A STUDY ON THE PERSONNEL MANAGEMENT PRACTICES
OF FOREIGN INVESTED SERVICE ORGANISATIONS
IN SHENZHEN

by

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ABSTRACT

In recent years, more and more foreign companies have been entering into China to set up their businesses. However, many of them encountered problems in managing their human resources as they were not aware of the characteristics of the China labour market, the legal framework, and the personnel management practices of other foreign companies.

This project surveyed the personnel practices of nine well known foreign enterprises operating in the service sector of Shenzhen. The major patterns and special features were highlighted. In addition, in-depth interviews were held with five personnel professionals to study the problems they encountered. How to recruit quality staff from a limited supply and how to control rapidly rising staff costs were regarded as the greatest challenges to them.

As a whole, it was found that the development of the personnel function in many foreign companies in PRC was still primitive. Many personnel decisions are still being made by line managers. Personnel professionals have to demonstrate the role they can play in contributing to long term business success through effective management of human resources.
Recommendations are given at the end of the report highlighting the importance of watching out the reforms being undertaken in China. It is expected with the government will decentralize the responsibilities of welfare of the people down to the individuals and their employers. As a result, the staff costs to be incurred will go up. The best solution to combat the raising staff costs is to adopt an integrated approach of human resources management, covering manpower planning, recruitment and selection, compensation and benefits, employee relations, and training and development. The integrated approach will not only help to increase productivity of the employees but instrumental to attract and retain the best people. Both facilitate localization as well as long term business growth. Throughout the project, the importance of better relationship with the relevant parties, including Labour Bureau and trade unions were discussed. Moreover, the human resources professionals with responsibilities of China are reminded not to be so "legalistic" as relationship counts a lot more than written laws and regulations.
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C.H. TANG         Sunny FONG

April 15, 1994
CHAPTER I

INTRODUCTION

Characteristics of the China Labour Market

For years, the labour market in China was characterized by the "Iron Rice Bowl" and "One Big Pot" System. Workers were allocated to state enterprises by the central government and they would normally work for the same enterprise for life. The wage level together with many other types of incentives, allowances and subsidies were more or less the same for all people. These were determined by the state, irrespective of the performance of the enterprise and individual employees.

In 1986, the "contract labour" system was brought into place. From then on, university graduates were allowed to secure employment either through the central allocation system or apply jobs on their own. Moreover, rather than merely obtaining allocated staff from the central government, state enterprises were also given greater autonomy to select employees. As for Foreign Invested Enterprises (FIEs), they are permitted to recruit directly from the market and compete with the state enterprises for

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However, though the labour market has been open for several years, many old practices still remain unchanged. One example is the right to dismiss poor performers. FIEs now have the right to terminate employment but they usually still have to go through the Labour Bureau or even the judiciary in order to settle dismissal cases.

On the other hand, the "iron rice bowl" attitude is still deeply rooted in the mind of many Chinese workers, who are reluctant to learn western management concepts like customer service and total quality management.

Problems Encountered by Foreign Companies in PRC

In recent years, as a result of the open door policy and rapid economic development in China, many foreign companies have started to set up representative offices, joint ventures, or wholly-owned businesses in the country. To ensure success and survival of the investment, it is beyond doubt that these companies have to recruit, retain, and develop high calibre staff from management to frontline level. However, many of them did encounter problems in managing their human resources.

For example, Cafe de Coral, a well known Hong Kong based fast food chain, had to delay the opening of its first fast food shop in Shenzhen from early 1992 to late 1992 partly due to the slow progress in recruiting adequate staff. In July 1993, it faced another threat that 30 percent of its staff in the Shenzhen shop resigned
simultaneously to join another local competitor.\(^2\)

Labour disputes have also become much more common in China. For instance, in April 1993, the workers of the Zhuhai factory of the Japanese-owned Cannon Company held a strike for three days because the salary increase percentage could not catch up with inflation.\(^3\)

The above and numerous other cases reveal that it is a challenge to foreign companies and human resources practitioners to manage their workforce effectively and efficiently in China and it is necessary for them to have a better understanding of the China labour market and the practices adopted by other foreign companies.

**Challenges to Human Resources Practitioners in China**

Being a socialist country which now advocates market economy, China does have a very unique social, economic, and legal system. In fact, many common human resources practices in the west might not be applicable in the nation. There are a number of issues that human resources practitioners need to tackle.

First, as mentioned above, the psychology and mentality of workers in China are very unique. For instance, Giordano, a popular casual wear retailer in Hong Kong, offered its sales staff a basic monthly salary of RMB2,000, which was two to three times higher than other competitors in the retailing sector. However, many staff

\(^{2}\) 韋昌汶：“人力資源必須搞好”。華僑日報，1993年10月8日。

\(^{3}\) “珠海佳能事件真相” 。文匯報，1993年4月8日，頁3。
still quitted simply because they disliked smiling to customers during the whole shift.⁴

Second, the supply of experienced professionals and managers is limited in China. The number of graduates is inadequate to meet the demand. In addition, only a few universities in China offer MBA or equivalent courses and it is difficult to recruit people with good management skills and concepts. Besides, labour market in China is still quite rigid and the government has enacted measures to control the mobility of personnel from one location to another. This also limits the supply of labour.

Third, the legal framework has not been well developed in China and there are still many grey areas in labour legislation. In addition, due to the open door policy, various special economic zones and coastal industrial and trade cities have been established and they have adopted different labour policies to match their own social and economic environment. Therefore, personnel practitioners have to be aware of the similarities and differences when transferring the practices from one location to another.

Objectives of the Project

While more and more foreign companies are going to enter the China market, so far very few people have conducted researches or surveys on human resources management practices in China. Those published by

⁴ 文合山："找好鋪位難難，培訓員工不易"。華僑日報，1993年3月23日。
personnel consultants mainly focus on the legal requirements instead of actual practices. As a result, practitioners are lack of adequate guidelines to follow when they formulate their human resources strategies and policies. This aroused the group's interest to conduct a study of the human resources management practices being adopted by FIEs in China and the problems they encounter.

There are two main reasons to select Shenzhen as the focus of this project. First, there are many well established FIEs in Shenzhen and they usually have more formal human resources management systems in the parent companies. Therefore, they shall be the pioneers in introducing more sophisticated and systematic human resources practices in China and will become the model of other foreign companies. Second, while the labour legislation and practices vary among different provinces and cities, foreign companies usually regard Shenzhen as a major reference point as it is one of the earliest developed Special Economic Zones. In fact, the labour legislation in Shenzhen are more comprehensive than those in other SEZs or provinces. For example, the Shenzhen Municipal Social Security Interim Regulation was the first formal legislation in China to regulate social security issues including pension, medical insurance and housing fund.

In order to be more focused, the project will concentrate on the human resources management practices of FIEs in the service sector. There are two reasons behind.
First, with growing consumerism in China, many new entrants of the China market are from the service industry and they usually choose Shenzhen as a stepping stone and trial point. Second, many service businesses in Hong Kong have started or are going to start their operations in Shenzhen. It is the intention of the group to conduct a project that can be of greater value and relevance to the Hong Kong business community.

The first objective of this project is to obtain an overview of the human resources practices adopted by the FIEs in the service sector in Shenzhen. It is expected that the report can serve as a reference guide for the executives and human resources professionals in FIEs.

The second objective is to explore in detail the problems and difficulties encountered by these companies in managing their human resources. Through learning the experience of the pioneers, it is hoped that other practitioners can gain a better understanding of the reality and start on the right track.
CHAPTER II

METHODOLOGY

Target Population

The authors first went through the China Phone Book and Business Directory 1993 which contained a list of the 69 foreign companies in Shenzhen. To enable a more accurate comparison of practices, the following types of companies were excluded from the study:

(1) Companies operating in non-service sector.

(2) Representative offices which did not have the right to recruit directly from the market. Their terms and conditions of employment were also being regulated by the state through local Foreign Enterprise Services Corporation (FESCO).

(3) Joint ventures managed by the PRC partners with little influence from the foreign partners.

As a result, 17 FIEs, including joint ventures and wholly foreign-owned businesses, were identified as the target population of this study (Appendix I). These consisted of banks, retailers, and fast food chains and their PRC operations were all supported by their business units in Hong Kong.

The group first contacted the head of Human Resources of respective companies to request them to participate in the research. Nine of them finally agreed to provide information and this represented 53 percent of the target population.

There are two main reasons that the other eight companies decided not to take part in the survey. First, some companies like McDonald's were not used to sharing personnel data with external bodies as it is their policy to treat those data as confidential. Second, the human resources function of a few companies, for example, Park'N Shop, are actually being managed by the operations personnel in Shenzhen and their Hong Kong offices had difficulty in getting the data from them.

TABLE 1
LIST OF COMPANIES PARTICIPATING IN THE SURVEY

Banking
Hong Kong & Shanghai Banking Corporation
Standard Chartered Bank
Bank of East Asia
Dao Heng Bank
Citibank

Fast Food
Cafe de Coral
Fairwood Holdings Ltd.

Retailers
Seibu
Watson's
As the survey only covered nine companies, the authors had decided to arrange more in-depth interviews in order to collect more qualitative and comprehensive data.

Research Process

After reviewing the relevant literature, the group conducted two pilot interviews with the Human Resources Manager of a bank and a retailer respectively so as to gain a overview of the existing practices in Shenzhen. A questionnaire (Appendix II) was then designed to collect data on various human resources practices of the respondents. A cover letter explaining the purpose of the research (Appendix III) and a copy of the questionnaire were sent to the nine companies. The respondents were requested to complete the questionnaire and return to the group by using a self-addressed envelope.

After analysing the data from the questionnaires, interviews were further arranged with three other companies.

Structure of the Questionnaire

The questionnaire was divided into nine parts, namely, Company Information, Job Analysis, Recruitment, Promotion Policy, Remuneration & Benefits, Performance Management, Employee Relations & Welfare, Training & Development, and Role of Personnel Department.

Since companies usually adopt different human resources practices for different levels or types of staff,
the respondents were requested to specify their practices applicable to five different categories of staff: Front Line Staff, General Staff, Supervisory Staff, Professional & Managerial Staff, and Senior Management.
CHAPTER III

LEGAL FRAMEWORK OF LABOUR MANAGEMENT IN CHINA

It was discovered from the survey and other market sources that many FIEs simply regard the statutory requirements as reference when formulating their personnel policies and practices. Thus, it is worth reviewing the China legal system in relation to labour management before studying the results of the research. Currently, there are three tiers of laws which are of relevance to human resources management in Shenzhen, namely the national, the provincial (Guangdong) and the municipal (Shenzhen SEZ) laws. A brief description of these laws and regulations are summarised below.

