, the company bought a series of popular business management books to give to managers, instructing them to read and absorb the ideas and principles within. Of these, two are believed to contain the best teaching material for executive power – they are 《No Excuse!》 (Cape, 2004)<sup>22</sup> and 《Learning Management from the Army》 (Wu, 2005 ). Pictures 6 and 7 respectively show these two books. Both propose that an organisation can do more and perform better through employing the Army's most fundamental principles for people management. Meanwhile, some rituals have been introduced to reinforce the obedience of both average employees and managerial staff, for instance, military training sessions and pre-shift meetings (see Picture 8).

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<sup>22</sup> 《No Excuse!》 was reported by the China Youth Daily (November 22, 2004: B-01 ) as a book based on Brace E. Barber's 2004 book 《No Excuse Leadership: Lessons from the U.S. Army's Elite Rangers》 .



Picture 6: 《No Excuse! 》



Picture 7: 《 Learning Management from Army.》



Picture 8: Pre-shift meeting after the lunch break.

Thus, CSG embraced military culture to enhance managers' obedience. A middle manager talked about the training and practice of executive power, as follows:

“Our CEO mentioned several times that he very much hates to be called ‘Bellwether’ because it gives the impression of being weak and indecisive. He added that the intolerable fact is a ‘Bellwether’ has to be managed by a sheepdog. For him, as well as our VP in production, a good leader must be a devil. If a person has made a mistake, he must admit it straightway. Don’t give any excuses. We were required to read 《No Excuse! 》 and other related books and the idea of obeying orders was also strengthened in our training. After that, every department referred to this idea in

production meetings or whenever tasks were allocated. So we all understand the principle – Do it! Don't make excuses. If any problem arises in doing it, we can sit down and discuss it. But when you are given the task and in the course of carrying it out, making excuse and buck-passing are not allowed. So, I believe there is no secret weapon for good management but to complete whatever the leadership requires to the letter" (Head of Labour Maintenance Department, CSG).

The idea of wielding "executive power" through obedience is consistent with CSG's known decision-making pattern – power is largely concentrated at the top, while senior and middle managers are given a little space to manoeuvre. Below, the CEO illustrates his understanding of the appropriate way to exercise power, in which democracy can be balanced by centralisation:

"For a company on a fast growth trajectory, owning 100% power at the top is a good thing. In China, because the Party owns 100% power, the government is able to fight the financial crisis. Power concentration acts as a big impetus. However, I also believe that without a control mechanism, people lose touch with normality. Chairman Mao is a typical example. Throughout my career, I haven't had any experience of wielding this kind of absolute power; even if I were given it, I would still want to discuss things with my management team and listen to their opinions. In special circumstances, if we had discussed something several times over, but still couldn't reach agreement, we would need a decisive impetus. At this point, I would make the final decision without negotiation. Looking back at these practices, I feel there is no harm in giving everyone a chance to express himself. But whether you are able to control the final decision after so many people have openly advocated a different opinion really depends on your own competence and leadership. Sometimes, if you can't persuade them to accept your idea, you can push things to a trial stage; after taking a small step, you reorganize the meeting to discuss whether the direction is the right one. Usually, given a bit of evidence from practice, the others want to agree with you. For me, dominance and compromise must be balanced. When I was working in Waigaoqiao once, a panel of 11 including me was discussing a contract and the other ten opposed my decision. I didn't want to give up. So after a few days, I called another meeting, but my view didn't prevail. Then I organized one meeting after another. After eight of them, the other members agreed to my proposal. Of course, when we fulfilled that contract, everybody realized that I had been right. So, they said, "If you hadn't stuck to your original proposal, Waigaoqiao would have taken the wrong direction. That is my style. I would prefer to persuade people patiently. I never forced them to accept anything. They are all senior managers; some of them directly assisted my work. I did have the authority to order them, but I wanted them to be sincerely convinced that I was right. This pattern from Waigaoqiao is now my typical strategy for this sort of situation" (CEO, CSG).

However, the accounts of senior and middle managers points to the fact that under the strong leadership of top management, "centralisation" dominates the decision-making process at every level of the management hierarchy. Two polarized opinions were found in the interviews with senior managers. One argues that the phenomenon of "only one person's voice (either the CEO or the Chairman of the Board Directors) being heard at a senior management meeting from the lowest to the highest, with everyone else being struck dumb" is caused not only by the leadership style of the top managers, but also by the senior managers' withdrawal from their responsibility to provide top management with the

necessary information and help them make decisions. A senior manager further clarifies this point and links it to managers' behaviour in practice:

"If a manager is not capable of proposing good solutions for his leader, he, at least, shouldn't acquiesce if the leader takes the wrong direction and shouldn't call white black. That's misleading the leader. As managerial staff, we have two major responsibilities, one to give your leader practical and realistic advice and provide evidence to justify it and the other is to carry out whatever tasks your leader assigns. There are some managers who never disagree with our CEO and the big boss; they only care about their salary. So, our CEO and big boss cannot hear the truth from them. Their subordinates, reporting only for the sake of reporting, tell them nothing but good news. When the managers are asked whether they can meet achieve the planning targets, they always say 'No problem', however unrealistic these targets are. If at the end of the day, the company died, those people just wouldn't care. Of course, our CEO and big boss should take partial responsibility, too. No matter how dominant their leadership style is, they should make an effort to create a climate in which managers are able to express themselves and telling the truth is encouraged. Unfortunately, this is one of the main problems we face. Often we are 'shut up' in the middle. I have tried to put it in a polite way; in fact, it was really painful. Of course, we cannot deny the fact we are asymmetrically and disadvantageously placed vis-à-vis our leaders. This is an objective feature in our society" (Vice Head of Economic Operation Department, CSG).

The other opinion justifies senior managers' "silence strategy" as a method of approaching efficiency and a way of showing respect to leadership, as clearly expressed in interviews with more than one senior managers. A typical sequence from the interviews is as follows:

Q: If you were holding a different opinion from the top managers' decision, or when you were asked for your opinion, would you express yourself candidly?

A: No. If I have reservations about something, I wouldn't say so in public. Most likely, I would write a formal report and submit it to the CEO later. I think we have had too many meetings. Mostly, we need centralisation more than democracy. Without it, we cannot attain efficiency. I require my SBU to follow this rule. I don't want to spend time on unnecessary discussion.

Q: If you assign a task to your subordinate, would you give guidance or check its progress?

A: No, I am very much result oriented. They can use whichever methods they like. But if it is about production, I will ask them to inform me about progress at key points.

(General Manager, Shipbuilding SBU, CSG)

More and more senior managers are found to emulate the top managers' leadership style to enforce centralisation on their own patch. Some of them do it discreetly; others do it openly to every subordinate; but both are concerned with managers at middle level. Discontent is aroused among managers when their work is upset by their supervisors' leadership style. Middle managers in SBUs, in particular, who have suffered considerably from the dictatorial style of the SBU General Managers in decision-making, expressed strong opposition:

"Often we were perplexed by our General Manager's exercise of leadership. We felt that it was a problem of empowerment. This applies not only to me, but to all the middle managers working under his supervision and we think the other SBUs are experiencing the same thing. In our understanding, good management should be carried out by a

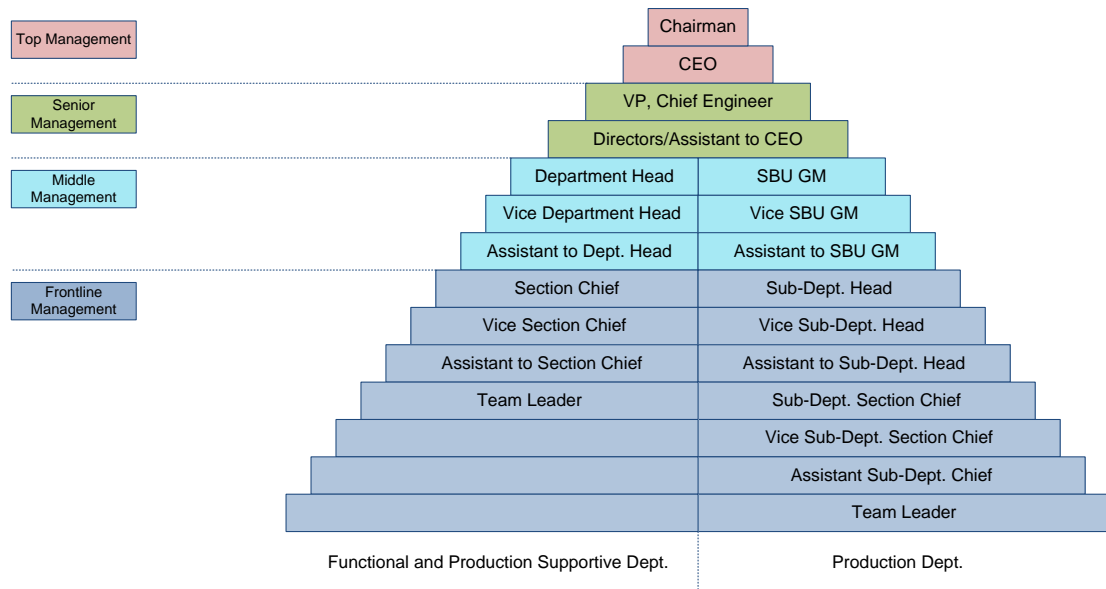


team and the decision making should be conducted by the team as well, although the final decision can be made by our General Manager. I mean, he should at least tell us what the important stuff is that we need to deal with in the coming month and he should ask our opinions. As far as a solution goes, we can piece our opinions together or adopt the best one. Now the situation is that he attended the management meeting with CEO, but he never passed the information on to us; he kept it in his mind, made the decision on his own and asked us to follow his orders, but he never justified them. He never told us what his expectations and criteria were for the assigned tasks and never used his experience and knowledge to help us deal with the tasks. In most people's understanding, dictatorship would be liable to lead a department or a company off the right track. Our CEO has a lot of good qualities that the senior managers should have learned but they haven't. They all want to be him and copy his style, but ignore the fact that the solution our CEO proposed was based on many years of accumulated wisdom; while most of our senior managers just borrow his solution outright without understanding the steps and conditions that lead to the solution. So, when they ask us to turn their ideas into reality, what goes on in their minds is 'I am the big boss of this department; what I say is unchallengeable'. Come on. At least our CEO gives them reasons, but they don't give us any. That is the big difference between good management and inefficient management. For example, at today's meeting, the GM of our SBU added a new discipline rule in personnel management, that if a worker smokes on the site, he should be fired. But in a practical sense, this can't be applied because we haven't finished the groundwork for introducing such a rule. First of all, we don't have a clear definition of 'serious offences' in the workplace. Second, to terminate a labour contract should be a company action, not one for a subsidiary unit. In addition, at the firm level, we haven't got any established rules and regulations to define wrong actions and what we can do to wrongdoers. Without these definitions, the punishment itself becomes a violation of discipline. In this situation, this new rule will very probably be aborted halfway. A leader, no matter how highly placed, must never be a law unto himself. And, he shouldn't issue orders haphazardly. Our GM often forgets what he has said. That's why, since it's happened more than once, no one takes him seriously. He has to understand that not confronting him in meeting doesn't mean that we agree with his decisions. We just want to preserve his dignity. After all, he is our superior. But there is no effective communication between us. Maybe I should say 'no communication'" (Senior Engineer, Structural Steel Manufacturing SBU).

Apart from the impact of such a leadership style, the middle managers' account implies that the increased management hierarchy brought by introducing an SBU system aggravates middle managers' sense of frustration at work. Three extra ranks were added to the original nine-rank hierarchy (see Figure 7) and the middle managers, except for the heads of department and general managers of each SBU, are excluded from management meetings with top managers, but in the past having fewer middle managers made it possible for them all to attend them. Compared with middle managers, senior managers are experiencing an expansion of their job responsibilities both horizontally and vertically. A series of tough issues, including frequent departmental break-downs and merger exercises, expansion in the product market, insufficiently qualified management personnel at middle and senior levels and the high turnover rate of managerial staff in general, has increased their workload. More and more senior managers, in the meantime, are acting from both senior and middle positions; for instance, one of the Vice Presidents has become both the Chief Marketing Officer and the head of the Sales and Marketing Department, whose work spans three levels on the management hierarchy; this requires extraordinary competence, time and effort to be

committed to the job.

**Figure 7: Management Hierarchy in CSG**



The sense of being less able to control one’s job and life is spreading throughout the management team. The factors addressed by managers in their experience of work and life in CSG present this group of people struggling in an internal environment characterised by high instability and meanwhile acts as the main buffer against market pressure for the company:

“The CSG shipyard is an unprecedented project in our experience. That’s why during the last five years, we have encountered a lot of new problems with no ready-made answers. Even our top management is continually revising our strategy and plan, day by day. I am not ashamed to admit that I couldn’t keep up with our CEO’s ideas. In fact, I am pretty sure this applies to most of us. I assume the strongest part of our body must be our nerves [laugh]. Today, you may stand on the rostrum and dazzle the others by an impassioned speech; tomorrow, you could be moved to a dusty, empty office, reduced looking at the ceiling to pass the time. One of my colleagues has switched departments 6 times during the last two years and another guy set a record of 11 times. Whether it is under your control or not, you are the manager, you should be responsible for the performance of your unit. This is the rationale of our system of accountability. We are in no state to sympathize with others, because it could be our turn tomorrow” (Head of Labour Maintenance Department, CSG).

