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Industrial relations (IR) changes in China: a foreign employer's perspective

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Abstract

Purpose – Although studies on Chinese industrial relations (IR) have examined topics such as unionization and collective bargaining, little is known about employers' reactions to recent IR changes. In particular, researchers have not thoroughly considered foreign employers' labor relations strategies. Amidst this background, the purpose of this paper is to investigate how a foreign employer perceives and responds to the recent IR changes in China.

Design/methodology/approach – This paper conducted an exploratory, inductive study of the Chinese subsidiary of one multinational corporation. The data were collected through the author's extensive fieldwork at its headquarters and Chinese subsidiary.

Findings – This paper shows that the union of a foreign firm in China serves three major functions – a collective voice, a monopoly, and an external affairs function – and that the firm's interpretation of these functions has changed within China's dynamic IR environment. Further, this paper finds that an employer has initiated its own compliance strategies, such as forming a friendly union, decoupling the union's functions, de-collectivizing employment relations through effective HR practices and stricter policies, and scaling down in size to reduce administrative burden.

Originality/value – By introducing an employer perspective regarding recent IR changes, this paper provides a nuanced understanding of unionization and collective bargaining implementation in China. In addition, this paper identifies an emerging pattern of employer perception and response in China, highlighting unique features that have not been addressed in the existing literature on employers' anti-union behavior. This study's contributions also facilitate further research encompassing different contexts.

Keywords China, Labour, Industrial relations changes, Foreign employers

Paper type Case study

1. Introduction

Widespread evidence indicates that workers in China have experienced low wages, excessive overtime, and work-related injury or illness (Duhigg and Barboza, 2012; Lee, 2007; Pun, 2005). Complicating the situation, workers' complaints have not been properly handled because of the inefficiency of the government's grievance channels (Cooney *et al.*, 2013; Friedman and Lee, 2010). This scenario has prompted an increasing number of workers to resort to extreme measures, such as the spate of worker suicides at Foxconn, or to participate in a series of strikes at domestic and foreign factories in China (Chan and Hui, 2012; Chan, 2014).

China's drive for unionization and collective bargaining implementation is closely related to the current labor unrest (Kuruvilla *et al.*, 2011). In an attempt to build a harmonious and stable labor environment, the Chinese government has sought to address labor abuse and unrest in several ways. For example, the enactment of pro-labor regulations such as the Labor Contract Law – 2008 strongly encouraged

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workers to express their grievances using legal mechanisms, with fairly high returns for workers who file grievances. Moreover, the Labor Disputes Mediation and Arbitration Law – 2008 streamlined grievance procedures and encouraged aggrieved workers to “use the law as a weapon” (Gallagher, 2005).

In addition to enhancing individual employment relations, China has also addressed collective labor relations by bolstering industrial relations (IR) through strong campaigns for unionization and collective bargaining implementation (Lee, 2009). Collective bargaining has occurred not only at the firm level but also at the regional and industry levels (Chen, 2009; Friedman, 2014a, b; Pringle, 2011). As a result, China now boasts high union density and has experienced an unusually rapid increase in collective bargaining coverage (All-China Federation of Trade Union, 2014). However, skepticism remains regarding the content and process of the collective bargaining system (China Labour Bulletin, 2014; Lee, 2009). Indeed, collective agreements often represent “little more than replications of legal minimum conditions” (Lee, 2009, p. 15). Furthermore, the collective bargaining process tends to be ceremonial or ritualistic, without a genuine process of negotiation (Clarke *et al.*, 2004; Taylor *et al.*, 2003).

Although numerous studies have examined trade unions and collective bargaining in China (e.g. Chan, 2014; Chan and Hui, 2012, 2014; Chen, 2009; China Labour Bulletin, 2014; Friedman, 2014b; Chang and Brown, 2013), little is known about employer strategies regarding workplace unions and collective bargaining in China’s dynamic labor environment. In particular, despite the huge volume of foreign direct investment (FDI) in China, researchers have not thoroughly considered foreign employers’ strategies regarding labor relations. In addressing this research gap through a case study of a large foreign manufacturing subsidiary in China, this study examines employers’ perceptions and responses to recent IR changes in China. Specifically, this study examines how employers experience and respond to IR changes in China and identifies the factors that affect employer strategies.

The paper proceeds as follows. The following section reviews existing studies on employer anti-union behavior and assesses their applicability to foreign employers in the Chinese context. Next, a case analysis of the Chinese subsidiary of one multinational company assesses the firm’s labor relations responses to recent IR changes. The paper emphasizes the notion that employer behavior in China is dynamic rather than static with respect to IR changes and that employers seek to decollectivize (or individualize) their labor relations amid the collectivization trend observed in China’s IR. The paper concludes with a discussion of the contributions and limitations of this study.