National Laws and Regulations

After 27 amendments, the National Labour Law, which was first drafted in 1979, is expected to be discussed by the National People's Congress in April 1994. Details of which are still not yet disclosed.

In September 1983, the State Council promulgated the

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6 Main topics of major national legislations are given in Appendix IV.

7 Ming Pao Daily, 8/10/1993, p.3
"Regulations for the Implementation of the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment". The regulations cover employment, employment contract, wages, labour insurance, working hours, leave, incentives, disciplinary action, protection to employees in sick, resignation, termination and handling of labour disputes.

Some of the key clauses are highlighted below:

(1) Salary of JV/FIE workers must be 120 to 150 percent of that of state enterprise workers in the same grade and with equivalent responsibilities. The actual salary and bonus structure shall be determined by the board of directors of the JV/FIE.

(2) The employment contract is the most important legal document to be signed by the company and the trade union/employee and it has to be approved by the Labour Bureau.

(3) The Labour Bureau has the authority to approve and interpret labour rules. It must also arbitrate disputes pertaining to the interpretation and application of these rules. In the event of any dispute with the Labour Bureau, the FIE/JV can file lawsuits in the People's Court.

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8 Chwee-Huat, Tan, "Human Resource Management Reforms in the People's Republic of China", Research in Personnel and Human Resources Management, Suppl. 1,
Another labour legislation, the National Trade Union Law, effective April 1992, exerts great impact on the work of labour management. Basically, the law promotes freedom in joining labour unions. For enterprises with 25 people or more, an in-house labour union can be formed under the supervision of the municipal, provincial and national union, i.e. the All China Federation of Trade Unions. Representatives of labour unions have the right to attend board meetings, raise issues to management on compensation, benefits and other terms and conditions of employment. Moreover, they can intervene in case of any unfair treatment to employees. Recently, the All China Federation of Trade Unions also encouraged the setting up of labour unions in all foreign enterprises.

**Provincial Regulations**

Under the auspices of the National People's Congress, the Guangdong People's Congress passed the "Guangdong Provincial Special Economic Labour Law", outlining the major aspects of the employment laws in the Province.

**Shenzhen Municipal Regulations**

The Shenzhen SEZ is empowered to pass laws relevant to the SEZ. In general, the labour regulations in Shenzhen are more flexible than the national and provincial ones. For example, national laws require labour contracts to be formed between foreign enterprises and their unions whereas Shenzhen Municipal Regulations allow FIEs to form contract
with individuals. Besides, the wage level of FIEs in Shenzhen is not set in direct proportion to that in state enterprises and the FIEs have greater discretion when determining matters like probation periods and disciplinary measures.

While greater inflexibility is allowed, the SEZ, on the other hand, is also the pioneer in promulgating new labour legislations. Apart from the Shenzhen Special Economic Zone Foreign Enterprise Labour Management Tentative Provisions, Shenzhen also implements the first piece of Social Insurance regulation, the Shenzhen Municipality Social Insurance Tentative Provisions (effective 1 August 1992). The central government is watching closely on the implementation of this regulation, hoping that other parts of the country will follow at a later stage.

The regulations govern employee social insurance defined as: medical insurance, old-age insurance and housing funds. These forms of insurance apply to all permanent, contract and temporary employees in the SEZ, except in the case of housing funds, which only apply to permanent and contract workers. Details of the rates of contribution by employers as a percentage of salary are shown below:

TABLE 2
RATE OF CONTRIBUTION BY EMPLOYERS IN SHENZHEN TOWARDS
SOCIAL INSURANCE FUND

<table>
<thead>
<tr>
<th>Contribution Item</th>
<th>% of Employee Wage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical</td>
<td>8%</td>
</tr>
<tr>
<td>Old-age Insurance</td>
<td>16%</td>
</tr>
<tr>
<td>Housing Fund</td>
<td>13%</td>
</tr>
<tr>
<td>Unemployment</td>
<td>1%</td>
</tr>
</tbody>
</table>


The 38% contribution does not cover the provision of severance payment, which is normally payable at the end of contract. In other words, the total amount of mandated staff costs is even higher. On the other hand, employees also need to pay to the funds as well. This ranges from 5 percent to 10 percent of their salaries.

Enforcement of Law

The right to interpret the rules and regulations on the hiring of Chinese staff and workers in the PRC rests with the Labour Bureau in the locality in which the enterprise is located. In Shenzhen, it rests with the Shenzhen Labour Bureau. As the Labour Bureau has extensive powers, FIEs usually keep the Bureau fully informed of its labour practices in order to avoid problems such as difficulty in obtaining necessary permissions.
CHAPTER IV

CURRENT PERSONNEL PRACTICES - RESEARCH FINDINGS

This Chapter summarises the findings obtained from the survey in relation to the current human resources management practices. The pattern and special features observed are highlighted. Other qualitative aspects such as problems encountered by the FIEs are discussed in the next chapter.

Establishment of the Personnel Function

Only two companies stated that they had set up a Personnel Department in their establishments in Shenzhen and employed local staff to manage the department. The other companies simply assigned their Hong Kong personnel staff or recruited one to two local staff to handle the personnel matters with other administrative functions.

Job Analysis

Five surveyed companies had prepared job descriptions for different levels of staff. Three of them asked the headquarters personnel staff to take up the task whereas the other two companies assigned the PRC personnel staff to do that in conjunction with the superiors of the job holders.
The main purposes of preparing job descriptions and job specifications were to facilitate recruitment and to clarify roles and responsibilities with job-holders. The latter is quite important in PRC as many employees are reluctant to take up extra responsibilities and duties and it is necessary to define them clearly beforehand.

Recruitment

Currently, FIEs are allowed to directly recruit employees after gaining the consent from local labour authorities. The Sino-foreign Equity Joint Venture Labour Management Implementing Procedures also state that "such direct recruitment must be in accordance with the FIE's labour plan and state policies, and must be conducted within the area prescribed by the local labour and personnel authorities". On the other hand, there are still many restrictions in recruiting staff from outside the locality. Thus, it is not surprising that most of the surveyed companies only recruited Shenzhen residents to fill up the vacancies.

Channels of Recruitment

Most of the surveyed companies still employed front line staff and general staff through local FESCO (Foreign Enterprise Services Corporation) or Labour Bureau for two main reasons. First, this could minimize the effort in

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searching. Second, this could create a better connection with those bodies and the companies could seek assistance from them when tackling more complicated issues in future, e.g. obtaining approval to recruit staff from outside the locality.

Placing advertisement in media was another popular method used in recruiting all levels of staff. Local newspapers were used when recruiting junior positions. When recruiting Hong Kong Chinese, the companies usually advertised in Hong Kong newspapers. Regional newspapers were used when recruiting expatriates from the Asian Pacific Region.

Being a more expensive method, only two companies stated that they used executive search to recruit professional and managerial staff.

Interestingly, staff referral was another commonly used method in the recruitment of front line staff and general staff. The companies used it as an additional channel though it could neither reach a large number of candidates nor guarantee the quality of candidates.

For the surveyed joint venture company, it also transferred local staff from the partner's establishment. In fact, it is a good method to start up operation as the staff were usually more stable with the job.

As for senior managerial positions, only three companies stated that they would search external candidates. All the others simply appointed internal staff from Hong Kong or the home country. The main advantage is
that the appointed persons are already familiar with the mission, culture, and operations of the company.

TABLE 3
MOST COMMONLY USED CHANNELS IN EXTERNAL RECRUITMENT

<table>
<thead>
<tr>
<th>Method</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>FESCO, Labour Bureau</td>
<td>Frontline &amp; General Staff: 7, Professional &amp; Managerial Staff: 0</td>
</tr>
<tr>
<td>Advertisement in Media</td>
<td>Frontline &amp; General Staff: 7, Professional &amp; Managerial Staff: 2</td>
</tr>
<tr>
<td>Staff Referral</td>
<td>Frontline &amp; General Staff: 5, Professional &amp; Managerial Staff: 0</td>
</tr>
<tr>
<td>Executive Search</td>
<td>Frontline &amp; General Staff: 0, Professional &amp; Managerial Staff: 2</td>
</tr>
<tr>
<td>Advertisement outside Premise</td>
<td>Frontline &amp; General Staff: 4, Professional &amp; Managerial Staff: 0</td>
</tr>
</tbody>
</table>

Selection Methods

Personnel staff were found to have little involvement in recruiting front line staff and general staff in most companies. This phenomenon was particularly obvious among the banks. As a result, "interview by line managers only" was the most common selection methods being used. Panel Interview was found to be more frequently used in recruiting professional & managerial staff.

It is not surprising to note that very few companies used tests, group discussions, or other assessment tools in the selection process. Some companies did use psychometric tests in the home country but they did not apply them in PRC because of the test translation and test norm problems.
TABLE 4

MOST COMMONLY USED METHODS IN JUNIOR STAFF SELECTION

<table>
<thead>
<tr>
<th>Methods</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interview by Line Dept Only</td>
<td>6</td>
</tr>
<tr>
<td>Panel Interview by Personnel &amp; Line</td>
<td>2</td>
</tr>
<tr>
<td>Separate Interview by Personnel &amp; Line</td>
<td>1</td>
</tr>
<tr>
<td>Skills/Trade Test</td>
<td>2</td>
</tr>
<tr>
<td>Psychometric Test</td>
<td>1</td>
</tr>
</tbody>
</table>

Selection Decision

For recruitment below managerial level, most companies reported that their line managers made the selection decision solely and then determined the salary package for new recruits with or without consulting personnel staff.

As far as selection criteria are concerned, the mentality of applicants was given highest priority and education background was also considered important.

For managerial level appointments, seven companies stated that the Chief Executive of their Shenzhen establishments were involved in selection and they usually focused on the interpersonal skills, mentality and job knowledge of applicants. The Chief Executives were also involved in determination of salary packages.

Promotion Policy

Six surveyed companies had already formulated formal promotion policies in their Shenzhen operations and four of them processed promotions after obtaining recommendations.
from line departments. The remaining two companies also used interviews to identify promotoes. In most cases, the Personnel Department would determine the new salary package of the promotoes and the increase in basic salary normally ranged from 5 percent to 10 percent.

Localisation

All companies indicated that they had an localisation plan for PRC staff but almost all of them expressed their concern over the quality of local staff. Providing better training & development opportunities to high potential staff was the most frequently suggested method to tackle the issue.

Another main concern regarding localisation was the acceptability of local managers to junior staff. Some local junior staff might find it more comfortable to work under a foreign boss than a local Chinese superior. They usually had a perception that expatriate superiors were more competent.

Remuneration & Benefits

Low labour costs have been considered as a competitive advantage of China. However, in many large cities, such as Shenzhen, Guangzhou, Shanghai, etc., the labour costs have increased significantly in recent years as a result of high inflation. In fact, all the surveyed companies stated that high inflation was a problem they encountered in controlling staff costs. High pay rise awarded by
competitors, which was mainly due to the shortage of talents, was another major problem to deal with. Among the companies, staff costs accounted for 5% to 30% of the total company costs.