The sense of insecurity that goes with the pressure generated by work and the combination of environmental factors both internal and external is something that almost every manager is facing at present, whatever their age or rank. The belief that hard work and loyalty guarantee a steady career and recognition has met with a good deal of scepticism. A middle

manager's confession describes the collapse of this belief among the managerial staff:

"The frequent changes in senior management severely affected our confidence in this company. Our big boss sneaked in several management meetings while our CEO was out and warned that if production did not improve in the short term, he would invite Korean managers to replace us all. I think it would be OK if he had said this to our CEO face to face, but he shouldn't announce it behind his back. Where does this leave our CEO? We are not silly. He is simply reminding us that we should prepare for being fired without notice and so we shouldn't commit ourselves fully to this job. We should have a plan B" (Senior Engineer, Structural Steel Manufacturing SBU).

To survive and prosper, managers have to seek help from non-work elements. A bunch of behavioural principles were developed from these elements and accepted by most of the managers in CSG, among which the most often quoted are "stay away from company politics", "stick with your own people", "keep on the safe side" and "advance as the times dictate through learning".

First, "stay away from company politics": this is not in fact a goal that succeeds in practice but a phrase that managers use to indicate caution from time to time because due to the fact that as soon as a manager joins the company, s/he will be automatically classified into a group formed by her/his social relations. A senior manager in Sales and Marketing department explains how people's groups are identified:

"No one can be politically free. I see very clearly that people view me as the CEO's loyal ally, although for three years I have been working in a different office from his, with almost no opportunity to come into contact with him. Originally, I was working in Waigaoqiao, where he worked as the General Manager. Working in the same company is what linked me with him, as much as other people from Waigaoqiao, Jiangnan, Shanghai and Hudong. However, those who were transferred from the main investor's companies would never be put into our group. Those who came neither from any of the CEO's previous companies nor worked with the main investors beforehand, we label them "paratroopers". So far, most paratroopers have failed to meet their targets. I think it is not easy for them to land in CSG without social credentials. Remember, private companies are made up of faces and personal relations. This has nothing to do with personal interests or goals. We are all working hard to attain the company's goal, but this doesn't mean we can treat everybody equally. If two people are asking for help, I would definitely help the one in my camp first. [...] Internal struggles can't be avoided. I am lucky because I am apart from the main battlefield and I get on very well with my supervisor, who is the kind of person who looks after his subordinates very well. But the people at the shipyard don't have an easy life; they have to be very careful to avoid being caught in the crossfire if there is a group clash" (Marketing Manager in Sales and Marketing Department, CSG).

Second, closely related to the group classification concept illustrated above, managers tend to seek protection by sticking with their own people, as is plain from managers' career choices and career move patterns. Consequently, significant examples of departmental culture have been formed as managers have increasingly come to share the same career connections. Managers' tendency to protect themselves has led them to tie individual career

choices more firmly to their group interest. Within the group, managers can voice their fears, exchange their feelings openly about their jobs and lives, and interact with and influence the rest, which to some extent justifies why collective job-hopping became a prevalent phenomenon in the industry. A frontline managers' experience perfectly illustrates this point:

"Before I moved to CSG, I visited several of my ex-colleagues, for example, my previous supervisor in Waigaoqiao. He wanted me to join Offshore Engineering, where he is the General Manager. On second thoughts, I texted him to decline his invitation. To my mind, most of the managers had come from another SOE shipyard and their average age was quite advanced. They were senior and they had never worked at Waigaoqiao. Obviously, they had a different working style. So, I joined the current unit, the Shipbuilding SBU. The main force of the management team is made up of Waigaoqiao people; and we have a lot of things in common. We understand each other. [...] My GM told me that I would start in the post of Vice Section Chief, which was lower than the rank I had in my previous company. I really didn't care. I told my family that what I cared about was job security. CSG made me feel warm and safe inside. My experience in my last shipyard had been a nightmare. I suffered a lot from my ex-colleagues and supervisors' distrust and isolation, because I was not their man. I heard a lot of stories about how unpleasant the owners of private companies could be. That's why we have to be very cautious over changing jobs. Who knows what could happen to you when you don't know anyone in the company? Usually, we won't consider a job if it isn't recommended by people we trust and if the advocates don't stand firmly by their word" (Vice Section Chief of Shipbuilding SBU, CSG).

Third, in terms of the rule of "keeping on the safe side", managers associate it with both positive and negative impacts on their behaviour. On the positive side, it reminds a manager to be mindful of the risks and difficulties in his job and stresses managers' comprehensive ability to assess problems and come up with solutions that appropriately balance the interests of different parties. On the negative side, it encourages the spread among managers of a conservative outlook on work, for instance, no merits, no demerits, never take the lead and never make oneself a scapegoat. Managers talked about this aspect of their job frankly and some of them even named names when giving examples. A frontline manager's story shows how managers interpret this rule:

"Two years ago, I was the head of the Concentrated Supply Centre, which is today's Logistics Management SBU. I was responsible for the management of all the raw materials, except for steel plate, for which I only kept a record, not directly involved in its management because another department had to manage these important items. Obviously, this wasn't a good arrangement. As everybody knows, steel plate is the main component in shipbuilding. Unless the plan for using steel plate is worked out, the building of the ship cannot start. At that time, our CEO was too busy to resolve this issue, so it got out of his control. In addition, my supervisor asked me to stay away from this 'hot potato' or I might make trouble for myself, my supervisor and other people. But in principle, it should have been included in my responsibilities. But all I could do was to keep a clear record of the plates received from the suppliers, because the people in that department were unprofessional in the way they did this job; they made a lot of mistakes. The whole function was just like a cancer case. We were afraid that this would affect us. Soon, we, a whole group of people, left CSG for another company. Now, I rejoined CSG, but I don't know what happened to the people who didn't leave when we did" (Vice Section Chief of Shipbuilding SBU, CSG).

Fourth and finally, “advance as the times dictate through learning” is regarded as the ultimate task for every manager. Apart from their own specialised knowledge, managers seek to improve their understanding of management in general. Senior management is given preference in training in terms of the budgeting, frequency and quality of teaching. While middle and frontline managers have been encouraged to acquire more management knowledge, self-study is generally the mode. They are allocated limited resources, compared with senior managers. In addition to the knowledge mentioned above, several managers mentioned that they were seeking ways to improve their interpersonal skills and knowledge of company politics. Most of them regard Chinese history books as the source of political wisdom. For example, the series 《Events in the Ming Dynasty》 is very popular among managers; it deals with the history of the Ming rulers between 1344 AD and 1644 AD, discussing a wide range of topics: official circles, wars, emperors’ intentions, moral and human relations. Managers refer to books of this kind to learn about their historical roots and the social roots of managerial behaviour and politics at work.

#### **9.5 Control: we are controlled throughout.**

Since the employment of “the Management System of Simulating Artificial Person”, CSG has deliberately strengthened its control mechanism to promote its cost-profit centred idea of management. The control mechanism was adjusted by means of two major methods: the structural re-organisation of management functions at the corporate level, whose design theory shifted from being production-orientated to control orientated; and the setting up of a new control department to control and supervise managerial behaviour at the individual level.

For the control mechanism at the corporate level, managers expressed anxiety and confusion about the increasing tendency to fragment the management and production function. In the management and administrative support functions, the financial management function is one of the “major disaster areas”; the CFO explains the current structural arrangement for this function and said what he thought of these changes:

“That’s really a weird setting. It is a unique phenomenon of our company. In most enterprises, Financial Department is normally responsible for the core operation associated with both accounting and financing; but in CSG, capital management is handled by an independent department called ‘Capital Management and Financing’ whose major responsibility is to apply for loans. According to our main investor, a company needs to balance its internal power distribution and promote friendly but competitive cooperation between departments. In my understanding, ‘competitive cooperation’ should be interpreted as mutual supervision, through which the company intends to prevent us from abusing the power that we hold. I am afraid this tendency of our top management is on the rise. More departments have been established during the last two years to dilute the entire financial function. The Cost Management Department, which was supposed to be a section office under the Accounting and Financial Department, was separated in order to review and assess every expense before it

could follow the payment procedures. The Corporate Law Department looks after every contract; the Infrastructure Budgeting Department deals with all the investment and budgeting related to shipyard construction and fixed assets; and the Bid Management Office manages the valuation and inviting bids and the bidding for works volume list. I have no objection to the management philosophy behind this design. But I don't appreciate the effects. One of the fundamental problems exposed in the implementation of it is that all of us have had to base our work on our own data. We were supposed to use the same reliable data, but often, we got contradictory information leading to arguments, re-checking, and doing our work all over again [...]. Endless. It is a big waste of manpower and a huge disturbance to our work. So I can't see any benefit in that but only obstacles. We are making things difficult for each other. Professionalism becomes a joke when it's faced with this kind of situation. Isn't this what the company wanted to see?" (Chief Financial Officer, CSG).

A similar analysis is also heard from managers at different levels and in various functions. In some cases, the conflicts between departments grew even sharper due to their positions in the production process. For example, the procurement, warehouse and logistic support service and production departments should be connected and the relationship between them must be supportive. However, under the control philosophy of the company, each department shifts its focus from supporting the next step in the process to monitoring this step. Not only is the smoothness of the workflow interrupted, but also the cycle of information processing comes to a halt. Each department tries to give priority to its own departmental interest, rather than the general interest of the production. Therefore, the updating of the data for each of them can never be instantaneous and synchronous, although this issue has many times been emphasized in top management meetings; accordingly, the three steps of purchasing, inventory management and using of raw materials, impede, instead of supporting and delay, rather than accelerating, the next part of the process. While most of the managers criticized the negative effect of this method of structural control, none of them considers it a situation that can be reversed or even changed over the short term. Since the discussion regarding this point has gone beyond the confines of an "incentive", the remainder will be included in Section 9.6, which will help us to link it to the broader picture of CSG's management philosophy.

As regards internal control over managerial behaviour, the company founded a new department, the Surveillance Office (SO), to monitor the others. Defined as the linchpin in bringing about clean administration, the department was positioned at the same level as the other administrative support departments. The head of SO was given the rank of Vice President so that the exercise of the department's power could be accompanied by suitable ranking authority. In terms of fulfilling its major responsibilities, routine surveillance combined with surveillance by the masses is believed to be the most efficient method. One striking point in the description of SO highlights that, among the various objects for censoring, middle managers should be given special attention. However, no justification for this point was provided, which has attracted particular resentment from middle managers. For this

specific group, the existence of such a specialised function symbolizes the employer's distrust of them. Moreover, the activities organized by SO, which initially were designed to educate and warn managerial staff more unmistakably, aggravated the hard feelings between the company and the middle managers. In a recent event, SO planned to organise a day visit to Shanghai Municipal Prison for all the middle managers so that they could have an authentic experience and learn a tough lesson from those who had made mistakes. But the activity was unanimously boycotted by the middle managers. One of them from the Marketing and Sales Department confessed her reactions to the plan:

“We got really fed up with this kind of stupid thing. Going to ‘Ti Lan Qiao’ [The nickname of Shanghai Municipal Prison] and talking to prisoners who had committed financial crimes [...]! What do they [the company and SO] expect us to think? People won't be simply frightened off if they were really thinking of doing something. But this kind of activity made us feel that the company had assumed that we were all guilty before we had done anything. Can you imagine how we feel about that? And what would our subordinates think of us? The entire morality of our society may be declining, but this doesn't mean that we can't be stainless. Who gives the company the right to trample on our dignity?” (Marketing Manager, Marketing and Sales Department, CSG)

The “massive movement” side of this control over managerial staff has come under massive criticism as well. It seemed quite optimistic from the employees' standpoint for the company to encourage and reward those who reported managerial misconduct. But for managers, the efficacy of this method was questionable. Several managers outlined the innate weakness of this kind of mass supervision – the low validity and verification of the information, which was attributed to the character of Chinese culture and its patterns of behaviour. The HR Director used her own experience to illustrate this point and its negative effect on managers:

“There was a time that the SO received anonymous letters claiming that I was taking a kickback for recruitment. At the outset, I knew nothing about it. And, since I always think of myself as an upright person, I even warned my subordinates on many different occasions that we as HR people should never make money in this kind of nasty way. But the rumour spread quickly. It was not until my husband got a message from one of my colleagues in another department, which stated that he had heard several rumours about this and wanted to warn me, did I suddenly understand the weird atmosphere around me at the time and the expressions on people's faces. How embarrassing! I was just speechless. I can summarize it this way – the seamy side of Chinese people gets the upper hand when they feel that you aren't cooperating as they expect. They would like to retaliate against you in every possible way. Although you might want to investigate to clear your name, you probably wouldn't be able to find any indication of the slanderer. They wouldn't dare to leave evidence, but the harmful influence has already spread” (HR Director and Vice President, CSG).

In their opposition to the above company-initiated internal control mechanism, managers have high expectations of the recently imposed external control mechanism, the management and financial auditing conducted by a third party, as is common practice for a publicly listed company. The CEO of CSG points to the managerial benefit as well as the

negative effect brought by the external control mechanism after the IPO:

“The IPO can have two major impacts on our company. First, we will become more normalized and stable. If you want your company to become a classic in the market, you have to normalize your management and production. Second, IPO can increase our credibility. A publicly quoted company needs to be managed more transparently, which leads to being exposed to high risk. This is very important for a company. Apart from its positive impact, the IPO will have negative effects as well. For example, it won't be a comfortable experience to have all your management conduct monitored and exposed to the public, in particular for entrepreneurs and for the top management. However, for the long-term development of this company, we have to go for it” (CEO, CSG)

Before the public initial offering, CSG had already conducted several rounds of internal auditing and review at the request of the strategic investors. Since the participants in both auditing practices were mainly confined to top and senior management, the rest of the managerial staff knew very little about the actual practices. But the optimistic opinion that the external auditing will enable the governance and control of CSG to be transformed into a more practical, efficient and friendly system is held by most of the managers interviewed.

#### **9.6 Incentives: what matters most? Two sides to a story.**

Consistent with the management philosophy underpinning CSG's control mechanism, financial inducements have been placed at the heart of the incentive methods for managerial staff. The top management's confidence in the efficacy of monetary and material rewards derives from their understanding of contemporary China and the nature of private companies. The Chief Marketing Officer clarifies this point very concisely:

“I believe that profit-seeking has become the basic feature of Chinese workers mainly because of the gradual and uplifting influence exerted by the economic reform and 'Open Door Policy'. The whole of Chinese society has got used to prioritizing profit above all else. In our company, as we are privately-owned, the target is for each SBU General Manager to make more profit for her/his unit; the ultimate concern for our CEO is how to make the company more profitable; otherwise, the board would step in” (Chief Marketing Officer, CSG).

The current incentive schemes, according to the interviews conducted with managerial staff, vary from money, for instance, one-off rewards for specific projects, annual bonuses and dividends, to rewards in kind, for instance, flats, houses and cars. The higher the position of a manager, the more incentive schemes he/she is eligible for. However, only one scheme, including performance pay, has been formalized and incorporated into the management policies and regulations of the company. According to the pay strategy provided by the Human Resources Department, managers at middle levels and above fall into the category of earners of an annual salary in which 40% of the salary is payable at the end of each year as performance pay and 60% is paid monthly. Managerial staff below the middle level



receive a salary consisting of base pay and monthly performance pay. In a recent company-wide survey, the managerial staff were asked to comment on the current incentive schemes. 59% of them gave negative feedback on performance pay, stating that the bonus distribution could not reflect conditions in practice and therefore failed to motivate people (CSG Management Auditing Report, 2009).

The remaining incentive schemes remain as spoken agreements between top management and senior and middle managers. The top management tried to combine these incentive programmes with the vision of the company so as to connect individual managers' interests with the future achievement of the company. For example, at the management meeting for managers at department head level and above, the main investor of CSG mentioned a material reward programme being planned that would give them a property free of charge, one of the flats developed by the real estate branch of CSG, so long as the shipyard fulfilled its third "5-Year-Plan", in almost ten years' time. Accompanying the progress of the SBU system, more adventurous incentive schemes were put forward by top management; the reactions to these included:

"If a general manager of a strategic business unit can lead it and expand it into a big company, it is reasonable for him to get paid in millions" (CEO, CSG)

"No, I would say if they do realize the target of the strategic business unit, I don't see why they couldn't be given more. Being a millionaire is not a big deal; it is achievable for our managers to become multimillionaires from doing their job" (Main Investor and Chairman of CSG).

Both the schemes reflected the company's concern for staff motivation and staff retention for the long term. But since there no detailed rules and regulations have been developed for these grand programmes and their scheduling makes them see very remote, few managers take them seriously. The typical response from managerial staff not only shows doubts over the practicality of the company's long-term incentive schemes, but reflects the speakers' lack of confidence in the company, which is again attributed to its nature as a privately owned enterprise. A middle manager commented on this point:

"Who knows what the future holds for us? In China, we can only make short-term plans, whether for a company or for individuals. If there must be a long-term plan, I think a three-year period is acceptable; more than that, let's say 5 years or 10 years, is unrealistic. We can't promise that three years from now we will still be working in CSG, just as the company can't guarantee that it could fulfil every goal within the scheduled time. Even the company doesn't achieve everything it has planned, so who can guarantee that the big boss will keep his promises? In a private company, everything is in the boss's hands, which means he can make changes at will and any time he wants. And he often does. I still remember in the first two years, all the top and senior managers were only paid half their salary because of the delay in building the shipyard, which wasn't anybody's fault but the outcome of government macro-adjustment. So, a

contract is a contract. Trust is trust” (Section Chief, Capital Management and Financing Department, CSG)

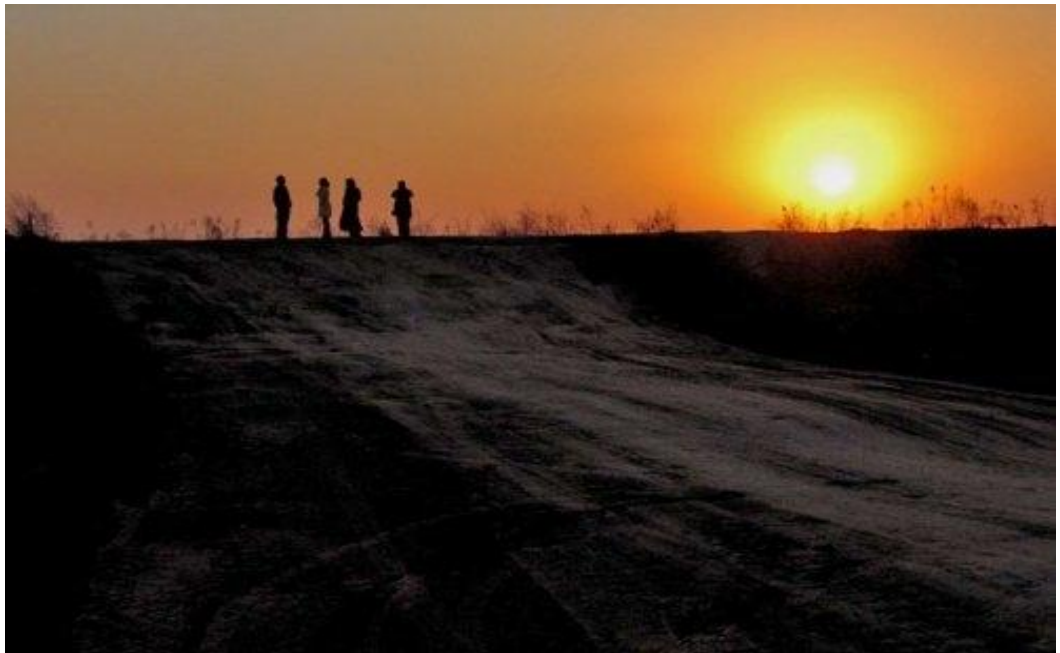
In fact, a commonly held opinion was revealed in the interviews with managerial staff, suggesting that non-monetary factors work better in terms of attracting and motivating managerial staff; at the top of this list come affective factors. A senior manager talked emotionally about his experience:

“If you ask me why this person or that person would like to join CSG, I really wouldn't know the exact reason behind their decision. But if you were told that it was because of a grand goal or something, that's rubbish! Generally speaking, there are some common reasons: affection, salary, career [...]. It really depends on which factor carries the most weight. For us, the reasons why we, the whole of the batch who came from Shanghai, join CSG in 2006 were the affection and our leader's charisma. It sounds unbelievable, but we agreed to join CSG without knowing anything about the company or the job. We didn't even know how much we were going to be paid. We left Waigaoqiao, which, as everybody knows, is the best shipyard in China, just because our leader said 'come, join us'. We didn't know what kind of position we would get. And we had no idea where the company was located. In June 2006, we reported for duty in the Shanghai headquarters; then on 28th July, we were sent to this island, with nothing but a desolated, weed-grown beach to welcome us. When I received the first payslip, it was surprisingly low. Our salary level in Waigaoqiao was much higher than in CSG. But it was no more than a pain, with absolutely no regrets. I still remember the first day I went to CSG's Shanghai Office. The HR Director briefed me about the [labour] contract and said: 'Your job title is Area Operational Manager, and your gross pay is 120,000 Yuan annually'. I replied: 'My position in Waigaoqiao was Area Operational Manager and my net pay was 100,000'. She was astonished and asked: 'Why did you want to come over?' It is hard to explain... I mean, obviously, what we had done cannot be explained by the common theories of HR or management. We never negotiated our salary with HR. As I said, we didn't know at all what it would be. We were informed by the HRD after we reported for duty. Before that, we had been working with our CEO and VP [in CSG's production management] for many years, in Waigaoqiao and the other shipyards before Waigaoqiao. We knew each other very well. After our CEO and VP [for production management] joined CSG, they rang me and told me that there was a new shipyard under construction and they planned to make it one of the best. A few days later, we met up and had a cup of tea together. Our VP asked us: 'Would you come along?' I said: 'OK.' That was all. Unlike us, now that CSG has become a famous company more and more people have joined it. They have all come with a different purpose. But our original intention has never changed, although we have been promoted and given higher salaries” (General Manager, Offshore Engineering SBU, CSG).

Managers' views of the motivation generated by affective factors are astonishing, consistent with one another, regardless of rank and position. Pictures 9 and 10 show the CSG shipyard in 2005; and Picture 11 shows the CSG shipyard in 2009:



Picture 9: The CSG shipyard in 2005.



Picture 10: The CSG Shipyard in 2005.



Picture 11: CSG shipyard in 2009.

They brought the same story out of memory but adding with details from their individual perspectives, which help to present a more vivid and touching picture of the managers' interior world. Some of the managers went further in tying the non-monetary incentive to broader values cherished in the Chinese tradition:

"Throughout my life, I have been always a dutiful person, but at the same time I take personal loyalty very seriously. When I was working in Waigaoqiao, our VP [for production management in CSG] was the Head of the Offshore Engineering Department. He was ignored after the departure of our previous GM, who later became the CEO of this company [CSG]. So, he soon followed our CEO to CSG. Because they were in urgent need of managerial personnel, we thought we'd better to move to CSG as well. It was purely about brotherhood, no calculation of the personal gain or loss involved. Our VP is a charismatic leader, although working with him isn't easy. He is demanding, bad-tempered and impatient. When he criticizes people, he can be ruthless. In addition, our job itself is very tough. But all in all, he is indeed admirable as a leader. [...] Again, the job is not only about money; for me, salary can be sacrificed as long as the job is pleasant. [...] The first day we arrived here, there was nothing, not even a workshop. We lived in trailers in the first year and the rooms abounded with rats [Picture 12 shows CSG's staff accommodation in 2005 and Picture 13 shows CSG's single staff accommodation in 2009]. If you left to work in the morning without zipping up your suitcase, the rats would take bites out of all your clothes. In summer, because they had tin roofs, it was extremely hot, even at night; we got an air-conditioner, but even so we felt ill. We really couldn't see any hope for the future at that time. For me, I don't care what food or what clothes I wear, but I need a clean toilet. That toilet was the most horrible thing I have ever seen in my entire life. I had never used anything but a flush toilet – these [...] sanitary conditions were very poor; flies and mosquitoes were rife. It was the worst year of my life. But I have no complaints because this was my decision. I had joined the company, so I should work hard and do things properly. In my age, even



if this was the wrong decision, I would never regret it” (Head of Labour Maintenance Department, CSG)



Picture 12: CSG staff accommodation in 2005.



Picture 13: CSG single staff accommodation in 2009.

In more than one case, the managers the senior managers and the expert managers, in

particular, extended the affective issue to the broad social and national responsibility of being a Chinese. A senior expert manager talked about his passion for advancing the new technology for the company and eventually making a contribution to the entire Chinese shipbuilding industry:

“I didn’t think of that much. What I care about most is having introduced the most advanced offshore engineering technology for constructing an oil platform to China, which I was able to do in Singapore. Before my job in Singapore, I was working in a SOE shipyard. At my age, I don’t think I can stay outside China for very long any more, two or three years maximum. In China, although there are offshore engineering departments in the big SOEs, the technology for an oil platform hasn’t been developed. I really want to help with this. In addition, our big boss [the main investor] and our CEO are sincere about moving into the offshore engineering business. My first meeting with our big boss was in Hong Kong; he said then that he planned to establish a new shipyard in Guangdong Province for offshore engineering only. That was such an exciting plan [Picture 14: CSG No. 4 Dock for Offshore Engineering under construction in Nov. 2010; Picture 15: CSG No. 4 Dock going into use in July 2011]. I was moved by his ambition. My salary in Singapore was very high. Both my daughters live abroad, one in Canada and the other in Australia. So, this job for me is not being done for the sake of money at all. This applies to our big boss, too, I guess. I believe there is just a right time for us to do something and to do it well” (Assistant to CEO, CSG).



Picture 14: CSG No. 4 Dock for Offshore Engineering under construction in Nov. 2010.



Picture 15: CSG No. 4 Dock going into use in July 2011

Apart from the above non-financial factors, career development was frequently mentioned as the effective motivator for managers who are at the middle or a more junior level. A middle manager argued that this should be understood in the light of CSG's extraordinary speedy development:

"CSG is different from the other shipyards in the sense that its promotion has been as speedy as its development. In Waigaoqiao, or in other shipyards where I have worked, taking a step up in the hierarchy requires someone to work on the same post for a substantial period. Normally 3 to 4 years' solid performance may equip this person with an entry ticket, but no guarantee of being promoted. A long period of probation might be required as well. But in CSG, it was not rare to see an obscure employee rise through the ranks very quickly. It is the flexibility in the personnel mechanism that attracts and motivates people who are looking for fast track promotion and are trying to bypass the seniority barrier on the job" (Assistant to Head of the Quality Control Department, CSG).