Grading & Pay Level

The majority of the surveyed companies had derived a grading structure for the Shenzhen operations by referring to that in the home country. Only two companies also made use of published salary survey data to establish the structure.

The exact pay scales were usually determined by referring to the pay level of other competitors and almost all companies had joined/were willing to join formal or informal meetings with other FIEs in order to fix the salary scales and pay rise percentage. In addition, two companies also used the resources supplied by local Labour Bureau.

Salary Increase

Most companies reviewed staff salary annually. Interim market catch-up increase was also common in 1993. Three surveyed companies indicated that they had made market adjustments in mid 1993 in addition to the normal annual increase. This reflected the rapid salary movements in Shenzhen.

Not surprisingly, the factors that most of them considered when determining the salary increase percentage
were the financial condition of the company, inflation and salary increase of competitors. This is understandable as the companies usually take a long term perspective in their China business. They tried to get hold of quality staff in the long term and were willing to pay more to compete with other companies as long as the financial condition is sound.

### TABLE 5
FACTORS CONSIDERED DURING SALARY REVIEW

<table>
<thead>
<tr>
<th>Factor</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ranked 1st</td>
</tr>
<tr>
<td>Inflation</td>
<td>4</td>
</tr>
<tr>
<td>Increase of Competitor</td>
<td>4</td>
</tr>
<tr>
<td>Financial Condition</td>
<td>1</td>
</tr>
<tr>
<td>Performance</td>
<td>0</td>
</tr>
</tbody>
</table>

**Cash Benefits**

Guaranteed bonus, or Lunar New Year Bonus, was a basic component of the remuneration package in almost all companies. On the other hand, only two respondents awarded discretionary bonus to staff.

In recent years, local Shenzhen workers tended to change jobs more rapidly than before in order to get a higher pay. FIEs have introduced various types of cash benefits such as long service bonus and clothing allowance so as to reduce staff turnover. In fact, these are also very similar to the traditional pay package provided by
state enterprises.

**TABLE 6**

MOST COMMONLY PROVIDED CASH BENEFITS:
FRONTLINE & GENERAL STAFF

<table>
<thead>
<tr>
<th>Benefits</th>
<th>No. of Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed Bonus</td>
<td>8</td>
</tr>
<tr>
<td>Discretionary Bonus</td>
<td>2</td>
</tr>
<tr>
<td>Long Service Bonus</td>
<td>2</td>
</tr>
<tr>
<td>Meal Allowance</td>
<td>3</td>
</tr>
<tr>
<td>Transport Allowance</td>
<td>4</td>
</tr>
<tr>
<td>Clothing Allowance</td>
<td>3</td>
</tr>
</tbody>
</table>

Non-cash Benefits

It is required by the Shenzhen Municipal Social Insurance Tentative Provisions that employers in Shenzhen have to contribute to a fund of social security payments, which consists of three components: medical insurance, old-age insurance, and housing funds. Thus, these benefits were provided by almost all surveyed companies. For expatriate staff, the benefits provided by most companies were better than those enjoyed by local staff. For example, the companies allowed them to remain in the retirement scheme in the home country and they were entitled to better medical benefits in terms of coverage and monetary value.

**Accommodation**

Owing to the shortage of housing, providing accommodation is a very difficult task that FIEs in
Shenzhen need to tackle. Though all surveyed companies had contributed to the old-age and medical insurances, only two of them did contribute to the housing fund. One bank provided housing to senior or specially selected staff and another bank had just commenced providing staff housing loan.

Medical

On top of statutory requirements, two companies provided full coverage of medical benefits to their staff as they considered it essential and fundamental to the well-being of staff. Moreover, the current low medical costs in China also enables employers to take up this responsibility more easily.

Leave benefits

FIEs are required to follow local regulations to grant leave to its employees. Statutory holidays typically include the Lunar New Year, International Worker's Day, National Day and New Year's Day. Most of the surveyed companies indicated that they provided leave benefits on top of the legal requirements. In fact, this is an area which the employees of FIEs usually feel proud of.

Performance Management

A few surveyed companies had implemented a formal performance management system in their Shenzhen establishments though almost all companies conducted appraisals annually. The major purposes that they conducted appraisals were to tie the appraisal results with
salary increase, improve current performance, and identify training & development needs.

In most companies, it was the responsibilities of the immediate supervisors and the next higher level superiors of the staff to do the actual appraisal. Surprisingly, personnel staff were not involved in the process in most companies. Many companies also indicated that they did not keep appraisal records in the personnel department.

A majority of the companies shared and discussed all the appraisal results with their staff. One company stated that they discussed the training & development needs with staff only and two companies did not disclose the results to staff at all. However, most companies stated that they would terminate the employment with poor performers after consulting the Labour Bureau and/or the trade union.

To improve the acceptability of performance appraisal, all companies with formal appraisals recognised good performance by tangible or intangible rewards. The most common ones are higher pay increase, one-off bonus, promotion and training opportunities in Hong Kong. However, the actual differentiation of awards given to good performers and poor performers was not very great in most companies.

Employee Communications & Welfare

The most typical channel used to enhance employee relations was found to be circular/notice probably because of its cost-effectiveness. Besides, informal management-
staff meeting, staff handbook, formal grievance procedures were also commonly used to supplement communications and thereby staff relations. It is worthy noting that the last channel is very important in China as employers are expected to safeguard the right of the working class in a socialist country. Formal grievance procedures could help minimize future disputes on exploitation of labour. As far as the welfare programs were concerned, it is interesting to note that many companies provided counselling services to staff. Apart from that, annual dinner and company outing were also quite popular.

Trade Union

Only two surveyed companies reported that there was a trade union in their establishment. This also reflects that the local Labour Bureaus always tends to avoid enforcing the laws strictly but gives more flexibility to FIEs in order to attract their investment. The two companies all commented that the unions were very friendly and cooperative.

Training & Development

Most companies provided formal training to their staff in Shenzhen. For internal training, almost all companies covered induction training, customer service training, and supervisory training in the curriculum. Management training was only provided by a few companies as most of the managerial staff did come from the home country and
they probably had received relevant training before. Regarding external training, only two companies sponsored their employees to attend external functional training or management training. This is quite normal as there are still very few training seminars or courses organised in PRC and companies are usually less likely to send staff to Hong Kong or the home country for external training frequently.

It was also a very typical phenomenon that in-house training programmes were conducted by training personnel from Hong Kong. This was due to the lack of training resources and qualified trainer in Shenzhen as well as the small size of operation of most surveyed companies (economy of scale). While almost all of them arranged training classes in Shenzhen, four of them also arranged training in Hong Kong or in other parts of the home country.

Evaluation of Training Effectiveness

A variety of methods were used by the surveyed companies to measure the effectiveness of their training programmes. These included questionnaire to trainee, questionnaire to supervisor of trainee, on-the-job observation by supervisor of trainee, and end-of-course tests.

"Socialisation" of New Recruits

The major reason that all companies provided formal training to staff was the need to change the mentality of
new staff and socialise them into the service-oriented culture of the company. This is extremely important if the new recruits have never worked in an FIE, particularly in a service business before.

Most companies made use of induction training and customer service training to achieve this purpose and a few companies also used other means such as off-site seminars.

Role of the Personnel Department

The surveyed companies were asked how much discretion they had over the personnel function in Shenzhen. Almost all of them claimed that they had great, though not full, discretion. However, it seemed that many decisions in relation to day-to-day issues as well as strategic ones were made by the PRC business units instead of personnel staff. For example, line departments was found to have great discretion in handling recruitment and staff promotion.

Current Focus

Under the current situation, the majority of companies expressed that they would focus more on the management of remuneration & benefits and training & development in their Shenzhen operations. This can be understood as the two issues are highly correlated with the needs to retain staff and upgrade their quality, which are probably the greatest challenges to human resources practitioners.
CHAPTER V

PROBLEMS & ISSUES

While the last chapter outlines the practices being adopted by the surveyed companies, this chapter summarises the problems they encounter and other special issues they have to tackle. Information are drawn from the in-depth interviews with respective Human Resources Managers.

Role of Personnel

After going through the results of the survey and interviews, the authors are of the opinion that the current state of personnel management in the surveyed FIEs is still primitive. The influence of and the input from personnel staff are still minimal. Many personnel decisions are being made by the business units, which might not be able to consider the long term human resources implications. For example, in Standard Chartered Bank, the Shenzhen Branch Manager was given the authority to allocate company quarters to local staff members without consulting Hong Kong personnel staff. At the beginning, everything went on smoothly. However, because of the limited number of quarters available and with the expansion of the branch, more and more staff members could not enjoy this benefit and felt unhappy about the allocation arrangement. Some of
them even quitted because of their perceived unfairness in allocation.

Furthermore, as mentioned in chapter II, several companies did not participate in this research simply because their PRC personnel function is being managed by the business unit and they have difficulty in getting the data. This further reflects that the influence of personnel staff in managing human resources in Shenzhen and probably other parts of China is very remote.

Market Intelligence

Most of the Human Resources Managers interviewed did encounter difficulty in influencing their PRC managers in handling personnel matters. One major cause of this problem is that they do not have sufficient information about the China situation. At present, they mainly rely on the following information channels:

(1) Gatherings or seminars organised by the HKIPM, Asian Laws and other consultancy firms

(2) Formal gatherings of establishments with PRC interests (there is a PRC HR forum organized by seven major banks with presence in China\(^1\) and several FIEs in Shanghai\(^2\) also regularly meet to

\(^1\) The seven banks are Hongkong Bank, Standard Chartered Bank, Citibank, Bank of East Asia, BNP, Banque Indoseuz, Bank of America and Industrial Bank of Japan.

\(^2\) Key participants of the gathering include American President Lines, Digital Equipment, Hewlett Packard etc.
discuss topics of common interests)

(3) Formal compensation studies undertaken by consultancy companies

(4) Magazines like Hong Kong Staff and PRC personnel management related manuals published by Asian Laws and Wyatt (the first appearance of both manuals were early 1994)

(5) Newspaper reports about latest development of labour management in China

Though the Human Resources Managers can know more about the scene in China from the above channels, the inadequacies of the above channels stem from:

(1) The seminars and published media usually focus on the legal aspects of personnel management, i.e. the written laws. These might not be practical enough as many rules and regulations are not enforced strictly by local Labour Bureau.

(2) The more up pulse information is usually very brief with no detailed analysis given.

(3) The formal gatherings which promote active exchange of information are restricted to a limited number of FIEs and personnel professionals.

(4) The salary and benefit surveys undertaken by consultancy companies are not focused enough. Most of these surveys were joined by around 30

13 Major consultancy firms such as Wyatt, Hay and TP&C all conduct surveys in China.
companies from different trades (manufacturing, trading, banks and other service businesses), spreading across different cities in China (Shanghai, Shenzhen, Beijing etc) and with different background (some are FIEs and some are joint ventures). It is difficult for companies with interests in a particular location, e.g. Shenzhen, to draw meaningful conclusions from them.

Another common information source is the employees within the enterprises. The managers we interviewed expressed that their PRC local staff members always liked to talk to them about the pay levels and benefit packages of state enterprises and other foreign companies. They usually find it very difficult to validate the information. If the views of the local staff members are strongly supported by the line managers in China, they may need to make some changes to their policies as well despite the fact that the validity of the information is in doubt.

Recruitment

Though almost all the surveyed companies are wholly-owned foreign companies, they did experience difficulty in recruitment attributed to the following reasons:

Supply of Quality People in Shenzhen

In Shenzhen SEZ, the supply of quality people is very limited. All elite universities are established in the
northern part of China and those in the south, such as the Shenzhen University, Zhongshan University and Shantao University are only considered to be second best. Turning to the segment of experienced workforce, the managers we interviewed in general commented that the quality of people in northern China, in particular Shanghai, Tianjin, or even Xiamen, are better than those in Shenzhen.

Another hindrance to the supply of quality people comes from the difference in benefits provided by state enterprises and those provided by FIEs. In terms of pay level, FIEs generally even pay more than the legal requirement of 120 to 150 percent of state enterprises' salary level. However, state enterprises provide very good benefits, including handsome bonuses, incentives, and the most important one, subsidised housing. Coupled with other factors like job security and low work pressure, prospective quality candidates may refrain from taking the risk of joining foreign enterprises. This further affects the labour supply. Most FIEs we interviewed find it difficult to match the housing benefits being provided by the state enterprises to their employees. In fact, some FIEs simply stated in the recruitment advertisements that applicants should have own accommodation in Shenzhen.

Rigidity of Workforce Mobility

The restriction of workforce mobility can be viewed in three dimensions. First, within Shenzhen, transfer of staff members from one FIE to another is not very
difficult. However, it would be more difficult if the FIE would like to engage an employee from a state enterprise. Legislations do require state enterprises to support staff transfer but the former may impose a number of administrative measures to prevent the employee from leaving. The issue of personal file may also hinder the willingness of the prospective candidate to make a move. On the other hand, even if the state enterprise agrees to the transfer, it may charge a high "transfer fee", which adds on the transaction costs to the FIE.

In addition, though an FIE has the right to take on people but the local Labour Bureau has a monitoring role. For instance, if FIE wants to recruit staff members in SEZ, it needs to first go to the Labour Bureau to get its consent before placing advertisement. As the space in newspaper is quite limited, it may take two to three weeks before the advertisement can formally be put up after getting the consent. This definitely delays the whole recruitment process.

Thirdly, though many high quality people in northern China want to go to Shenzhen for employment, there are a lot of restrictions that hinder the FIEs from recruiting them. If an FIE really wants to engage someone from outside the SEZ, it has to go through the local Labour Bureau for application, which may take months. Needless to say, fees have to be paid. If the prospective candidate comes from a state enterprise, the attitude of the enterprise towards the transfer also significantly affects
the outcome. On the other hand, even when the transfer is successful, the personal file of the candidate still needs to be rested with the enterprise.

Competition for Talents

With a lot of service set-ups targeting at the China market, they are all competing with one another in getting the best people. The Personnel Manager of Hongkong Bank expressed that they had to increase the salaries of their staff members by around 40 percent in 1993. For the other banks, like Standard Chartered and Citibank, the increase percentage was also more than 30 percent. The reason for high increase is to prevent the other companies from poaching their best people. Competition is not restricted to banks. For other establishments, like fast food, their people can easily be lost to other Chinese or western catering establishments. Therefore, extra pay rise is also commonly awarded by these companies.

Another source of competition comes from the state-owned sector. Many state-owned companies are reforming their business and they are very eager to upgrade the quality of their staff members. Among the interviewed companies, about 5 to 10 percent of their people quitted to join a state enterprise.

Shenzhen is also a popular location for foreign companies, mainly from Hong Kong, to hire export labour. In 1990 and 1991, a total of 118 and 150 skilled labour in
various trades went to work abroad.\textsuperscript{14} With the Hong Kong Government's importation of labour scheme went in full swing in late 1991, the number of workers importing from China, especially from the southern part, including Shenzhen, is expected to increase substantially. For instance, in 1993 alone, Hongkong Bank and Standard Chartered Bank imported more than three hundred tellers (all are college graduates with a minimum of two years experience) from Guangzhou and Shenzhen.

\textbf{Salary Increase}

Though the percentage of staff costs to the total operating costs for the sampled companies remained low, which was 5 percent to 30 percent of total operating costs, all of them had expressed concerns over the rapidly rising staff costs. Apart from the competition for talents which bid up the salary costs, other driving forces come mainly from the expectations of staff members and inflation. The official inflation rate in Shenzhen stood at 17.4 percent in 1993.\textsuperscript{15} Unofficially, the economists expected a rate of close to 30 percent.\textsuperscript{16} The Wyatt Company reported that the base salary increase was 18 percent in 1993 and it

\textsuperscript{14} Shenzhen Special Economic Zone Yearbook, 1991 and 1990.


\textsuperscript{16} Forecast made by the economists of the Standard Chartered Bank for internal use only.
projected an increase of 22.9 percent in 1994.17 Very differently, in the news reporting during the first two months of 1994, the percentage of increase in salaries among private and foreign investment enterprises, on a nationwide basis, stood at 92.2 percent, much higher than that of 25.8 percent recorded for state enterprises.18 In a developing country, a 20 percent increase does not seem to be too high. However, an increase of 90 percent is astonishing. Coupled with the mandated statutory benefits, at around 38 percent of base salary, the actual total increase in dollar terms will turn out to be much more significant. Moreover, the high increase in salaries will in turn push up the inflation rate, which leads to a vicious cycle.

Benefits Policy

Though the government has mandated that all FIEs have to contribute to the state-run benefits plan, including medical, pension, housing and unemployment, it is a concern to all interviewed companies that they are not fully aware of the precise benefits provided to their staff members who have enrolled into these plans. A more interesting point is that most of them had not followed the mandated requirements in contributing to the required funds. One very obvious example is the housing fund. According to the

municipal regulations, all FIEs need to contribute 8 percent to the Fund for accommodation needs of their staff members. However, none of the banks interviewed made any contribution. The current attitude of the SEZ towards this is quite lax. However, given the decision on housing reform, targeting at pushing the employees to take care of their own accommodation needs with the assistance from their employers, it is expected that FIEs need to do a lot more in the near future. All Managers interviewed unanimously ranked housing as the most urgent benefit item to be deal with. The result coincided with another survey conducted by the US State Council in 1991 in China participated by 33 joint ventures and FIEs.\(^{19}\)

### Training & Development

Training and development is one of the two major areas on which the surveyed companies would focus more in the near future. For those companies with a small size of operation in Shenzhen, it is not cost-effective for them to hire full-time local trainers. In fact, the managers mentioned that it would be extremely difficult to source a good local trainer with the appropriate competence to run training courses. The methods of sending Hong Kong trainers to conduct training courses and sending high potential Shenzhen staff to Hong Kong for training are quite expensive. The latter method would also take at

least several months in order to get a visa.

Attitude of the China Government

Law Enforcement

Being a Special Economic Zone, Shenzhen is usually the pioneer in many aspects including personnel management. The written laws do state something but more emphasis should be put on how to interpret them and how to execute them. The current situation is that the Shenzhen Municipal Government takes a more relaxed attitude towards execution of labour laws. The managers attributed this to the priority of the Government to encourage foreign investments instead of adhering strictly to the laws to hamper the willingness of foreign investors. However, as more and more foreign companies show interests in investing in China, especially in the SEZs and other coastal cities, it is very likely that the government will be more stringent in enforcing the labour laws in order to have a better overall control.

Forthcoming Reform

The emphasis on market reform partly means that the government will gradually relinquish her responsibility of looking after the citizens in every aspects of living back to the individuals and their employers. While the China Government has already shouldered a great burden in maintaining the well-beings of the employees of the state
enterprises, especially those which are heavily indebted and losing money, the FIEs will be the first ones which will be hit due to the reform. This will certainly result in higher staff costs to be borne by FIEs.

Ruled by People

One aspect which the westerners feel very uncomfortable is that basically China is still being ruled not by laws instead of by people. One of the myth mentioned by Albert Siu\(^\text{20}\) is that many things in China are in grey. This remark was shared by all Human Resources Managers interviewed. Relationship counts a lot more than the written rules and regulations.

Views of the FIEs

One of the Human Resources Managers interviewed mentioned that the China Government did not pay a lot of attention to the views of FIEs in determining the labour management policies. One example quoted by him was the implementation of the Shenzhen Social Security Insurance Tentative Provisions. The regulation was enforced without much consultation with the FIEs. The possible explanation put forward by him was that the bargaining power of the FIEs was weak as most of them are fragmented and not cohesive enough.

\(^{20}\) Albert Siu, "The Seven 'Wonders' of China: Myths and Truths", *Hong Kong Staff*, (May 1993), p.32.
Mentality of People

Very few formal studies have been undertaken in China about the mentality of the workforce in Shenzhen. In general, the Human Resources Managers can just tell by experience. They all said that they were not satisfied with the service attitude of the workforce, the short-term orientation held by some staff members (who usually wish to get quick and easy money) and the non-performance driven culture, which is especially prevalent among the older generation of workforce. In fact, two managers commented that it was not easy to implement a western performance management system due to the mentality of local people. Many staff are still influenced by the "iron rice bowl" attitude of state enterprises and are reluctant to accept the concept of "reward by performance". Fortunately, most of the service establishments set up within the recent years have been staffed by the younger generation who are relatively more malleable and trainable.