For some managers, the "career development" that inspires them should be understood as the challenge they may encounter at work. Managers pointed to CSG's unique features, which could be used to satisfy their career ambitions:

"I feel honoured to join this management team, because this is a good opportunity for me to work in one of the best shipbuilding companies of China and to learn the most advanced management and operation ideas. Although I was working in KAWASAKI [Nantong COSCO KHI Ship Engineering Co., LTD], which is the most efficient shipyard in China, I had always dreamed of working for a 'better' shipbuilding company. 'Better' here means bigger. KAWASAKI is limited by its size, while CSG has become the biggest. 'Size' leads to substantial differences in my job because I am selling the products [ships] that can only be built by a company like CSG and I am getting customers in a unique CSG style" (Chief Marketing Officer, CSG).

“Compared with most of the private shipbuilding companies, CSG positions itself as a high end product where competitiveness must be technology based and not labour based. Since it has a higher starting point for its technology to back up its production, its production design often adopts unusual solutions. I can give you a simple example. In CSG, every ship is completed in the dock, including the painting of the shell; while other private companies need to finish this step after the trial trip, which means that the ships have to return to the dock, the primer removed and the ships repainted. Only the top tier companies, such as Korea’s Daewoo, Hyundai and the biggest SOEs, can manage this; the small shipyards couldn’t even think of it. The boring technology as well [...]. So, I am glad that I have the opportunity to try all these advanced design and technology features, as well as the new mode of ship design. I can make good money at other shipyards with an easier job, but I wouldn’t make any progress there” (Head of Commissioning and Trial Department, Offshore Strategic Unit, CSG).

It is almost impossible to exhaust the factors that inspire managers. Whether managers respond well to one single factor or a combination, the misfit between CSG’s incentive schemes and managers’ needs has clearly been a fact of life, which implies possible divergence between them regarding other related issues, for instance, their understandings of success. Since this is closely related to work relationships, the follow-up discussion below is combined with the exploration of relationships in the workplace (Section 9.7).

### **9.7 Relationship: beyond the sentimental veil of family-like relationships**

With CSG’s further expansion proceeding and its management adopting more advanced and standard methods and practices, the top management urges a shift of managers’ perception of work relationships from traditional rank-based relationships to responsibility based and corroboration based relationships between departments and between individuals, which presumably would smooth the company’s operations. But the practice reflected in managers’ accounts points to the very opposite to the desire of top managers. The Chief Financial Officer, who previously worked in multinational companies, talked about his understanding of work relationships in private enterprises in China:

“In CSG, position/rank is very important and obvious to everybody. It is a universal feature for all Chinese enterprises. For foreign enterprises, rank is important when making critical decisions. But at other times, the power distance won’t be so obvious. In a Chinese organisation, people will treat you differently if you are in a high position” (Chief Financial Officer, CSG).

Some managers refer to their own experience to explain why rank matters. A senior manager from Offshore Engineering SBU commented on this issue:

“In Chinese organisations, rank and authority make the work easier. This is to do with our tradition. When I was working in Singapore as a project manager, as long as it was related to the project, I could ask for cooperation from other departments and I could give them advice, regardless of my rank and position. But this would be inappropriate in a Chinese company. When I joined CSG, I talked to our CEO, ‘I know Chinese companies very well. I am not asking for an imposing title, but a reasonable position. Otherwise, nobody will listen to me.’ So, in the end, our CEO appointed me Assistant to



the CEO” (Assistant to CEO, Vice Head of Offshore Engineering SBU, CSG).

Surprisingly, no major clash is found between the rank-based formal work relationship and managers’ personal relationships; instead, the individual-based informal networking eases the tension imposed by the management hierarchy and assists managers to adapt to the changing and challenging environment, as discussed in previous sections (see Section 9.3). Often, the personal relationships between managers in the same network are explained by analogy with relationships between family members, in which the “brotherly relationship” is adopted by managers of similar position/rank, whilst the “parent-child relationship” is used to describe the relationship between the higher and lower managers. The behavioural obligations attached to these two family relationships can be observed in the interaction between managers. However, almost all managers admit that the premise of these kinds of family-like relationships is the job; “if you cannot work well together, no one will treat you well”.

For dealing with work relationships at the collective level, the top management of CSG believes that the fine traditions of SOE political work can be carried on in private enterprises and will benefit employment relationships and thereby benefit production. Defined as the business partners of company management functions, the political work organs carry the function of stabilizing the workforce, fostering morale and the work spirit, assisting the communication between the company, government supervisory departments and the outside community, enriching the workers’ lives on the site and helping to form the company culture. In practice, they have been functioning very well in most respects, abiding strictly by their defined role. The Company trade union, as well as the other political work organs, including the party council and the Communist Youth League, was fully established in 2009 when the company entered its fifth year. The trade union has become an extension of the administration department and the public relations department in the sense of organising all kinds of events, both at company level and societal level to fulfil the task of promoting the company image. Pictures 16, 17 and 18 show the celebration of CSG’s 4th anniversary, for which one of the major organisers was the trade union. The party council serves as the ‘managers’ home’ to unite the key management personnel, since most of the managers at middle level and above are communist party members or members of other democratic parties. Through inner-party democratic life and other social activities, the company tries to satisfy managers’ need for relatedness and growth and eases the sense of an instrumental relationship between them and the enterprise. In similar ways the Communist Youth League, assisting and supplementing the party council, is used as a tool to manoeuvre young staff positively and inspire the spirit in them of dedication to work (see Picture 19).



Picture 16: The celebration of CSG's 4th Anniversary.



Picture 17: The celebration of CSG's 4th Anniversary.



Picture 18: The celebration of CSG's 4th Anniversary.



Picture 19: The shock force of the Steel Plate Planning SBU.

However, in dealing with labour disputes and conflicts, the political work organs have shown no advantages over management functions. The HR department, in terms of coordinating



the employer-employee relationship at the collective level and individual managers, still take the major responsibility of handling individual grievances within their scope. As labour-capital problems have continued to rise in recent times, managers have been pushed to the front line in conflicts. During the fieldwork in CSG, a protest at wages being paid in arrears was observed and the process of handling it helped to clarify the managers' role, in particular senior managers' situation in this matter. The following is an extract from the fieldwork notes:

“The interview with Mr W, the Vice Head of Offshore Engineering SBU, in the morning was interrupted for a while by an unexpected labour protest. The loud noise boomed out from the main entrance [of the administration building] below. I looked out of the window of Mr W's office and found that around two hundred workers were standing in front of the building, blocking the main entrance and chanting slogans. It seems that this action was organized. Soon, more security people arrived and formed a line between the workers from the entrance. Mr W told me that these workers are employed by subcontractors. This wasn't a serious situation compared with the one earlier this year. It was the Lunar New Year's Eve. The angry workers flung into the building and surrounded the senior managers' office [on the fourth floor of the administration building]. They shouted that if they couldn't get paid, they wouldn't allow anyone to leave the building. After several hours, the senior managers involved, including the HR Director, the CFO, the CMO and other VPs, were still trapped in their office. So, in the end, the security people had to press forward through the crowd and bring the managers out one by one. It was like a battlefield. It was said of one of the managers that 'his legs were so weak he could hardly stand' when he was freed by two security guards. When I finished the interview with Mr W at noon, the protest was still going on. W sighed with emotion that 'work has become more and more difficult for us because we are not only under enormous work pressure from the company but also regarded by workers as the main target in every conflict. Almost every manager involved felt afraid, hurt and powerless facing an angry crowd, but they could do little to change the situation'” (Fieldwork Notes, June 19 2009).

Revealed in the labour-capital conflicts and managers' experience, the sentimental veil previously covering collective work relationships is torn away and reduced to a mere money relation, no matter how hard the company has striven to reproduce the traditional family-like atmosphere. All the managerial staff are regarded as agents of the company's management system, representing the company's will and protecting the company's interests, while the managers as fellow employees are ignored, in the mind of the average worker, which worsens the work environment for managers.

## **9.8 Conclusion**

This chapter presents a study of the management and managerial work in the type of highly market oriented private enterprise whose development contains frequent complex exercises of restructuring the corporate structure, organisational structure and production and management systems.

The evidence shows that these changing corporate level programmes, although primarily launched to respond to market forces so as to keep the case study firm alive, have exerted

great influence on managers' work and life experience in the workplace: first, the development of the management system failed to keep the pace with CSG's unusually rapid expansion, which generated great pressures and challenges for the managerial staff in the sense that they had to work within an environment devoid of efficient and well-coordinated administrative support. As a consequence, long working hours, more workload and more job responsibilities are demanded from individuals to compensate for the weakness of the management system. Second, with the production line further divided into specialized sections and units and the establishment of more corresponding production management departments, the entire management system has shown an obvious trend to become fragmented and managerial work has been confined to a narrower scope. Third, the management style of power centralisation reduced the freedom of managers to manoeuvre. Fourth, the firm's exclusive focus on profit and cost and its purposeful monetary and materially centred incentive principle led to a change in the values of managerial staff, for instance, loyalty and the sense of responsibility becoming less important than self-interest and self-protection. Fifth, the tight control on managerial staff stirred up feelings of discontentment and led to their distrusting the employer-employee relationship. Sixth, managers' social interaction plays an essential role in managerial life to compensate for the inefficient or eradicated management functions and provides guidance in understanding managerial behaviour, for example, managers' internal mobility patterns, and their patterns of association and communication.

In general, the above facts suggest that highly market-oriented development could lead to an increase in a firm's internal instability and the exposure of managerial work to external forces, which would result in a greater sense of insecurity for individual managers. Conflicts manifest themselves in all aspects of the firm's management and managerial life. Although the generalizability is low, due to the limited number of firms under scrutiny, this demonstrates that so far China's private enterprises have been unable to develop effective solutions to cope with the problems imposed by the pressure of an increasingly globalized market economy, but that people can diminish the impact of these through individual social behaviour.

To widen the scope, many cases have been documented in the Western literature to describe similar organisational change and restructuring exercises and their impact on managerial work, in which the LPT perspective provides theoretical support for understanding these phenomena. In this study, aside from the development trends in the production and management system, the major changes in managerial work, in particular, the fragmenting this work and the specialization of skills, match the core thesis of LPT. But since China is still experiencing transition, the institutional environment is far from mature,

which adds some unique features and much complexity to its business environment. As a consequence, the features and complexity of the Chinese case should be taken into consideration in addition to the similarities found in its Western counterparts.

As regards the social aspect of managerial work, Chaxugeju offers the major behavioural principles for managers. Occupational relationships constitute the most important relationships in managers' social interaction and the obligations attached to social relationships are still highly regarded by managers. But there is no denying that these traditions and values in Chaxugeju are faced by new values and management ideas promoted by new production and management systems, which render the managerial behaviour in the workplace more complicated.

Having presented the last case study, the management and managerial work in the company based on private investment in this chapter, the next chapter take a cross-case view of the four case chapters and combines them. The essential findings in all four cases are summarized and the main issues which arise are further discussed. The purpose of this is to present a united picture of management and managerial work and their development trends in China's private enterprises.

## **Chapter Ten: Managing under private ownership – A synthesis**

### **10.1 Introduction**

Chapter 6 to Chapter 9 presented four separate case studies involving seven companies so as to give an integral picture of the management and managerial work in each type of private company contained within. The fact that the case study companies derived from different roots with different historical legacies and were at different stages of their organisational development has led to reasonable differences in their management and practices. But in the meanwhile, substantial similarities were also found between the case study companies. A general picture of management and managerial work in private companies thus requires us to combine the four types of case study company and to look for a sensible way of accounting for both the diversity and the convergence between the cases. In this chapter, a cross-case comparison is conducted to clarify the key issues reflected in the cases, followed by in-depth analysis and discussion with respect to the existing literature before a brief conclusion.

### **10.2 Management restructuring: a hybrid system in the making**

Management restructuring was considered by all the companies in the four chapters as the obligatory step leading to better performance. Coming from different roots of origin in ownership, the case companies were found to have adopted four different reform strategies for their management system, and the interviews conducted with their top and senior managers indicate that the ownership origin is one of the fundamental factors in assessing the management status of a company in its capacity to account for the inherited features of the companies' structure, management practices and culture. It defines the 'groundwork' (e.g. the financial condition, the employment relations, and the infrastructural conditions.) on which a company can decide how to build or revise its management architecture. Thus, OSG abandoned its SOE "heritage" completely after acquiring the enterprise and transplanted the new management philosophy and work ethic through establishing a brand-new production system and integrating management functions into production; the privatised SOEs, NSG, YSG and JSG adopted a strategy of gradual reform to achieve a smooth transition in management system; ASG and HSG relied exclusively on high technology and machinery to improve their production but left their management style strong recalling the features of a family business; and CSG, as a cross-sectoral invested private enterprise with zero beginnings, absorbed whatever kind of method and practice into its management system that would facilitate its adaptation to the market. But looking beyond the diversified surface-level practices and the respective progress of the firms in making changes, the

management restructuring in all four types of company shared some essential features.