Most of the Human Resources Managers interviewed voiced out that FIEs were considered to be the training schools by the young employees. Apart from getting better training in language, product, and other skills, they can get higher starting salaries. Three to four years later, they would apply to go abroad to further studies or join a state enterprise for a more stable and secured career. This creates additional difficulty to localization as the more experienced staff members will prone to leave after some time.
Labour Relations

Current Situation

Labour relations were regarded to be harmonious by the Human Resources Managers interviewed. However, given a buoyant labour market with low unemployment rate, the employees generally expressed their dissatisfaction by leaving. Moreover, most labour unions in China, under the leadership of the All China Federation of Trade Union, remain very friendly with the management of foreign enterprises. In the FIE Practices Survey mentioned earlier, 25 out of the 33 labour unions actively were involved in organizing recreation activities instead of taking confronting actions. The remaining 12 unions did participate in negotiation and signing of labour contracts. The implication to personnel practitioners is that the labour unions in Shenzhen are capable of doing a lot of things which might be detrimental to the interests of the companies.
CHAPTER VI

COMPARISON WITH HONG KONG PERSONNEL PRACTICES

General

As mentioned in the opening chapter, one of the reasons of choosing the FIEs in Shenzhen as the focus of this research is that more and more Hong Kong companies are going to establish their operations in the SEZ and it is the intention of the authors to conduct a research of greater relevance to the Hong Kong business community. In fact, all the Shenzhen establishments of the surveyed companies are backed up by their business units in Hong Kong and it is a common practice of many FIEs in China. Thus, it is worth comparing the personnel practices of the two locations so that Hong Kong practitioners could understand the differences when transferring Hong Kong practices to their Shenzhen or even other PRC establishments.

Apart from relying on the survey results, interview findings and observation and experience of the authors, information from the survey conducted by P. Kirkbride and S. Tang in 1989\textsuperscript{21} to review the state of personnel

management in Hong Kong is also used. Though there are differences in format and contents of the two surveys and there is a time tag in between, it is by far the most appropriate information source for comparison.

It is necessary to mention that by no means do the authors intend to impose judgement and evaluation on the effectiveness of the practices at this stage.

Job Analysis

Job analysis is more widely used by Hong Kong companies. As far as the method is concerned, it is quite common in both places to have the superiors to work with the job holders as well as personnel staff (no matter they are based in Hong Kong or Shenzhen) to take up the task of preparing job descriptions. The advantage of the former method is that the job holders and their superiors are supposed to be the closest to the job and therefore, it will be easier for them to describe the job duties and responsibilities. The latter method, apparently more common in larger organizations, derives more benefits from the professionalism of personnel staff in the write-up process.

Recruitment

A sharp difference exists in the recruitment practice. Being a much more liberal market, the employers in Hong Kong put much emphasis on using English or Chinese media, especially for the recruitment of middle and junior
positions. However, as a whole, the respondents in the Shenzhen Survey still employed most of their staff through local FESCO and Labour Bureau, which is similar to the Labour Department in Hong Kong but with stronger power. Employers also need to pay a fee for using the service of FESCO or Labour Bureau but the Local Employment Service of the Hong Kong Labour Department does not levy any charge to prospective employers. To a certain extent, the fee paid to the FESCO and Labour Bureau also help to enhance the relationship.

The percentage of using search firms in Hong Kong for managerial posts (42 percent) was much higher than that of Shenzhen. This is a good reflection of the maturity of the employment market. However, at the same time, it indicates that great opportunity exists for executive search companies in China. Owing to the keen competition for quality managers, business potential is tremendous.

Selection Method

Comparing with the Hong Kong practices, the involvement of personnel staff in interviewing was much lower in the FIEs. This illustrates partly the low degree of overall participation of personnel staff in PRC business.

Concerning the use of tools or tests in selection, it is not surprising to see that both places did not commonly adopt such practice at the time of the surveys. However, it is worthwhile pointing out that more and more large
companies in Hong Kong, such as Hongkong Bank, Standard Chartered Bank, Hong Kong Telecom and Mass Transit Railway Corporation, have started using psychometric tests for selection and career development purposes. At the same time, many test publishers such as Saville & Holdsworth are now actively translating their test materials into Chinese in order to capture the market. It can be expected that more FIEs would use them in the future.

Localization Policy and Brain Drain

Though the Hong Kong Survey did not cover localization policy, it did cover the topic of emigration. Most of the surveyed companies responded that they increased training of potential candidates for succession and increased salary/benefits for retention. On a related front, the Shenzhen Survey revealed that increase in training was considered the major method to tackle the issue of localization.

However, it can be predicted that the training context was different in the two places. In Hong Kong, it was probably more focused on management skills and functional knowledge so that young managers could fill up higher level vacancies readily, whereas in Shenzhen, the primary concern was "attitude change". Besides, given the old mentality of many Chinese workers, more stringent code of conduct had to be set to facilitate the implementation of localization.
Remuneration and Benefits

In Shenzhen, 5 percent to 30 percent of the company costs are staff costs. This compares with a mean of 38 percent in the Hong Kong Survey. Given the high inflation in recent years, the total staff costs, as a percentage of total costs, is expected to have risen in Hong Kong. Anyway, the difference confirms that it is still relatively cheap to hire people in Shenzhen. On the other hand, this also highlights the need to localize as seconded staff in Shenzhen enjoy much higher salary as well as many other benefits including hardship allowance, tax equalization, leave passage as well as accommodation. The overall cost bill to the company for assigned staff are much higher than that of local staff.

Grading & Pay Level

Similar to Hong Kong, unilateral management decision is the major basis in determining the grading structure in Shenzhen and Hong Kong. It is extremely logical as determining grading is related to allocation of authority and power, which is normally tackled by the management.

Salary Increase

The frequency of review in Hong Kong was generally once per year. Due to the rapid salary movement in Shenzhen, it is not surprising to see that a higher percentage of companies needed to have an interim review in 1993. In fact, the same phenomenon also existed in Hong
Kong during 1987 to 1988. At that time, the brain drain problem was very serious and many companies awarded interim increase or catch-up increase to attract and retain staff. Similar phenomenon may continue to occur in Shenzhen in the next few years.

Cash Benefits

Similar to the Hong Kong practice, granting guaranteed bonus is a norm in Shenzhen. Moreover, it is very common in Shenzhen to pay a lot of allowances under different names.

Incentive payment is rarely given in Shenzhen. This illustrates the difference in performance orientation of employees in the two places. Hong Kong people, being more familiar with the performance management culture, are motivated by incentive pay. However, in Shenzhen, the mentality is still geared to the "One Big Pot" system. Guaranteed bonuses and allowances do not correlate with the level of performance. This is certainly an area which personnel professionals need to address to in the future.

Non-cash Benefits

The influence of mandatory non-cash benefits has profound impact on the Shenzhen practices. Most of the companies simply try to match the statutory requirements in providing benefits to their employees though leave benefits are usually better. As a big contrast, the role of the Hong Kong Government in labour legislation and intervention
in labour matters is minimal. It is the market force which drives most of the employers to provide one kind or another benefits to their employees. In fact, most of the benefits being provided by Hong Kong companies are on top of the legal requirements. The sharp difference in the practices in Hong Kong and Shenzhen can be explained by the following reasons:

(1) The share of the total mandatory staff costs in Shenzhen was already 38 percent of total payroll. The willingness of employers to provide something extra is deterred to a great extent. Comparing with an estimation from a Wyatt Survey on Banks and Financial Institutions in Hong Kong, the percentage of benefits costs to total remuneration stood at only around 25 percent for middle level staff.\(^{22}\)

(2) The workers in Shenzhen are cash-oriented. Non-cash benefits, even on top of the statutory ones, are not major attraction to them. However, in Hong Kong, benefits, especially medical and retirement, do carry some weights in the eyes of some job applicants.

Employee Relations & Welfare

Circular/notice was the most common form of communication tool used in Shenzhen. This contrasts to

"informal and regular management staff meeting" in Hong Kong, as revealed in the Hong Kong Survey. One possible reason is that the item "Circular/Notice" was not included in the questionnaire of the Hong Kong Survey and so the respondents simply ticked the choices given. In fact, it is common in all establishments to communicate by means of circular or notices.

The Shenzhen sampled FIEs also had staff handbook, informal management staff meetings as well as formal grievance procedures to supplement communications. The Hong Kong practices seemed to be quite similar in this respect.

Turning to the welfare matters, it is not surprising to see that the practices of Hong Kong companies were more comprehensive. Apart from annual dinner and company outing (which were provided by most of the respondents in Shenzhen and Hong Kong), many Hong Kong companies also provided sports facilities, assistance with further education, regular news-sheet/newsletter and subsidized meal. If we take the variety of welfare programmes provided as a reflection of sophistication of development of personnel management, Hong Kong is probably ahead of Shenzhen in this respect.

Trade Union

The Hong Kong Survey indicated a union membership of 10 percent to 15 percent of the total workforce. It is expected that the percentage should be higher in the FIEs
most of the training were provided in-house. In Hong Kong, more external training from the Hong Kong Management Association, Hong Kong Productivity Council, universities, polytechnics and training consultants are available. As Hong Kong trainers need to travel to Shenzhen and other parts of China to conduct courses, it is not surprising to see that the training costs as a whole in Shenzhen will be more expensive relatively.

**Role of Personnel Management**

The role that personnel management plays in the overall business operations of FIEs in Shenzhen is less significant than it does in most Hong Kong companies. The discretion enjoyed by personnel staff in various human resources functions in Shenzhen was still inadequate. In Hong Kong’s case, the large companies normally had great discretion in payroll administration, and recruitment and selection. There is a need for the personnel function in FIEs to strengthen its role as human resources issues actually have far reaching effect on the overall business performance in the long term. This is especially true in the service industry as people interactions and customer interface are abundant. Incapable staff can turn away a lot of business opportunities.

**Focus of Personnel Management**

The emphasis of personnel management for the time being is remuneration and benefits as well as training and
development for the sampled FIEs. Very differently, the Hong Kong Survey reported that the focus was on recruitment/selection, employee relations and training. One possible explanation was that brain drain was the major problem facing the personnel professionals at the time of the Hong Kong Survey. The focus was therefore on how to recruit people to replace those who had left for emigration and retain the existing ones through better staff relations. Training ranked third on the list as it was necessary to upgrade the quality of people in order to fill up the more senior positions left vacant.

In Shenzhen's situation, the reasons for emphasizing on remuneration and benefits are two folded. First, the increasing labour costs in China had alerted the personnel professionals. Second, due to the money-orientation of most staff in Shenzhen, better remuneration was one of the most important means to attract and retain people.
CHAPTER VII

RECOMMENDATIONS AND CONCLUSION

In addressing to the current personnel issues in Shenzhen, it is of over-riding importance that personnel professionals should own the problems and try to work out the solutions. The authors would like to offer the following recommendations:

Role of Personnel in PRC Business

The current passive role of human resources professionals in China business is far from satisfactory. Human Resources Managers need to strengthen their presence in China and take a more active role in understanding the business strategies and thrusts of the PRC business with an objective to develop the a long run win-win partnership with line managers. Though some of the establishments are still quite small and may not need specific human resources strategies right now, it is beyond doubt that human resources professionals need to prioritise the order in tackling various issues and allocate sufficient resources to resolve them.

In order to achieve the above, they have to solicit support from the top management and demonstrate to them the role they could play in the overall China business by
alerting them the implications of issues like localisation, staff retention, and control of staff costs to future business success.