***First, the restructuring exercises in all the case study companies aimed to establish a production-centred internal operation system.*** Management functions, procedures, rules and regulations were redefined or reorganised in the production system, for the production system and by the production system. The term “scientific management” is the code in the case companies for an advanced management model, which exactly bears the same meaning as Taylor’s (1911) or Braverman’s (1974) in their description of capitalist production – standardize as much of the production procedure as possible, break down the complicated operations into simple, fragmented, repetitive exercises and use technology to transform the production system and boost the efficiency of production. The case study companies have been practising the tactics prevailing in these advanced management modes as regards, for example, continuously and compulsorily downsizing the workforce, in particular in non-production departments (except for CSG, since it is still in its fast expansion stage), restructuring or merging departments and delayering management bureaucracies, all of which have been well documented in the recent research conducted in different advanced capitalist countries (e.g., McCann, Hassard and Morris, 2010; Hassard, Morris and McCann, 2009; Litter, *et al.*, 2003; Lashley, 1995; Morden, 1997). In this respect, the Chinese private enterprises, whatever their historical roots, show no difference from the business organisations operating in advanced capitalist economies.

This convergence between the case study companies and between them and their counterparts in advanced capitalist economies implies not only the influence of globalization and the pressure from the world market but also reflects the strong faith held by Chinese private enterprises in the Western style management model, in particular, their confidence in technology (including advanced manufacturing equipment and all sorts of specialised software applicable to production and management) for making immediate changes to the firms. As a consequence, all the case study companies achieved a certain degree of structural integration in the following respects: 1) more flattened organisational structure and management hierarchy. As regards the case of CSG, although its management hierarchy has been extended in general during the latest business and organisational structure restructuring, its SBU system indeed enables its production system to be more focused; 2) more effective integration of differentiated activities, a clearer interface between the departments and a closer collaboration in the course of the production process, which contrast with traditional Chinese organisations with their “high degree of differentiation of activities” and large number of staff sections carrying responsibilities which overlap with those of production workshops (Lockett, 1988: 476); 3) a more differentiated business strategy (rather than competition) between the subsidiaries of each company, which is of



benefit to the formation of complementary and supportive relationships.

***Second, the transformation of the management system in the case study companies is accompanied by a mixed management ideology consisting of the basic ideas, assumptions and beliefs from Western modes of management, traditional Chinese management modes and a small proportion of communist doctrine.*** Although OSG is regarded as the most mature and most completely transformed private enterprise, its corporate culture construction practice has to incorporate the classic communist doctrine of “being unselfish and dedicated at work” to mitigate the negative impact from the company’s exclusive focus on productivity, profit and individual gain and loss and the tension between different managerial groups. In the case of YSG, NSG and JSG, the change of production mode, management and the pursuit of efficiency and productivity are all placed under the banner of “the interests of all employees” and the cadre and political work ideology constitute the most important part of the nurturing and training of managers. In the case of ASG and HSG, although the top management has making an effort to depart from the management mode of a family business to a more formal management mode, the situation reality still indicates the reverse. That is, the family management ideology remains dominant, management ideas have flowed in with the interchange and renewal of personnel from outside. As for CSG, the company defines its management ideology as “to run the corporations for the sake of giving the shareholders greater satisfaction”, which is identical to the mainstream management ideology prominent in advanced capitalist countries, for example, the United States, Britain, the other European countries and Japan (Lazonick and O’Sullivan, 2000; OECD, 1999). However, in its recent practices, more traditional elements and SOE rationale have been re-introduced into the corporate value system. The reason behind this phenomenon is two-fold. From the macro perspective, China’s introduction of a capitalist market economy has never promised full transition to a capitalist society since the other state institutions remain unchanged (Wang, 2002). Further, every enduring society is made up of not only a set of institutions but also their corresponding ideology, which helps production in so far as it produces the kind of labour that fits into its production mode (Althusser, 1971: 127-85). As a consequence, China’s capitalist economy, whether it is a “socialist market economy” (Warner *et al.*, 2005), a “capitalist economy with socialist elements” (Wang, 2002) or a capitalist economy with Chinese characteristics (with or without socialist parts), has to face the disjunction between the economy and its underpinning ideology and the collision between the transforming economic system and the remaining social institutions of the society. When the situation is translated into the business practice of embedded economic units, there is no doubt that they will encounter the same challenge. Therefore, it is in need of a compound ideology to encourage the imported business apparatus (practices and principles) to adapt to the internal environment of the firm, which

was exemplified in the case companies by their efforts to maximize the use of traditional values and SOE rationale. In the meantime, the cases show that a supportive management ideology cannot be formed in the short term.

This aside, at the firm level, there are several other factors that contribute to the emergence of the mixed management ideology. The work experience and educational background of top and senior managers are found particularly relevant to the extent to which and the way in which a “new ideology” can be adapted to the organisation. On the one hand, the profile of the owners of private enterprises has in the last two decades been dramatically improved as far as educational background is concerned (Chen, Li. and Matlay, 2006), which to some extent should be attributed to the increasingly healthy state of business and management education in China. Since the Chinese business and management education in general has been dominated by Anglo-American knowledge systems (Birkinshaw, 2011; Mayer, 2006), the owner managers’ pursuit of advanced management knowledge, either through degree courses or intensive professional training inevitably contributes to the infusion of Western mainstream management thinking and ideas to their organisations. The evidence from the case study companies indicates this fact clearly. All the main investors of these seven companies have acquired masters’ degrees in executive business administration or are studying on the programme, either at a top Chinese business school or an American business school. The impact of these educational experiences can be traced in the main aspects of each company, for instance, in their vision and business strategy. In particular, it leads to the passion in owner managers for hiring foreign management experts and management talents with a solid background in management education. In addition, with the deepening of interdependence with the global economy, more international industrial standards and universally required management principles have become mandatory for the companies which are ambitiously competing in the capital market. The involvement of external agencies, for instance, consulting firms, professional service companies, certification companies for Quality Management systems in IPO, management restructuring, corporate restructuring and other important activities of the company, serves as another important channel interconnecting with the world’s mainstream management. However, the establishment of the new labour market since China’s economic reform makes labour mobile between different types of organisation. Because it is booming, the private sector is attracting an increasing number of talents. As a consequence, it is not surprising to find that the key management personnel of a sizeable private enterprise often consists of managers from SOEs, MNCs, JVs, other private enterprises or even overseas specialists. No case study company is exceptional in this regard. And each of their combined management teams inevitably contributed to the forming of a combined management ideology, while the diversified management thoughts and ideas competed with each other, collided with each

other, or melted away during each company's management practices.

***Third, the power structure in the private enterprises did not change before, during or after the management restructuring or corporate restructuring exercises; instead, the general trend towards power concentration intensified during the process.*** The evidence from all the case study companies reflects this trend, whatever the firms' ownership origin, size or history. As enterprises evolved from family businesses, ASG and HSG became fully controlled by owner-managers at the top, with the principal owners taking on the positions of both Director of the board and general manager. YSG, NSG and JSG were managed in their SOE days by a panel of government appointed cadres. During the management buyout, when the cadre-managers became owners, the controlling power of the companies was re-divided between the owners according to the proportion of shares they held. With the enterprises being restructured for IPO purposes, minority shareholders were bought out and the controlling power was further concentrated in the hands of the principal shareholders. Some positions were given to non-owners at top management level, but the major shareholder is the one who holds the ultimate power. Compared with the family-business-derived and the SOE-transformed enterprises, in OSG and CSG, the professional managers work under the title of either general manager or CEO, enjoy greater decision making power at work and have a clearer boundary of responsibility between them and the principal owner of the enterprise. But the principal owners are still found to directly intervene in every aspect of the operation of the enterprises. And there is no exception to the rule that in all the case study companies the essential functions of finance and accounting, marketing and personnel management are under the direct management of the principal owners. And the owner's dominance in the exercise of power continued even after the private enterprises were converted to publicly listed firms. This suggests that power concentration in an owner's hands is a distinctive and common feature of corporate governance in Chinese private enterprises, regardless of their stage of development. And owners' interference and direct involvement in day-to-day operation and management are long-lasting and widely accepted practices in these firms. However, it is hard to define the direction of development for corporate governance in the private enterprises. Obviously, this can neither be regarded as the mode of family business, due to its basic principle of excluding the owner-managers' family members from having and exercising substantial financial and managerial control, which runs counter to the essential feature of family businesses defined by Ward and Aronoff (1990)<sup>23</sup>; nor can it be considered the same mode of corporate governance as in the "modern corporations" of mainstream capitalist economic thought, whose ownership is separated from managerial control – the shareholders have lost

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<sup>23</sup> In Ward and Aronoff's (1990) definition, family businesses are defined as owner-managed enterprises with family members exercising considerable financial and/or managerial control.

control over corporate matters and their control function derived from ownership has been replaced by that of management (Berle and Means, 1933).

The power concentration in the owner's hands leads to four main consequences: first, it results in centralized decision-making, which helps the firm to maintain efficiency in reacting to fast changing markets and to make quick decisions. But in the meantime, it also entails the possibility of having changeable decisions and policies leading to instability in management. Second, it is very unlikely that the principal-agent issue and/or the principal-principal issue will turn into serious problems to the company. Third and relatedly, there is also no possibility of "real democracy" in management, let alone employee participation. Although the governance mechanism of the firm may mirror that of the corporation in the mainstream capitalist economy, which is usually constituted by, for instance, a board of supervisors, board of directors, independent directors, stockholders' meetings and employee representatives' meetings, it plays no substantial part in actual governance. Fourth and last, the authoritarian leadership style is found prevalent in the firms, often accompanied by an intentionally promoted family-like atmosphere. This is discussed in more detail below.

To sum up, the management restructuring and its consequences constitute a general context within which the evolution of the management system of private firms is influenced not only by internal factors in the firm but also by external forces driven by the transition of the national economy, the cultural and historical inheritance of the country, globalisation and the interaction between different capitalist economies. And the managerial work under such a continuously updated management system, typified by a production centred and technology based operation system, a mixed managerial ideology and the concentration of power, is inevitably under the influence of factors at different levels and in different aspects. Therefore, the understanding of the term 'managerial work' in the following sections will not be limited to the micro-level (individual and firm level), but be positioned in the broader nexus of all the related factors and aspects.

### **10.3 People management: the system in evolution.**

The function of people management is one of the most important constituents of a firm's management system, a deciding factor in creating a good working environment, which ultimately plays an important role in maintaining good employee relationships. Table 6 displays the major personnel management practices in the case-study companies. Across these companies, there are some differences in the main aspects of people management policies and practices, which can be attributed to the specific situation of each

**Table 6: Personnel management and practices in the case-study organisations (up to Dec., 2010)**

	<b>CSG</b>	<b>OSG</b>	<b>NSG</b>	<b>YSG</b>	<b>JSG</b>	<b>HSG</b>	<b>ASG</b>
<b>Demographics</b>							
<b>Total employees (approx.)</b>	26,000	20,000	21,300	21,000	4,000	2,300	2,600
<b>Formal employees (approx.)</b>	10,000	6,000	4,700	3,800	1,000	1,600	1,200
<b>Subcontracted employees (approx.)</b>	16,000	10,000	18,300	17,200	3,000	7,00	1,400
<b>Managerial staff</b>	1,549	540	590	380	98	149	121
<b>Managerial staff accounting for formal employees (approx.)</b>	15.49%	9%	12.6%	10%	9.8%	9.3%	10%
<b>Managerial staff accounting for total employees (approx.)</b>	6%	2.7%	2.8%	1.8%	2.5%	6.5%	4.7%
<b>Responsible Department</b>							
<b>Title</b>	Human Resources Department	Human Resources Department	Human Resources Department	Human Resources Department	Human Resources Department	Comprehensive Administration Department	Comprehensive Administration Department

	CSG	OSG	NSG	YSG	JSG	HSG	ASG
<b>Recruitment and Selection</b>							
<b>Managerial staff</b>	<p><b>Top:</b> mainly through recommendation;  <b>Senior:</b> the majority through recommendation and a minority of people hired through open recruitment;  <b>Middle:</b> half through recommendation, half through open recruitment;  <b>Front-line:</b> hired from local market or internally promoted</p>	<p><b>Top:</b> through recommendation or open recruitment;  <b>Senior:</b> half through open recruitment, half through internal development and promotion;  <b>Middle:</b> half through internal development, half hired through open recruitment;  <b>Front-line:</b> internal labour market or local market preferred</p>	<p><b>Top:</b> through internal development and promotion;  <b>Senior:</b> most through internal development and promotion, only a few hired through open recruitment;  <b>Middle:</b> through internal development and promotion  <b>Front-line:</b> hired from the local market or internally promoted</p>	<p><b>Top:</b> mainly through internal development and promotion, a few people hired through open recruitment;  <b>Senior:</b> most through internal development and promotion, only a few people hired through open recruitment;  <b>Middle:</b> most through internal development and promotion,</p>	<p><b>Top:</b> mainly through internal development and promotion, a few people hired through open recruitment;  <b>Senior:</b> mainly through internal development and promotion, a few people through recommendation;  <b>Middle:</b> through internal development and promotion, a few people from recommendation;  <b>Middle:</b> through internal development and promotion  <b>Front-line:</b> through internal development and promotion</p>	<p><b>Top:</b> mainly through internal development and promotion;  <b>Senior:</b> mainly through internal development and promotion, a few people from recommendation;  <b>Middle:</b> mainly through internal development and promotion, a few people from recommendation;  <b>Front-line:</b> internal development and promotion</p>	<p><b>Top:</b> mainly through internal development and promotion;  <b>Senior:</b> mainly through internal development and promotion, a few people from recommendation;  <b>Middle:</b> mainly through internal development and promotion, a few people from open recruitment  <b>Front-line:</b> hired from local market or internally</p>

				a few people hired through open recruitment and recommendation; <b>Front-line:</b> hired from local market or internally promoted	<b>Front-line:</b> hired from local market or internally promoted		promoted
<b>Non managerial staff</b>	Local labour market-based recruitment supplemented by recruitment in less developed areas	Local labour market-based recruitment	Local labour market-based recruitment supplemented by recruitment in less developed areas	Local labour market-based recruitment supplemented by recruitment in less developed neighbouring areas	Local labour market-based recruitment supplemented by recruitment in less developed areas	Local labour market-based recruitment	Local labour market-based recruitment preference supplemented by recommendation