Market Intelligence

Apart from relying on the existing information channels, human resources professionals need to explore further means to obtain updated market information. Service establishments in Shenzhen should engage in more informal experience sharing gatherings. Some companies may prefer keeping their information confidential and do not share with others. However, the authors are of the opinion that this will only make themselves isolated and insensitive to market movements. Initiative has to be taken by the larger establishments to set the scene for better cooperation.

Apart from informal channels, personnel practitioners can also urge those formal organizations in Hong Kong such as the Employers' Federation and Hong Kong Chamber of Commerce to facilitate the exchange of information.

The FIEs can also join together and engage professional consultants to conduct in-depth studies on the existing practices in Shenzhen. This idea is quite common in Hong Kong. Industries like banks or public utilities do conduct this kind of surveys.

In addition, more visits to Shenzhen can also help to expedite the flow of information. Applying the concept of "management by walking around", many useful information can
be collected on site and by talking to the staff and relevant government officials there.

Close Relationship with Relevant Parties

As Albert Siu said, "the important thing is to build up the right relationships with local people, take time to cultivate and establish the trust and respect of your staff and business associates." To elaborate this further, the meaning of business associates should include not only other personnel professionals but also government officials in the Labour Bureau and Trade Unions.

Targeted Selection

The FIEs on one hand need to recruit experienced people to fill the middle and senior positions. At the same time, they have to employ many junior staff who will interface with the customers. Given the constraints set by the local Labour Bureau, two very different approaches are recommended.

Executive Search - Senior Positions

There are a number of famous executive search firms established in China which assist companies to headhunt middle and senior people. The fees levied by these companies are reasonable and their relationship with the Labour Bureau is usually very good. Thus, this method can

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24 Albert Siu, "The Seven 'Wonders' of China: Myths and Truths", Hong Kong Staff, May 1993, p.32.
help to reduce the trouble of getting through the government when recruiting talents from outside Shenzhen.

Multi Channels - Junior Positions

As mentioned earlier, the quantity and quality of university graduates in Shenzhen is far from satisfactory. It is therefore important to get the best out of the available sources. Building up good relationship with the colleges and universities will be helpful in soliciting the cream. One possible route is to donate scholarships or set up summer internship programmes at these universities.

Maintaining close liaison with the Labour Bureau and enabling them to understand the manpower situation of the company is vital. This can be achieved through visits and participation in job fairs organized by the Labour Bureau.

Given the mentality of PRC workers, the introduction of psychometric tests in the selection process is strongly recommended. Some of the tests like the Neuroticism-Extraversion-Openness Personality Inventory (NEO-PI) have already been translated into Chinese by the Department of Psychology of the Chinese University of Hong Kong. In addition, the Department has also developed a Chinese Personality Questionnaire. Companies could make use of these more objective tools to screen out applicants who have an undesirable attitude from the company's viewpoint.

Remuneration

With better market intelligence, it is expected that
personnel professionals can forecast the pay trend more accurately. Moreover, under the Chinese laws, there are still ways which foreign enterprises can adopt to reduce the tax liability of the staff members and thereby increase their net take home pay. Some possible options are listed below:

Provision of "Benefits in Kind"

According to the tax laws in China, the provision of "benefits in kind" is not taxable. Take for an example, the provision of meal is not taxable but provision of a meal allowance is taxable. Another example is gifts given out by employers during festive seasons, which are not taxable to the employees. Thus, companies could provide this type of benefits to employees when designing the components of the remuneration package.

Reimbursable Allowances

Another grey area in China tax laws is that employers could grant allowances against receipts to their employees. Staff members can enjoy the benefits without incurring any additional tax liability. However, the administrative burden of the company will increase as all receipts have to be kept and registered.

Incentives

Given the money-orientation of people in Shenzhen, it is possible to adopt more aggressive cash incentives. For
staff members who are engaging in selling jobs, a commission pay system can be structured. Staff will also be greatly motivated if they can share the well-beings of their enterprises through a profit sharing scheme. For people who are engaging in the more routine and operational type of work, they usually will get bored easily and the use of incentives can help to maintain their efficiency. However, care has to be taken when changing the existing compensation practices. For instance, the performance standards set should be reasonable and achievable and the amount of rewards should be sufficiently attractive. Moreover, it is necessary to assess whether the incentive should be given on a team basis or on an individual basis.

**Housing Benefit**

One particular area of concerns of employees is housing. Being employed in a FIE will deprive an employee’s right for state housing. Therefore, how to satisfy the housing needs of employees has become a major problem for the personnel professionals. Some possible ideas are listed down below.

**Use of the Housing Fund**

Though only two of the surveyed companies contributed to the housing fund, it is expected at a later stage, the Shenzhen Government will take a more strong stand in enforcing this regulation. It is time for foreign companies to start making the contributions. Employees can
use the money to rent a house or pay the interest for a mortgage loan.

Staff Housing Loan

In Hong Kong, not restricting only to banks, it is quite common for large companies to provide staff with housing loan programme. Some companies like the Mass Transit Railway, China Light and Power, IBM, Hewlett Packard have entered into agreement with banks to provide housing loan to their staff members. These companies then provide an interest subsidy to reduce the interest burden of the employees. FIEs can explore similar concept and engage a local bank in providing this benefit. As the amount of money involved will be quite high, entitlement to this benefit should be more restrictive, for example, to key staff members or long service staff only.

Bank of East Asia is the first one in Shenzhen to introduce a Staff Housing Loan Programme. The other foreign banks, Citibank, Hongkong Bank and Standard Chartered are actively pursuing similar study. Being banks, they are supposed to have natural advantage in lending as they are close to the source of fund. However, as they are not allowed to engage in RMB businesses (deposits and lending), they still have to struggle for the source of RMB. This is a major technical problem they are facing.
Staff Quarters

Standard Chartered was among the first group of FIEs to provide quarters to staff members working in Shenzhen. At present, only 8 flats have been rented and the benefit was being provided to 40 single staff members. The staff members living in the quarters pay only nominal rent to the Bank.

Foreign enterprises who wish to take this approach need to think more carefully. Given the increasing accommodation costs in Shenzhen, the burden will be shouldered by themselves eventually. If the interests of married coupled are to be taken care of, a lot more flats will need to be leased.

Training & Development

Given the quality of local staff members, it is not surprising to see that most of the Human Resources Managers interviewed put a lot of weight on training and development. For large establishments like Seibu, it is less difficult for them to hire a local full-time trainer or assign a Hong Kong trainer to work in Shenzhen from time to time. However, for the smaller set-ups, such as banks, they may find it not cost effective to allocate resources to conduct training in Shenzhen by a Hong Kong staff. Some more possible alternatives are listed below.

Training Resources be Used on Shared Basis

As numerous small FIEs are operating in Shenzhen, they
could join together to provide some generic training to their staff members. This is especially true for knowledge and skill based training such as bills, remittance and personal computer.

External Training Resources

In recent years, the Shenzhen University has been cooperating with many Hong Kong tertiary or professional institutions to organise different kinds of training courses to local enterprises. Foreign enterprises can also join together or act on its own to invite these institutions to deliver relevant training courses, such as supervisory skills, customer service skills, to their local staff. On one hand, it helps to enhance the relationship with the tertiary institutions. On the other hand, it would be more cost effective.

Training in Hong Kong

For more specific training about corporate culture and customer service, companies need to take care of themselves. The soft side of training should be emphasised in view of the mentality of the people. One possible alternative is to have the employee be sent to Hong Kong for training though the cost involved will be greater. This will give greater exposure to employees with good potential and serve as an reward for good performance.
Development

Apart from training, companies need to pay equal attention to development as well. Job rotation can be a very good way to expose potential staff to different areas of work. Some career development models, which take account of the needs of the companies as well as orientation, capabilities, and potential of individuals, should be adopted.

Performance Management

A more systematic and comprehensive performance appraisal system have to be established in the FIEs. Objective setting should be the first step for all staff to follow. This, of course, require company effort to change the attitude of staff. Measurement against objectives should be done annually or semi-annually in order to assess the performance of each individual. Rewards, including pay rise, promotion, and discretionary bonuses/incentives should be driven by performance to a greater extent. Training and development needs should also be reviewed in the appraisal process in order to further develop their potential. Linking with the more innovative pay practices mentioned above, the enterprises will be able to get a more motivated workforce.

Labour Relations

Though the existing labour relations are harmonious in most FIEs, the management of foreign enterprise should take
a more active role in communication with both the labour union officials and the staff members. More formal and informal meetings between management and staff/union can help to reduce any possible gaps of misunderstanding and potential conflicts.

**Conclusion**

The personnel management practice in Shenzhen is still in a very primitive stage of development and there is much room for development. In order to encourage foreign investors, the Shenzhen Government has been adopting a liberal approach in labour management. However, the general trend is that the Government is eager to "transfer" the responsibilities to employers and employees. Bearing in mind the comprehensiveness of labour regulations in Shenzhen, it may mean a lot, in terms of extra work and costs, to foreign companies.

Under this scenario, the attractiveness of low labour costs to FIEs may be diminishing in the years ahead though the cost of operating in China is still relatively low. More emphasis should be put on increasing the productivity of the workforce. In fact, the higher the productivity per capita is, the lower will the relative staff costs are.

This can be achieved through a more integrated approach of human resource management covering manpower planning, recruitment and selection, compensation and benefits, employee relations, and training and development. Companies which can attract the best people may fail to
retain them if they only focus on pay but overlook other factors such as the importance of using suitable training to "change" their mentality, upgrade their quality and provide better career. It is the belief of the authors that if the economy in China continues to develop, the people will look for more term success in career, social status and influence instead of just the short-term monetary gains. Therefore, in addition to reducing labour costs, an integrated approach could also help to develop a more committed and motivated workforce which eventually facilitate localization in the long run.

On the other hand, while the China government will gradually release the burden of workers' welfare to employers, it still retains a monitoring role and is the final adjudicator in case of labour disputes. This sharply contrasts to the laissez faire approach taken by the Hong Kong Government. Personnel professionals in Hong Kong have to note the differences in philosophy held by the two sides of the borders and adjust their ways of doing things accordingly.

-END-
ILLUSTRATION 1

INTEGRATED APPROACH OF PRC PERSONNEL MANAGEMENT

Market Intelligence

Close Relationship with Labour Bureau

Harmonious Union Relationship

Personnel

Develop Partnership with Business Units

Upgrade Selection Process

Design Competitive Remuneration Package

Change Staff Mentality by Training

Introduce Performance Management

Enhance Staff Relations

HIGH QUALITY AND HIGHLY MOTIVATED STAFF TO SUPPORT BUSINESS SUCCESS
APPENDIX I

LIST OF TARGET COMPANIES

1. The Optical Shop
2. Park'n Shop
3. Dah Cheong Food Mart
4. Standard Chartered Bank
5. Bank of East Asia
6. Citibank, N.A.
7. Nanyang Commercial Bank
8. Banque National de Paris
9. Hong Kong & Shanghai Banking Corporation
10. Dao Heng Bank
11. Banque Indosuez
12. MacDonald's Restaurant
13. Cafe de Coral
14. Fairwood Fast Food
15. Watson's
16. Giordano
17. Seibu
A SURVEY ON PERSONNEL MANAGEMENT PRACTICES OF FOREIGN SERVICE ORGANISATIONS IN SHENZHEN

Name of Company: ______________________________

Name & Position of Respondent: ______________________________

Contact Telephone No.: ______________________________

(PLEASE BE ASSURED THAT ALL INFORMATION PROVIDED WILL BE KEPT STRICTLY CONFIDENTIAL)
A1. Country of Ownership: 

A2. No. of establishments in Shenzhen: 

A3. No. of Employees (as of 1 January 1994) in Shenzhen:

<table>
<thead>
<tr>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of PRC Local Staff</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of HK/Expatriate Staff</td>
<td></td>
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</tr>
</tbody>
</table>

A4. Staff Turnover Rates for PRC Local Staff (for 1993) in Shenzhen:

<table>
<thead>
<tr>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary (see Remarks)</td>
<td></td>
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<td></td>
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<tr>
<td>Involuntary (See Remarks)</td>
<td></td>
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</tr>
</tbody>
</table>

Remarks:

Voluntary Turnover Rate is defined as: \( \frac{2 \times (\text{No. of in-post as of 1 Jan 1993} + \text{No. of in-post as of 31 Dec 1993})}{\text{No. of Resignations during 1993}} \)

Involuntary Turnover Rate is defined as: \( \frac{2 \times (\text{No. of in-post as of 1 Jan 1993} + \text{No. of in-post as of 31 Dec 1993})}{\text{No. of Terminations & Unregretted Termination during 1993}} \)

A5. How long has your company been operating in Shenzhen: 

A6. How many full-time staff members are responsible for HR related matters for your Shenzhen operations?

a. PRC Local Staff Members 

b. Hong Kong/Expatriate Staff Members 

A7. Is there a PRC Personnel/HR Department established solely for your PRC operations?

Yes 
No (GO TO Q.B1, P.3)

A8. Which of the following unit does your PRC Personnel/HR Department report to? (Please tick)

a. Chief Executive, PRC operations 

b. Human Resources Department, Hong Kong (or Regional Office) 

c. Human Resources Department, Head Office 

d. Others, please specify
1. Does your company have job descriptions/specifications for the following types of jobs? (Please circle)

<table>
<thead>
<tr>
<th></th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Descriptions</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
</tr>
<tr>
<td>Job Specifications</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
</tr>
</tbody>
</table>

GO TO Q.C.1, P.4 IF YOUR COMPANY DOES NOT HAVE ANY JOB DESCRIPTIONS/SPECIFICATIONS

2. Who is responsible for preparing the job descriptions/specifications? (Please tick)

<table>
<thead>
<tr>
<th></th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRC Personnel Staff</td>
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<tr>
<td>Headquarter Personnel Staff</td>
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<tr>
<td>Superior of Job Holder</td>
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<tr>
<td>Job Holder</td>
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<tr>
<td>Others (Please specify)</td>
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</tbody>
</table>

3. For which of the following reasons were job descriptions/specifications prepared? (Please tick)

   a. To facilitate recruitment  
   b. To facilitate job evaluation  
   c. To clarify roles and responsibilities with jobholders  
   d. Others (Please specify)

34. Does your company communicate the results of job evaluation to your staff?

   Yes  (GO TO Q.C1, P.4)  
   No

35. Why your company decides not to communicate the results of job evaluation to your staff? (Please tick)

   a. Company policy, world-wide, is not to communicate  
   b. Not too confident about the findings of evaluation  
   c. Others
## 2. RECRUITMENT

### C1. Which of the following methods does your company use in external recruitment? (Please tick)

<table>
<thead>
<tr>
<th>Method</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>FESCO; Local Labour Bureau</td>
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<tr>
<td>Resource Exchange Centre</td>
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<tr>
<td>Staff Transferral from Local Partner</td>
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<tr>
<td>Executive Search</td>
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<tr>
<td>Employment Agencies</td>
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<tr>
<td>Advertisement in Media</td>
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<tr>
<td>Advertisement Outside Premises</td>
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<tr>
<td>Referrals from Staff</td>
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<tr>
<td>Campus Recruitment</td>
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<tr>
<td>Others (Please specify)</td>
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</tbody>
</table>

### C2. Which of the following selection methods does your company use? (Please tick)

<table>
<thead>
<tr>
<th>Method</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>CV Screening</td>
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<tr>
<td>Interview by Personnel Dept Only</td>
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<tr>
<td>Interview by Line Dept Only</td>
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<tr>
<td>Panel Interview by Personnel &amp; Line</td>
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<tr>
<td>Separate Interviews by Personnel &amp; Line</td>
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<tr>
<td>Psychometric Test</td>
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<tr>
<td>Skills/Trade Test</td>
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<tr>
<td>Group Discussion</td>
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<tr>
<td>Presentation</td>
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<tr>
<td>Simulation Exercise</td>
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<tr>
<td>Reference check</td>
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<tr>
<td>Others (Please specify)</td>
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</tbody>
</table>

### C3. Who is/are responsible for making the selection decision? (Please tick)

<table>
<thead>
<tr>
<th>Responsible Party</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Department Only</td>
<td></td>
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</tr>
<tr>
<td>Line Department Only</td>
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<tr>
<td>Personnel and Line Department</td>
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<tr>
<td>Chief Executive or equivalent</td>
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</tbody>
</table>
4. Where do your most staff members come from? (Please tick)

<table>
<thead>
<tr>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shenzhen</td>
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<tr>
<td>Other parts of Kwangtung Province</td>
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<tr>
<td>Shanghai/Tianjin/Beijing</td>
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<td></td>
<td></td>
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<tr>
<td>Other parts of China</td>
<td></td>
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</tr>
</tbody>
</table>

5. How do you overcome the problem of labour mobility restriction (from other parts of China to Shenzhen)?

a. Good connections with Local FESCO & Labour Bureau
b. Good connections with Foreign FESCO & Labour Bureau
c. No particular solution, let the staff solve it themselves
d. Others, please specify

6. What are your major criteria in selecting your candidates? (Please rank their importance, 1 being the most important)

<table>
<thead>
<tr>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical Skills/Job Knowledge</td>
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</tr>
<tr>
<td>Background of the Candidate</td>
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<tr>
<td>Interpersonal Skills</td>
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<tr>
<td>Mentality</td>
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<tr>
<td>Education Background</td>
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<tr>
<td>Potential</td>
<td></td>
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<tr>
<td>Others</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

7. Who is/are responsible for determining the salary package for new recruits? (Please tick)

<table>
<thead>
<tr>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Department Only</td>
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<tr>
<td>Line Department Only</td>
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<tr>
<td>Personnel &amp; Line Department</td>
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</tr>
<tr>
<td>Chief Executive or equivalent</td>
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</tbody>
</table>

8. What problems did your company encounter in external recruitment in the last 12 months?
0. PROMOTION POLICY

01. Does your company have formal promotion policy?
   Yes
   No

02. Which of the following methods does your company use in processing staff promotion? (Please tick)

<table>
<thead>
<tr>
<th>Method</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommendation from Line Dept</td>
<td></td>
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<tr>
<td>Interview</td>
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<tr>
<td>Psychometric Test</td>
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<tr>
<td>Skills/Trade Test</td>
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<tr>
<td>Group Discussion</td>
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<td>Presentation</td>
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<tr>
<td>Simulation Exercise</td>
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<tr>
<td>Others (Please specify)</td>
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</tbody>
</table>

03. Who is/are responsible for making the promotion decision? (Please tick)

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Department Only</td>
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<tr>
<td>Line Department Only</td>
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<td></td>
</tr>
<tr>
<td>Personnel &amp; Line Department</td>
<td></td>
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</tr>
<tr>
<td>Chief Executive or equivalent</td>
<td></td>
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</tr>
</tbody>
</table>

04. Does your company grant fixed percentage of increase for promotees? (Please tick)
   Yes, how much ___%  
   No, from ___% to ___%

05. Who is responsible for determining the salary package for promotees? (Please tick)

<table>
<thead>
<tr>
<th>Responsibility</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Department Only</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Line Department Only</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel &amp; Line Department</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chief Executive or equivalent</td>
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<td></td>
</tr>
</tbody>
</table>

06. Does your company have any localization plan for PRC local staff? (Please circle)

<table>
<thead>
<tr>
<th>Localization plan</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes/No</td>
<td>Yes/No</td>
<td>Yes/No</td>
<td>Yes/No</td>
<td>Yes/No</td>
</tr>
</tbody>
</table>
What are the particular issues you encountered/anticipate to encounter if you have to carry out the localization plan? (Please rank their importance, 1 being the most important)

a. Concerns over the quality of local people
b. Acceptability of local managers to junior staff
c. Resistance from HK/Foreign Assignees
d. Attitude of Government Authorities
e. Others, please specify

How could you tackle the above issues (Please rank their importance, 1 being the most)

a. Increase training & development to high potential local staff
b. Set more stringent code of conduct
c. Maintain close supervision over the local managers
d. Restrict localization to less senior posts
e. Others, please specify

E. REMUNERATION & BENEFITS

E1. Percentages of staff costs as total company costs:

E2. What problems does your company encounter in controlling staff costs? (Please tick, can be more than 1)

a. High Inflation Rate
b. Pay rise caused by more competition for talents from other foreign enterprises
c. Pay rise caused by more competition for talents from state enterprises
d. Further increase Statutory benefits costs (pension, housing and medical)
e. Stronger expectations from staff about pay
f. Others (Please specify)

E3. How does your company determine the grading of different positions? (Please tick)

a. By formal job evaluation (Please specify the method)
b. By referring to the grading structure in home country
c. By referring to published surveys
d. By referring to grading structure of other competitors
e. Others (Please specify)

E4. How does your company determine the pay level of individual jobs? (Please tick)

a. By referring to the pay level in home country
b. By referring to published surveys
c. By referring to pay level of other competitors
d. Others (Please specify)

E5. Do you agree that more communications among foreign enterprises could help to reduce the pay rise?