	CSG	OSG	NSG	YSG	JSG	HSG	ASG
<b>Payment and Benefit</b>							
<b>Pay level (Basic pay)</b>	<b>Management posts:</b> higher than industry average <b>Non-management posts:</b> higher than industry average	<b>Management posts:</b> lower than industry average; <b>Non-management posts:</b> lower than industry average.	<b>Management posts:</b> lower than industry average; <b>Non-management posts:</b> lower than industry average	<b>Management posts:</b> at industry average level; <b>Non-management posts:</b> at industry average level	<b>Management posts:</b> at industry average level; <b>Non-management posts:</b> at industry average level	<b>Management posts:</b> at industry average level; <b>Non-management posts:</b> at industry average level	<b>Management posts:</b> at industry average level; <b>Non-management posts:</b> at industry average level
<b>Incentive pay</b>	Project based incentive pays for managers in production departments; annual bonus scheme for all staff.	High project based incentive pay and annual bonuses for managers in production departments.	High project based incentive pay for managers at middle level and above.	Project based incentive pay for managers at middle level and above; Stock share award and house-purchase allowance for	Annual Bonus scheme	Project incentive pays and annual bonus scheme for managerial staff.	Annual bonus scheme for managerial staff.



				long-serving managerial staff.			
<b>Welfare</b>	Mandatory social insurance	Mandatory social insurance	Mandatory social insurance	Mandatory social insurance	Mandatory social insurance	Mandatory social insurance	Mandatory social insurance
<b>Others</b>	Accidental Death & Disability Insurance for all production staff	–	–	–	–	–	–
<b>Mobility</b>							
<b>Internal mobility</b>	High at middle level and above; low at the remaining levels	High at middle level and above; low at the remaining levels	Low	Low	Low	Low	Low
<b>External (Annual staff turnover of formal employees)</b>	13.8%	8%	2%	2%	1%	1%	1%
<b>External (Annual staff turnover of subcontracted employees)</b>	39%	30%	15%	15%	20%	10%	10%

	<b>CSG</b>	<b>OSG</b>	<b>NSG</b>	<b>YSG</b>	<b>JSG</b>	<b>HSG</b>	<b>ASG</b>
<b>Training</b>							
<b>Managerial staff</b>	Limited management training provided to middle and senior managers	No management training provided to managerial staff	Limited management training provided to middle managers	No management training provided	No management training provided	No management training provided	No management training provided
<b>Non-managerial staff</b>	Basic skill training provided	Basic skill training provided	Basic skill training provided	Basic skill training provided	Basic skill training provided	Basic skill training provided	Basic skill training provided

- Notes:** 1. Formal employees – Employees hired directly by the company; Subcontracted employees – employees hired by outsourcing companies.  
2. The category of managerial staff includes the entire managerial staff across the management hierarchy.

firm. However, substantial similarities are also found between their policies and practices. Juxtaposing the differences and similarities, we can see the current status and critical development trends of the people management domain in these private enterprises and gain a better understanding of the underlying reasons for their adoption of certain ways and methods in managing human resources. In particular, this answers such questions as what constitutes the people management system in the context of China's private enterprises and what is the root of the people management policies and practices.

***First, the policies and practices of people management in the private enterprises largely revolve around the central business strategy of 'reducing cost' and 'increasing profitability'.*** Although these two strategies can be manifested in various ways and implemented separately, labour cost control in the case study companies is found to be the essential means of uniting and implementing both of strategic aims at the same time. This is determined by China's rich and cheap labour resources, which allow Chinese manufacturing firms to remain competitive in the international market (Cooke, 2008). As such, obtaining a sufficient labour force at a reasonably low labour cost becomes essential for private firms to survive the competition from the SOEs, JVs and WOFEs (Wholly Owned Foreign Enterprises) in the industry. In this sense, except for CSG, the pay level (including the base pay and the floating pay) in general in all case study companies has been carefully maintained at the average or lower for the industry and all of their employee welfare and benefit schemes are reduced to the mandatory minimum level. In order to ensure the normal operation of the firm on such terms, the other related functions of people management are adjusted accordingly. The recruitment of workers by the firms focuses on the local labour markets and on remote or less developed areas so that the impact of the rise in labour costs can be partly neutralized by regional factors (e.g., regional income differences, low regional consumption levels). A large number of contingent workers are hired either through third party employers or subcontractors. Meanwhile, the firms give more priority in general to internal promotion in terms of filling the managerial posts, leading to lower salary requirements and a lower recruitment cost. An obvious fact is also noticed in all the case study companies that they have invested very few or no funds in management training; even in CSG, a firm which repeatedly stresses the importance of providing decent and sufficient training to managerial staff, only senior managers and some middle managers are included in regular training programmes. This should not be taken to imply that private enterprises are not willing to develop their talent; it reflects the financial pressure they are under. For a long time, China's private sector has suffered from policy discrimination and limitations and uncertainties in terms of financing its development (Tam, 2004; Li *et al.*, 2009). Integrating its limited financial resources to concentrate on production thus becomes a reasonable choice. It is not surprising to find that six of the seven case study companies have no plans for

management training. In addition, the tight production schedule also makes systematic training unrealistic. This is illustrated in Chapter Seven, by the fact that the management training programme of NSG had to give way to the production schedule.

***Second, the policies and practices of people management in the private enterprises reflect a strong tendency of risk avoidance and minimization.*** This does not conflict with the strategy of reducing labour costs; instead, the two mutual reinforce one another. Whether or not the firm had an SOE origin, little trace of the orthodox employment system of the old planned economy, whose slogans were the 'iron rice bowl' (life-time employment), the 'iron wage' (centrally administrated wages) and the 'iron chair' (the state-controlled appointment and promotion of managerial staff) (Ng and Warner, 1998), is found in the current people management policies and practices of the case study companies. Instead, a set of rationales is revealed in the case study companies' practices: i) the firms give special attention to individuals' moral standard and loyalty during the process of recruiting or assessing managerial staff; ii) long-serving staff are more likely to be trusted and included in middle-term and long-term reward schemes, despite the lessening importance of seniority indicated by the managers in the firms; iii) the firms prefer skilled workers to junior workers and hire more retired technical and management personnel or those at a late stage of their career; iv) when hiring for crucial posts, the firms mainly rely on recommendation if the talent has to be brought in from outside; v) a psychological contract is employed to convince employees of their job security. This is not a complete list of the related people management practices, but it is more than sufficient to show us the firms' efforts to enhance the workforce's stability. This shows not only the firms' reaction to the increasing competition for talent in the industry, but also the firms' self-protection from the changes in labour legislation. Since China's Labour Law was first enacted in 1994, major changes have occurred in China's economic structure and in the employment system. If the 1994 law labour was considered the first step in the emergence of Chinese labour market in the market economy (Warner, 1996), the follow-up 2007 labour contract law took the legislation one step further to "offset the abuses and poor working conditions particularly common to Chinese labour, as well as to minimize labour-management disputes and stabilize the job market" (Utterback, 2006). In its design, this law may help to stabilize labour relationships and benefit the development of the enterprises in the long run, but in practice, it may have gone too far in favouring workers' rights and to have created problematic employment situations for all types of enterprise, the private firms in particular (Li *et al.*, 2009). According to the new law, an employee may terminate his employment contract upon 30 days' prior written notice to his employer; and during his probation period, he may terminate his employment contract by giving his employer three days' prior notice (Law of the People's Republic of China on Employment Contracts, Article 37). Compared with the 'zero cost' to the employee, the

discharge or termination of a labour contract for employers is much more difficult. In most circumstances, economic compensation must be paid to the employee; this even applies to situations where the fixed-term contract has expired and the employer chooses not to renew it (ibid., Article 46, 47, 48, 87). In addition, employers must pay a social security premium for their employees (ibid., Article 17, 59). Employers must not force workers to work overtime or do so in a disguised form; employers who arrange overtime work shall pay their worker for the overtime work in accordance with the relevant provisions of the state. (ibid., Article 31). Employers who fail to pay a worker full remuneration or overtime remuneration on time as stipulated in the labour contract or prescribed by the state shall be ordered by the labour administrative department to pay the remuneration, overtime remuneration or economic compensations within a time limit. If payment is not made within the time limit, employers shall be ordered to pay an extra compensation to the worker at a rate of not less than 50 per cent and not more than 100 per cent of the payable amount (ibid., Article 85). For private enterprises, the law in general and the above provisions in particular results in a significant increase in management costs, weakened control on labour and a rising rate of staff turnover. Some deeper problems were exposed in the case study companies during the implementation of the law – there exist significant differences between employers and employees in their understanding of the provisions. For example, some of the employees believe that they have nothing to fear because under the protection of the new law the enterprise cannot dismiss them at will, which leads to less enthusiasm for work among employees, less working efficiency and an increase in labour disputes. In addition, due to the time needed for the current labour dispute arbitration system, which takes about 12 months to run its complete course, individual incidents often escalate. Thus, labour-intensive manufacturing enterprises, such as the case study companies, have to confront more and more collective disputes and bear higher labour costs. So far, the above policies and practices of people management among the firms have played a part in withstanding the wild mobility of external labour. However, given the changing legal environment and the fierce competition in the market, persistent efforts on the part of firms are required to constantly adjust their people management policies and practices, within which risk avoidance and minimization are anticipated to set the tone for the long-term guiding ideology.

***Third, the evolution of people management in the private enterprises varies considerably in terms of adopting and implementing 'human resource management systems' (HRM systems).*** As found in the case study companies, the role of the people management department, the organisation of the department, its personnel configuration, the responsibilities, its interface with other departments, even its title can vary from one firm to the next, let alone the HRM practices, ranging from very limited to the reverse. These firm-level differences may be bewildering and incapable of giving us a clear view of the

development path and status of the people management function in private enterprises. Thus, a deeper understanding of this issue regarding the overall development of HRM in Chinese enterprises should bring in the broader context. At an earlier stage of China's economic reform, researchers argued that there were no recognizable conceptions of HRM in the management structure and practices in Chinese enterprises (Child, 1994). Some added that that was not the right time even to use such terminology to describe their personnel practices (Warner, 1993). With more multinationals and the start of business operations by Sino-foreign enterprises in China, HRM policies and practices were transferred to the local ventures and later with some modification were transplanted into other domestic Chinese enterprises (Warner, 2002 and 2008; Cooke, 2008). Recent studies confirm the emergence of a hybrid HRM system in Chinese enterprises in general, but the specific constitution of an HRM system may vary from enterprise to enterprise according to each firm's own conditions; for example, the size of the firm (Aldrich and Ruef, 2006) and its type of ownership (Warner, 2002 and 2008). In addition, a firm's implementation of HRM can take one of three major forms, according to researchers: the minimal, the transitional and the innovative (Benson and Zhu, 1999).

In the case study companies, size and type of ownership are both found to be relevant to the development of their people management system. But the 'ownership type' in this case is apparently different from the common classification of Chinese enterprises, for example, SOE/JV/POE/WOFE; it means both the original ownership and the current ownership of the firm. For some case study companies, such as CSG, YSG and JSG, introducing and implementing 'international standardized HRM' became essential when they entered the international capital market. The status of their HRM implementation is approaching the innovative model in which a recognizable HRM configuration has been relatively significant. For the others, such as NSG and OSG, selecting the most useful and suitable parts of an HRM system and combining them with the existing system have been the preferred strategy. Accordingly, they can be considered as exemplifying the second form, that is, in the middle of the transition process from traditional personnel management to new HRM practices. For the two remaining case study companies, i.e., HSG and ASG, the management of their human resources has not become a separate function; and they are not ready yet to embrace an HRM system but may adopt a few tactics or practices into their existing system. In this sense, they should be positioned in the minimal class. But no matter how far the HRM develops, the role of traditional Chinese values at the root of a firm's people management system has not changed and cannot be ignored. It is more convincing to regard the values underpinning the people management practices (discussed in the proceeding sections), such as loyalty, long-term oriented policy making, relationship-based trust, as part of the traditional Chinese value system, rather than seeing in them the continuing traces of

communist values or Western or Japanese HR philosophy (Sheng, 1979, Lee, 1996; Wright et al., 2000). The traditional values have long been incorporated into Chinese management, pre-dating Communism and functioning not only in private firms, but Chinese firms of all kinds (e.g., Chinese-Western Joint Ventures) (Björkman and Lu, 1999).