Yes, 
No, 
E6. Will you join any formal or informal meetings among foreign enterprises in order to help to "fix" the pay rise?
Yes, [ ]
No, [ ]

E7. When does your company conduct salary increase? (please tick)

<table>
<thead>
<tr>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td></td>
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</tr>
<tr>
<td>February</td>
<td></td>
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<tr>
<td>March</td>
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<tr>
<td>April</td>
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<td>May</td>
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<td>June</td>
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<td>July</td>
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<td>August</td>
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<td>September</td>
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<tr>
<td>October</td>
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<tr>
<td>November</td>
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<tr>
<td>December</td>
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<tr>
<td>Anniversary</td>
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</tr>
</tbody>
</table>

E8. What factors does your company consider when determining the salary increase of staff?
(Please rank their order of importance; 1 = Most Important)

<table>
<thead>
<tr>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflation</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Salary Increase in Home Country</td>
<td></td>
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<tr>
<td>Salary Increase of Competitors</td>
<td></td>
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<tr>
<td>Financial Condition</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Negotiation with Staff/Trade Union</td>
<td></td>
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<tr>
<td>Performance</td>
<td></td>
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</tr>
<tr>
<td>Seniority</td>
<td></td>
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<tr>
<td>Others (Please specify)</td>
<td></td>
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</tr>
</tbody>
</table>
E9. Which of the following cash benefits does your company provide? (Please tick)

<table>
<thead>
<tr>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guaranteed Bonus</td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>Discretionary Bonus</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Profit Sharing Bonus</td>
<td></td>
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</tr>
<tr>
<td>Long Service Bonus</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commission</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Housing Allowance</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Meal Allowance</td>
<td></td>
<td></td>
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<tr>
<td>Transport Allowance</td>
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<tr>
<td>Education Allowance</td>
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<tr>
<td>Clothing Allowance</td>
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<tr>
<td>Laundry Allowance</td>
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<td></td>
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</tr>
<tr>
<td>Living Allowance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (Please specify)</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

E10. Which of the following non-cash benefits does your company provide? (Please tick)

<table>
<thead>
<tr>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributory P—Fund/Retirement Scheme</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Contributory P—Fund/Retirement Scheme</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Pension</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disability Insurance</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dental Benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Leave: On top of legal requirement</td>
<td></td>
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<tr>
<td>Additional Leave for Long Service</td>
<td></td>
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</tr>
<tr>
<td>Home Leave</td>
<td></td>
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<tr>
<td>Marriage Leave</td>
<td></td>
<td></td>
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<tr>
<td>Maternity Leave</td>
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</tr>
<tr>
<td>Paternity Leave</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Compassionate Leave</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Sick Leave: On top of legal requirement</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Medical Scheme</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Dental Scheme</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Company Quarter/Housing</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Company Car</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leave Passage/Free Travel</td>
<td></td>
<td></td>
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<tr>
<td>Free Meal</td>
<td></td>
<td></td>
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<tr>
<td>Free Transportation</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Long Service Award</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Gifts on Chinese Festivals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Others (Please specify)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

E11. What problems did your company encounter in managing the remuneration packages of various categories of staff?
## 5. PERFORMANCE MANAGEMENT

### Q1. Does your company have a formal performance appraisal system?
- Yes
- No (GO TO Q. G1)

### Q2. How frequent does your company conduct performance appraisal?

<table>
<thead>
<tr>
<th>No. of times per year</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
</table>

### Q3. What is/are the major purpose(s) of performance appraisal in your company? (Please tick)

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
</table>
| Tie with Salary Increase
| Improve Current Performance
| Set Performance Standards/Objectives
| Assess Potential
| Identify Training/Development Needs
| Others (Please specify) |

### Q4. Who is/are responsible for appraising staff? (Please tick)

<table>
<thead>
<tr>
<th>Responsible</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
</table>
| Immediate Superior
| Level Above Immediate Superior
| Personnel Department
| Peers
| Others (Please specify) |

### Q5. Will appraisal results be shared with staff? (Please circle)

<table>
<thead>
<tr>
<th>Result</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
</table>
| Salary Increase Recommendation
| Performance Improvement Required
| Performance Standards/Objectives
| Assessment of Potential
| Training/Development Needs
| Others (Please specify) |
F6. Do staff have the right to appeal? (Please circle)

<table>
<thead>
<tr>
<th></th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
<td>Yes / No</td>
</tr>
</tbody>
</table>


F7. What will your company do for non-performers? (Please tick)

- a. Terminate from the company service
- b. Terminate from the company service after consultation with Labour Bureau/FESCO
- c. Terminate from the company service after consultation with Trade Union
- d. Counsel the staff, install a development plan and monitor improvement closely
- e. No particular action is taken
- f. Others, please specify

F8. Please rank the importance of the following factors in rewarding performance in PRC (1 being the most important)

- a. Pay rise
- b. One-off Bonus
- c. Benefits (monetary related) enhancements e.g. pension, gift coupons
- d. Non-monetary related benefits, e.g. increased leave entitlement, better medical benefits
- e. Job rotation
- f. Training Opportunities in other parts of China
- g. Training Opportunities in Hong Kong
- h. Verbal praise
- i. Written commendation
- j. Promotion
- k. Others, please specify

F8. What problems did your company encounter in implementing the appraisal system?

G. EMPLOYEE RELATIONS & WELFARE

G1. Is the Trade Union in your company closely affiliated with an national trade union organisation?
   - Yes ________
   - No ________

G2. Percentages of Staff who are members of a Trade Union

<table>
<thead>
<tr>
<th></th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of Staff</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

G3. How frequent does the management of your company meet the Trade Union Representatives?
   ________ times per year
34. What problems did your company encounter in dealing with the Trade Union?


35. What kinds of communication channels have been established in your company? (Please tick)

   a. Formal Management—Staff meetings   
   b. Informal Management—Staff meetings   
   c. Staff Handbook   
   d. Company Newsletter   
   e. Policy Manual   
   f. Suggestion Scheme   
   g. Suggestion Box   
   h. Greviance Procedures   
   i. Circular/Notice   
   j. Others (Please specify)   

36. What problems did your company encounter in maintaining good staff relations?


37. What kinds of staff welfare services/programs are being provided by your company? (Please tick)

   a. Annual Dinner   
   b. Company Outing   
   c. Sports & Recreational Facilities   
   d. Counselling Services   
   e. Others (Please specify)   

H. TRAINING & DEVELOPMENT

H1. Does your company provide any formal training to your staff?

Yes   
No   (GO TO Q.J1, P.14)

H2. Which of the following types of in-house training does your company provide? (Please tick)

<table>
<thead>
<tr>
<th>Training Type</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Induction Training</td>
<td></td>
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</tr>
<tr>
<td>Computer Training</td>
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<tr>
<td>Clerical/Secretarial Training</td>
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<tr>
<td>Functional/Technical Training</td>
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<tr>
<td>Customer Service Training</td>
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<tr>
<td>Supervisory Training</td>
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<tr>
<td>Management Training</td>
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</tr>
<tr>
<td>Others (Please specify)</td>
<td></td>
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</tr>
</tbody>
</table>
H3. Which of the following types of external training does your company provide? (Please tick)

<table>
<thead>
<tr>
<th>Types of Training</th>
<th>Front Line Staff</th>
<th>General Staff</th>
<th>Supervisory Staff</th>
<th>Professional &amp; Managerial Staff</th>
<th>Senior Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer Training</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Clerical/Secretarial Training</td>
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<tr>
<td>Functional/Technical Training</td>
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<tr>
<td>Customer Service Training</td>
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<tr>
<td>Supervisory Training</td>
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<td></td>
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<tr>
<td>Management Training</td>
<td></td>
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<tr>
<td>Others (Please specify)</td>
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</tr>
</tbody>
</table>

H4. Who is/are responsible for conducting the training courses? (Please specify)

a. PRC Training Staff
b. Home Country Training Staff
   - Arrange training in PRC
   - Arrange training in Home Country
c. Training Consultants
d. Others (Please specify)

H5. Does your company design any special programme to "socialise" or change the mentality of new recruits to being service oriented?
Yes
No (GO TO Q.H8)

H6. What sorts of programmes are included in changing the mentality? (Please tick)

a. Induction Training
b. Customer Service Training
c. Others, please specify

H7. How does your company evaluate the effectiveness of training programs? (Please tick)

a. Questionnaire to Trainees
b. Questionnaire to Superiors of Trainees
c. Log Book
d. Test
e. Others (Please specify)

H8. What problems did your company encounter in designing and conducting training programs for PRC staff?
11. How much discretion does your PRC Personnel Department have on the formulation and implementation of personnel policies with regard to the following areas? (Please tick)

<table>
<thead>
<tr>
<th>Area</th>
<th>Full Discretion</th>
<th>Great Discretion</th>
<th>Little Discretion</th>
<th>No Discretion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job Analysis</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>External Recruitment</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Promotion &amp; Transfer</td>
<td></td>
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</tr>
<tr>
<td>Job Evaluation</td>
<td></td>
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</tr>
<tr>
<td>Remuneration</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Performance Management</td>
<td></td>
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</tr>
<tr>
<td>Employee Relations &amp; Welfare</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training &amp; Development</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Human Resources Strategy</td>
<td></td>
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</tr>
</tbody>
</table>

12. Under the current situations in Shenzhen, which of the following areas of HR management will your company most focus on?

a. Job Analysis
b. External Recruitment
c. Promotion & Transfer
d. Job Evaluation
e. Remuneration & Benefits
f. Performance Management
g. Employee Relations & Welfare
h. Training & Development
i. Human Resources Strategy
j. Others, please specify

13. As a whole, what are the greatest HR challenges that your company has to tackle in its Shenzhen establishments?

THANK YOU VERY MUCH FOR YOUR ASSISTANCE
Dear Sir/Madam,

Thank you for agreeing to participate in our research project, which studies the personnel practices of foreign service organisations in Shenzhen. A questionnaire is attached for your completion.

We will survey around 20 organisations in the banking, fast-food, and retail sectors. In-depth interviews will also be arranged with selected companies to examine in detail the difficulties encountered by them in managing their human resources in Shenzhen.

We would be grateful if you could kindly spare some time to complete and return the attached questionnaire to us by using the attached envelop before 5th March 1994. We assure that all information provided will be kept in strict confidence. With your full support, we would be able to come up with a reference guide on personnel policies and practices of foreign business in Shenzhen. We would be most willing to share the results with you.

In the meantime, if you need any clarification on our project, please contact C.H. Tang at 804-5227 or Sunny Fong at 751-3360.

Thank you very much for your assistance.

C H Tang (Mr.)

Sunny Fong (Mr.)
APPENDIX IV

MAIN BODY OF NATIONAL LEGISLATIONS

Article 6 of the PRC, Sino-foreign Equity Joint Venture Law of 1 July 1979

Articles 91 to 99 of the Sino-foreign Equity Joint Venture Law Implementing Regulations of 20 September 1983


PRC, Handling of Labour Disputes in Enterprises Regulations, effective as of 1 August 1993

Source: China Employment Manual, p.51
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