Taken as a whole, the current people management system in China's private enterprises is experiencing rapid and profound changes. Its evolutionary character (Warner, 2008) is largely determined by the boom in China's market economy and the transition of the nation's institutional environment. But the isomorphism of people management in private firms, which is forced by external factors, cannot mask the disparities in individual firms' choices of ways to improve their people management systems (e.g., what should be changed? when it should be changed?) Firms have not blindly replicated so-called advanced Western, Japanese and Korean sets of HRM practices; instead, HRM designs and practices are found in combination with or based upon Chinese traditional values so as to improve their adaptation to the Chinese context. Since the people management system can exert substantial influence on the people working within it, it is reasonable to believe that the characteristics of the system are highly relevant to any changes in jobs and people's behaviour. The following section considers this issue.

#### **10.4 Managerial work: survive the changes with 'old' wisdom**

Given the contextual settings discussed in the preceding sections (sections 10.2 and 10.3), the managerial work embedded in them shows some fundamental changes, which can be summarized from three aspects: the managerial job; controls and incentives; and relationships, managerial behaviour and ethics.

##### ***Managerial job***

Managers' accounts of their jobs across the four types of private enterprises show a surprising similarity that features changes on two major respects: first, the scope of the job has been expanded both horizontally and vertically, which has led to the massive growth of tasks and responsibilities. Longer working hours are now the simplest and most straightforward solution for managers to cope with the growth of their workload. And the increase of job intensity is also found to be a common phenomenon in the firms. Not only have managers spontaneously extended their working hours, but also firms have scheduled more and more official activities (e.g., meetings and ceremonies) in non-working times. And such practices, for example, working six days a week, were normalized and fixed as common practice in the industry, although some of them may contradict the related legal provisions. Thus, the boundary between working and non-working times has become blurred and managers have accepted the logic that work must be put before anything else, as work

gradually encroaches on more and more of their private life. The higher the managers' position in the hierarchy, the more significant this trend can be.

Second and related, the knowledge and skills that are needed for undertaking the jobs are increasingly demanded as more and more managers have to take on multiple roles following the expansion of scope in their job. Purely technical positions have largely been replaced by compound managerial positions after the restructuring of management, the production system or the organisation itself. Some skills, such as English, the use of computers and software are considered basic and obligatory ones for all managerial staff. In the case of CSG, accounting skills are compulsory for all middle and senior managers. However, skill improvement and knowledge updating in almost all cases are pursued by managers as forms of self-improvement. Two out of the seven case study companies organized skill training sessions for managers, but the training in one firm (NSG) was interrupted, while in the other (CSG) it is limited to senior managers only.

Viewed from a broader perspective, the changes in the managerial job summarized above bear close resemblance to those in the managerial labour process in the corporations of such mature capitalist economies as the USA, the UK and Japan (see Burchill et al., 1999; Fraser, 2001; Bunting, 2004; McCann, Morris and Hassard, 2008, 2010; Hassard, Morris and McCann, 2009). Just as "the transition to a mature industrial society entailed a severe restructuring of working habits" (Thompson, 1967:57), the last decades of the twentieth century witnessed another sharp and violent instance of restructuring (Bunting, 2004). Regardless of the stage China's industrialization has reached, as it increasingly becomes involved in the global economic system, it too is experiencing this new round of restructuring of working habits.

Like managers' obedience during the change process, which is documented in the Western literature (e.g., Bunting, 2004), managers in the case study companies calmly accept these job changes. In fact, their attitudes show that they have realized clearly that this is what jobs would look like in the capitalist production system and they have no choice but to cooperate. As long as the company carries on a never-ending pursuit of greater efficiency and profitability at less cost, their job demands will continue to increase. The only problem remaining to them is how much of this 'squeeze' they can take. Considering China's undeveloped and incomplete labour legislation and the lag in labour protection, in particular with regard to private enterprises in which substandard labour and employment management is widely believed to be a long standing issue (Li *et al.*, 2009), firms may push the base line even further.



To counter managers' claims of deteriorating workplace conditions documented in the Western literature (e.g. in Fraser, 2001), the managers in the case study companies seemed to think that this was not an issue worth discussing. Among the comments collected in the field, most managers gave a positive response to their employers' efforts to improve their workplace conditions; a few managers (see Chapter 6, the OSG case) expressed the opposite view that too comfortable a workplace would only make them lose their sense of urgency and sap their desire to work harder; this opinion was used by the managers to account for the poor workplace conditions in their company. In general, workplace conditions are not a major issue for managers since in most of the case study companies they have been steadily improved with the boom in the firm's business. Obviously, this does not mean that workplace conditions in China's private enterprises are much better than in their Western or domestic counterparts, but it does imply that they could be at a different stage of development or that the two countries have a different understanding of their importance and effect on managers.

As regards skills, the LPT thesis of deterioration in craft skill cannot be applied to managerial jobs at the individual level because the jobs call on managers urgently to develop more skills and knowledge than ever, which, again, supports the findings stated in the Western literature (Hassard *et al.*, 2009). However, from the macroeconomic perspective, managers' skill development tends to be affected by the globalizing regional division of labour. In the case of the shipbuilding industry, China is one of the world's main manufacturers of low-to-middle-end commercial vessels; while most of the private shipbuilding enterprises confine themselves to an even narrower product line than that of the other domestic companies and indulge themselves in envisaging the mass production of the ships. Managers in private shipbuilding enterprises, whether production based or non-production based (e.g., like those in all the case study companies) are often found to be dealing with the same product, year after year. In this sense, they were forced to choose a specialist path in their career, which substantially limits the updating of their skill and knowledge. Thus, the skill deterioration thesis remains meaningful when positioned in the broader context of the globalized configuration of production and combined with regional, specific industrial and firm conditions.

### ***Controls and incentives***

As shown in previous chapters (from Chapter 6 to Chapter 9), a variety of managerial control strategies and methods have been employed in the case study companies to make sure that managers behave correctly and perform well in the workplace and in all work-related activities. Those control mechanisms that are formed by a combination of methods are favoured by all the case study companies: these have introduced a technology based

performance evaluation system to specify performance indicators for managers; a financial control system is used to prevent any abuse of company funds; a special unit or a designated department is responsible for the direct surveillance and monitoring of managerial behaviour; an offence reporting or an employee appeal system has been established for the public supervision of managerial staff; apart from HSG and ASG, the case study companies employ military training as a routine method of enhancing managers' obedience and executive power at work; on top of a cultural change programme (in OSG), political education (in YSG, NSG, JSG), specially designed activities, for instance, rituals and study tours (in CSG) have been chosen by individual case study companies to mould managers' moral consciousness and strengthen their self-government.

Although the control strategies and methods are very similar, the firms' actual implementation of the control mechanism varies considerably in terms of formality and rigidity. The firms' understanding of which method should play the dominant part in the mechanism also varies across the four cases. At one end, firms such as OSG lay almost exclusive emphasis on technologically based performance control and rigid financial control; at the other end, firms such as ASG and HSG rely greatly on self-discipline and moral growth among managerial staff; while firms such as YSG, NSG, JSG and CSG stand somewhere in between, tending to clutch at both ends. But the fact that cannot be denied is that managerial life in China's private enterprises has been subject to increasingly tight control. With the aid of technology, more precise performance measurements can be made, which has enabled new criterion to emerge by which employers can judge the contribution of each employee. The question, 'what makes a good employee?' thus receives its simplest answer ever from the managers' side, which is, fulfilling the output goal. Managers have sensed the fading of those tender feelings cherished in the employer-employee relationship of Chinese tradition. This trend was strengthened by the closer monitoring of managerial behaviour and moral standards. In most cases, managers are disgusted by firms' control methods regarding these two matters and interpret them as a sign of mistrust on the employers' part (see Chapter Six, Section 6.5 and Chapter Nine, Section 9.5). The rituals and practices to build up the executive power of managerial staff has actually led to the loss of autonomy in their jobs, now that they are encouraged to act in unquestioning obedience to the orders of their superiors. In most circumstances, managers have to resort to veiling their opinions, as is commonly observed in the case study companies. In fact, it can be regarded as one of the methods by which managers show their resistance and meanwhile protect themselves from carrying more responsibility than their actual power allows.

Across the cases, the function of incentive is found to be closely related to the control mechanism in the way in which it is implemented on the basis of the control mechanism and

that its strategies and methods stay in line with the pattern of this mechanism as presented above. With OSG's money-only incentive and ASG and HSG's equal stress on financial and spiritual incentives standing at two opposite ends and the remaining case study companies advocating monetary dominance and non-monetary incentive supplements somewhere in between, the rising importance of financial incentives is unquestionable. It is accompanied by the ultimate decline of spiritual encouragement. And the financial incentive for managers in the case study companies is mainly short-term oriented, with YSG being the only firm to provide a long-term employee share-ownership scheme which covers managerial staff at middle management levels and above. The employee incentive policies and practices reflect a shift in the firms' belief in what classic scientific management theory argues - that employees are money driven (Taylor, 1911). The response from managerial staff did show a certain degree of acceptance of short-term monetary rewards as an incentive, but at the same time they were expressing disappointment at the absence of other recognition that would satisfy their affective needs, for example, welfare and moral or emotional support.

The control and incentive practices in the case study companies reflect the efforts of China's private firms to establish effective restriction and encouragement mechanisms corresponding to their economic relationship and behaviour at a time when firms' production and management are making the transition to a broader market-oriented capitalist mode. Compared with the old-fashioned control and incentive practices in the past, when a specific and measurable evaluation index was not found in performance management and private enterprises relied mainly on top management's subjective opinion to judge the good or bad managerial performance (Wan and Wang, 2005), the current mechanisms are more developed and capable of producing more transparent criteria as benchmarks for managers, to encourage fairness in the granting of economic rewards. The financially centred values and norms conveyed during the implementation of the control and incentive mechanisms not only triggered emotional response from managers, but also had an impact on the social aspects of managerial life. This is discussed under the heading of relationships, managerial behaviour and ethics in the following section.

### ***Workplace relationships, managerial behaviour and ethics***

Workplace relationships, managerial behaviour and ethics are three interrelated aspects in the workplace of the case study companies. Across the case studies, the workplace relationships can be understood from two perspectives, collective and individual. From the collective perspective, the employer-employee relationship is coordinated through administrative orders; the people management function (either the human resource department or the comprehensive management department) is in charge of it. Although a trade union is established in every case study company, its brief is to assist the management

functions of the firm rather than to act as a collective mechanism for maintaining effective industrial relations. In this sense, capital-labour relationships concerning managers have seldom been dealt with on a collective base. Thus, work relationships at the individual level play a more significant part in managerial life. Interaction between managers is built on three principal kinds of social relationship – those based on geographical origin, those based on career mobility and those simulating family relationships. Accordingly, the managerial behaviour pattern displays the following features: 1) job-related communication is made more efficient and effective through informal channels (personal networks) than formal channels (the hierarchy of the administrative structure); and 2) small groups are formed through managers' social interaction (based on the above three social relationships) to discharge a series of functions, including self-protection, mutual assistance, internal and external job shift and career development, salary negotiation with the employer and resisting internal and external factors which could cause job instability and insecurity.

The feature of workplace relationships and managerial behaviour together reflect the importance of social relationships as a replacement for the formal institutions of a firm. The support generated by individual social interaction compensates for the deficiencies or loss of formal structural support. In the past, managers in China's private enterprises using personal connections to achieve business success was described as happening mainly at executive level (Xin and Pearce, 1996), but evidence found in this study suggests that this is not limited to top or senior management but pervasive among managers at all levels. In addition, social relationships are used as a possible criterion of enhanced identity for managers; for instance, relationships based on geographical origin simply distinguish local managers from externally hired managers and mark the latter as nomadic professional managers with limited loyalty and commitment to any job.

The above managerial behaviour pattern reflects the managerial ethical codes practised by managers in the case study companies, which can be summarized in four aspects: first, managerial ethics are relationship-related. Each relationship bears its corresponding obligations for managers to fulfil. Although they are not compulsory, they can exert strong influence on managers through moral constraints and fear of public opinion, which explains managers' behaviour in making certain choices; for example, managers choosing to move to CSG without knowing the necessary information about the job or the company, simply uprooting in response to the trust based on their brotherhood with former colleagues. Second, the penetration in the firm of personal networking and association blurs the boundary between private and public domains, which results in small group interests often being given precedence over those of the firm. Third and related, managers lack loyalty to and trust in the firm but are firmly committed to the small groups that they belong to. To a

large extent, this explains the collective career moves between firms and throughout the industry. Fourth and finally, reciprocal behaviour between managers is legitimized from the perspective of the social structure and personal networking.

The current status of workplace relationships, managerial behaviour and managerial ethics must be attributed to three main factors in the broader perspective: China's social structure (the Chaxugeju) and the principles contained within it, the transition in China's economy and the importation of Western management systems and tools (Hoivik, 2007; Hulpke and Lau, 2008), all of which, working, colliding and combining with each other, result in this unique solution to the survival problem for managers in China's private enterprises. Of course, this is not the same as saying that the relationship-based ethics are the only kind in these firms. The newly introduced or reformed production system has also enforced companion work ethics on managers, which managers vaguely refer to as professionalism. So far, no clear definition of professionalism has been provided by either managers or firms in this study, but the former widely believe that the ethical codes promoted by the production system can only be applied to the economic aspects of their working life and are not yet fully accepted by them; while relationship-based ethics, although rooted in the social structure and China's traditional values (the Chaxugeju), guide both the economic and social aspects of managerial life. The allegation by Western observers that unethical behaviour is pervasive among Chinese managers due to China's culture (Chen and Chen, 2005; Lam and Shi, 2007) is not supported by the evidence found in the case study companies. On the one hand, it is not simply a matter of judging something to be ethical or unethical on the basis of Western ethics, but is a matter of being fit or unfit for the Chinese context. It reminds us to look into the current status of managerial ethics from an angle that may combine the innate feature of Chinese society and the unique characteristics of the Chinese business environment in this transition. On the other hand, as Hoivik (2007: 467) notes, to enable the new imported managerial ethics to adapt fully to the Chinese environment, "the historical importance of building and sustaining relationships must be appreciated...For Chinese managers, this involves a much deeper personally felt layer of obligations than we know in the west." Meanwhile, the improvement to the HR system, in particular, its performance management (Cai and Lv, 2010; Hulpke and Lau, 2008) and institutional environment, for example, its labour legislation, are equally important for the formation of healthy, legitimate and positive managerial ethics in the Chinese business environment.

### **10.5 Conclusion**

As early studies (e.g. Child, 1994: 285) have already acknowledged, it is not easy to understand contemporary China's development in any specific field of activity, given its unique "cultural heritage", "socio-political development", "rapid rate of recent modernization"

and vast scale, encompassing diversified “local identities and traditions as well as distinctive language”. With its increasing participation in the world economy and in competition and its current rate of change, the China phenomenon grows even more complicated. For management and managerial work in China’s private enterprises, what is revealed in this research is obviously not a static, clear-cut picture, but a constantly changing process which primarily comprises two major parts, one related to the management system (i.e., management hierarchy and function, strategy and ideology, procedures, rules and regulations) and the other related to people working in managerial positions (i.e., managerial jobs and personal experience, managerial ethics, social relationships and managerial behaviour). The change and development in the management system has shown a clear trend of pursuing the advanced capitalist management mode guided by technology-driven, cost-saving and profit-maximizing strategies and featuring surprising similarities with what has happened or is happening in the companies in the advanced capitalist economies in that it simplifies management structure through merging and restructuring departments, streamlines the managerial staff and improves the efficiency with which human resources are used. However, the process of absorbing and adapting foreign wisdom has never been smooth or without resistance at any point in Chinese history. Thus, the result of the resistance in this research turned out to be the formation of a hybrid system, with negotiations between the imported and the inherited management measures and values still under way. It will be a long process. The research also suggests that both acquiring outside wisdom and continuously using or reintroducing traditional management methods and ideology should be considered a firm’s strategy for adapting to China’s business environment (externally as well as internally). In addition, because China’s business environment itself is characterised by frequent and massive change and conditions for private enterprises are becoming harsher, constant adjustment of the management system to fit the environment is crucial. Accordingly, managerial staff, the people who are working within the context of the management system, have to face uncertainty in policies, instability in the work environment, job insecurity and coercive performance evaluation standards, and their jobs have been changed to fit into the new production system, featured with increased workload, pressure, and the demand for self-development and improvement, both of which make managerial staff turn to social principles for the hope of a better life. Thus, although the content and structure of managerial work in China’s private enterprises are increasingly approaching those in the West, managerial behaviour and ethics in the workplaces of private enterprises largely obey the social principles of Chinese society (the chaxugeju).

Theoretically, the proceeding discussion implies that it is almost impossible to acquire a comprehensive understanding of the management and managerial work in China’s private enterprises from any single perspective. The combined framework of LPT and Chaxugeju

has been proved effective in analysing the phenomena. Meanwhile, a few minor adjustments based on the findings of the research are also needed to adapt both of these theories to the Chinese context, which shows the potential of the theoretical framework to account better for the development of management and managerial work in further studies.

Having conducted a cross-case comparison and analysed the findings in the cases in this chapter, the next and last chapter serves as a very brief summary of the research, highlighting its achievements and limitations and indicating possible follow-up lines of research.

## **Chapter Eleven: Conclusion**

### **11.1 Introduction**

This chapter summarizes the research conducted in this thesis, its findings, general implications and its contributions to the management and managerial work study. The limitations of the research and possible directions for future research are also discussed.

#### **11.1.1 Summary of the research**

The research begins with a very brief introduction to the state of management research in China and leads the topic to the need to focus the study on management and managerial work in China's private enterprises. Next come the research question, the theoretical underpinning, the research design, and the objectives and possible contributions of the research. These fundamental parts set the major principles for the rest of the research.

The research then moves on to review and critique the dominant schools and their representative works on this topic, so as to clarify the research routines, achievements and limitations and reach the conclusion that mainstream routines are not able to meet the requirements of this enquiry, its embeddedness in its context and theoretical development; while a critical approach emerges as an option. Based on this primary conclusion, the research constructs a theoretical framework through combining a Western critical theory (LPT) and a Chinese theory (Chaxugeju) to underpin the research. In order to justify the appropriateness of this theoretical framework, the core arguments, history and evolution, the application and the advantages and limitations of each theory are reviewed and critiqued and the potential benefit and value of combining these two theories are also discussed.

The study then moves on to present the actual conduct of the research, which includes the process of fieldwork and the problems and issues encountered in the course of it, the business environment and contextual settings of the firms being studied, background information on the firms (e.g., development history, ownership changes and business strategy) and the empirical findings in the firms. The primary analysis of the firms is presented together with the specific case study in which they figure. A deeper analysis and comparison across the case studies are made after the case studies, upon which, the findings are synthesized, the discussions are concentrated on key issues, an integrated picture of management and managerial work in the studied firms is obtained and valuable inferences are finally drawn from this evidence.

#### **11.1.2 Summary of the findings and implications**

The main findings of the research can be summarized as follows:



- The evolution of the management system in China's private enterprises is a profound process, often accompanied by a restructuring of the ownership structure, re-engineering of the corporate governance and/or production system and under the influence of both internal factors of the firm and external forces related to China's transition economy, cultural, social and historical inheritance, globalisation and interaction with other participants in the world economy.
- The current development of management system in China's private enterprises is typified by a trend of convergence, despite firm's different ownership origins, current ownership status and restructuring strategies employed in the transition. The shared features include the production-centred internal operation system, the mixed management ideology consisting of ideology borrowed from the Western management mode, features inherited from traditional Chinese management philosophy and communist doctrine and a concentrated power structure.
- The people management in China's private enterprises shows an imbalanced development in terms of the establishment and implementation of the HRM system, but all their people management policies and practices share two basic features – revolving around the central business strategy of cost reduction and increased profitability and showing a strong tendency of risk avoidance and minimization, which is related more to the values of Chinese management than to advanced imported HRM practices.
- The managerial work in China's private enterprises is experiencing fundamental change, comprising major changes in three aspects: managerial jobs showing a large expansion of job scope and increased demands for knowledge and skill, which resemble the changes to the managerial labour process in matured capitalist economies; a tight control mechanism formed by a combination of methods and featuring varied executive strength and efficacy and an incentive mechanism varying from money-only to equal stress on financial and spiritual rewards in different firms; workplace relationships distinguished by the absence of a collective coordination mechanism in employment; and the dominance of individually based relationships, the underpinning of managerial behaviour by individual social relationships and guidance from the principles attached to different social relationships and relationship-based managerial ethics.

The implications derived from the findings can be summarized as follows:

- The research findings in general suggests that full understanding of managerial work in China's private enterprises should not be based on micro-level analysis only, but needs to take into consideration the nexus of all related factors and aspects.
- The convergence of the development trends of the management system and managerial work in different types of Chinese private enterprises and between them and those of their counterparts in matured capitalist economies implies that the role of

market forces in shaping firms and the firms' efforts to adapt to the international business environment. But due to the transitional nature of China's economy, the firms still need to incorporate certain parts of traditional Chinese management and SOE management methods into their practice so that resistance to changes and the newly introduced concepts and practices can be minimized. Thus, the hybrid system of management and mixed features of managerial work in China's private enterprises will last for a considerable time.

- The status of the people management system and practices found in the research implies that the people management in China's private enterprises is still rooted in China's traditional form of management and its values, although human resource practices and methods have been introduced into the case study firms.
- The findings regarding managerial work, in particular workplace relationships, managerial behaviour and managerial ethics, imply the importance of individually based social relationships as substitutes for the formal institutions in the firms. It also suggests that the social aspect of the workplace is still functioning as a Chaxugeju. Although the principal social relationships underpinning the social structure may vary from time to time, the fundamental rules of organisation in Chaxugeju, its features and the behavioural pattern within it remain largely unchanged.
- The findings of the research also suggest that the combined theoretical framework (LPT and Chaxugeju) can provide efficient and insightful analysis into the phenomena encountered in the research and can be applied to the further studies of managerial work in the Chinese context.

## **11.2 Contributions of the research**

Given the questions addressed in this research, the contribution which it offers is multifaceted. Empirically, the study generated a great deal of first-hand data about China's private enterprises, probably the first time that an academic researcher has been able to access to such abundant, strategic and even confidential documents and information about the firms and piece together a comprehensive picture of their history, development and changes in organisational structure, their business strategy, ownership, management system, etc. It is possibly the first time that managers have been so surprisingly open and frank about their work experience, allowing such close observation of their work. And the significance of the research is also highlighted by the size and status of the firms in the shipbuilding industry and by the fact that the study includes the whole range of ownership type by origin in the private category of Chinese enterprises, which has never been possible before. Thus, the most direct contribution of this research is to narrow the gap between what the management and managerial work in China's private firms look like and what they actually are. Insights into daily working life were provided, which reveal the "deep philosophy"

behind the rationalized management practices and managerial behaviour. Overall, it enriches the literature on Chinese employment studies, as well as organisational development; and will eventually benefits the whole of the research on China's transition.

In a global context, a study of the internal management system of Chinese private firms is meaningful, too (Tsui and Lau, 2002). China is the biggest emerging economy and a successful transition economy so far. On the one hand, the experience of Chinese organisations can quite readily be transposed to another context with similar features; and the management from a Chinese standpoint can inform the relevant research on their own organisations. On the other hand, the research on management phenomena unique to China is of benefit to management research as a whole in the way that it supplements the global management landscape. The comparison between the evolving management system and managerial work in China's private enterprises and those of their counterparts in Western and other matured capitalist economies creates a basis for analyzing the general evolving trend of management and managerial work.

Theoretically, the research exemplifies a bold attempt to combine an indigenous theory from China with an established Western theoretical paradigm to analyze and interpret Chinese phenomena. Much of the assumed benefit of this application has been verified, which on the one hand demonstrates the value and appropriateness of the conjunction of LPT and Chaxugeju theory in dealing with management and managerial work studies in the Chinese context and on the other, opens up room for further theoretical advances of this kind in the general domain of managerial work studies in an era of globalization. Moreover, it reminds us of the value of looking beyond the boundary of each specific discipline in developing and applying theories. Chaxugeju is a classic anthropological theory, but its value in explaining the organisational life and management phenomena in China has been recognized by more and more management researchers. As this trend of introducing non-management theories into the field of management research has become increasingly popular among Chinese academics (Zhang, 2008), the attempt in this research may provide some experience to help future research.

Methodologically, the adoption of ethnography in this study also adds value to management studies in China because Chinese academics currently encourage qualitative research in dealing with Chinese management issues and phenomena (Chen, 2012; Wang, 2012). The present study follows this trend and provides examples and experience for conducting fieldwork in the Chinese context, which could promote the application of qualitative research methods.

From a practical point of view, such research has multiple audiences. The study provides important information not only for management scholars but also China's government and to its business leaders who want to understand management and managerial work in China's contemporary private enterprises; it offers benchmarks for measuring their own management performance.

### **11.3 Limitations of the research**

The limitations of this research arise primarily from three considerations. First, such qualitative research bears the innate limitations of generalizability due to the small sample size and the fact that only one industry was studied. Second, among the case study companies, a few were not studied as deeply as the others due to certain factors; for example, difficulties in obtaining full access, insufficient financial resources and the time limits in the field. Of course, these are problems on which an individual researcher must make compromises. Third, owing the restricted space of a doctoral thesis, the data included in the thesis have to be selective, which may give rise to the risk of omitting some details.

### **11.4 Directions for future research**

Corresponding to the contributions and limitations of the research outlined above, the directions for future research might be as follows:

First, following the discussion in the section on empirical contributions, this research could be replicated in China's other industries and other types of enterprise, such as SOEs and MNCs, to compare them, to reveal the similarities and differences between them and to work out on a broader level some propositions regarding the development and change of management and managerial work. This could be the first step, based on which future studies could also be conducted from an international perspective. Again, the research could be replicated in other business environments of Chinese communities outside China and even in other non-Chinese business contexts.

Second, following the discussion in the section on theoretical contributions, the design of a theoretical framework and its application in this research initiate a line of research to either expand the application of this specific framework or explore other possible conjunctions of native and foreign theories.

Last, but not least, this research could certainly serve as a point of departure for qualitative studies or mixed methods research to test the hypotheses established on the empirical findings generated here. So, rather than being regarded as the end of an intellectual inquiry, it should be considered as a starting point of a long-term research project.

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