2. Relevant literature

Employers inherently prefer to individualize employment relations (Gall, 2004; Roy, 1980; Cooper *et al.*, 2009; Dundon *et al.*, 2010). To obtain a higher level of managerial power and control, employers seek to maintain their non-union status or to minimize their union’s influence if a union has already been organized (Freeman and Medoff, 1984; Jacoby, 1997; Kochan *et al.*, 1986; Logan, 2006; Compa, 2014). This tendency and various employer practices are described as a “decollectivist strategy” (Cooper *et al.*, 2009) or “decollectivism” (Peetz, 2002).

Employer strategies to resist unions (or employer efforts toward individual employment relations) have been categorized into the discrete typologies of union substitution and suppression (Kochan and Katz, 1988; Foulkes, 1980). The substitution approach often relates to soft, or “carrot,” tactics that substitute workers’ search for collective action with paternalistic human relations practices. Conversely, the

suppression approach uses hard, or “stick,” tactics to suppress workers’ search for collective representation through harsh intimidation practices. Although simple and useful, this dichotomy has been criticized for failing to provide a nuanced understanding of employers’ various tactics (Gall, 2004; Logan, 2004). Alternatively, Roy (1980) suggests a diverse spectrum of employer resistance strategies – termed fear stuff, sweet stuff, evil stuff, and fatal stuff – based on the Southern USA, where an anti-union atmosphere is highly dominant. This approach is considered more useful than narrower categorizations for understanding various employer resistance tactics. Building on the research of Roy (1980), Gall (2004) provides a more nuanced distinction of employer anti-union tactics, including awkward stuff, tame stuff, and harm stuff.

While being useful, these categorizations are difficult to apply in the Chinese context, which differs from that of the western countries where these previous studies were conducted. Notably, in much of the existing literature, employer strategies tend to focus exclusively on the recognition process, whereas far less attention is focussed on the post-recognition process. However, in regard to China, union recognition and collective bargaining implementation have now become unavoidable. Because of strong campaigns such as the Rainbow Program and the Breakthrough Program[1], employers in China must adhere to government guidelines. In particular, this government pressure often causes headaches for large foreign firms (e.g. Fortune 500 companies). The All-China Federation of Trade Unions (ACFTU) has conducted aggressive campaigns to unionize Chinese subsidiaries of Fortune 500 firms and to subsequently implement collective bargaining. Although numerous multinational corporations initially resisted the campaign, the majority eventually recognized unions and accepted collective bargaining in China (Ligorner and Liao, 2010). However, existing research has been unable to capture the contextual differences, that is, the distinct nature of China’s institutional pressures to recognize unions and to implement collective bargaining, and to examine the resulting vulnerability of large foreign firms in China.

The prior literature has also failed to sufficiently address China’s dramatic IR changes, particularly since 2000, in terms of unionization and collective bargaining implementation. Because previous research has assumed that the external environment is static rather than dynamic, existing studies have failed to fully capture changes in employers’ perceptions and responses. Therefore, the author of this study conducted multiple rounds of field research between 2011 and 2014 and found that employer perceptions and strategies have changed in parallel with IR changes in China. Although the majority of foreign firms in China eventually recognized unions based on the local ACFTU cadres’ promise that unions were controllable and useful as a communication channel (positive attitude), the firms later questioned the usefulness of their unions and were frustrated by frequent wildcat strikes (critical attitude). Faced with increasing associational power and top-down pressure for more faithful wage negotiation, employers began to worry about their future ability to control unions, which had emerged as key actors via collective bargaining in the workplace (critical attitude). To address these concerns, employers now use various approaches to individualize employment relations, an alternative to the collectivization trend seen in China’s IR (negative attitude). To summarize, given the dynamic IR context in China, the existing framework and studies pose limitations in providing a comprehensive picture of employer perceptions and tactics in China.

3. Methods

In this paper, the author conducted an inductive case study of a large manufacturing subsidiary of one foreign multinational corporation in China to explore how employers

experience and respond to IR changes in China and to determine the factors that affect employer strategies. The case study method is acceptable when the research is of an exploratory nature and the purpose of study is to provide a nuanced understanding of under-studied topics (Eisenhardt, 1989; Eisenhardt and Graebner, 2007; Edmondson and McManus, 2007). The data were collected through the author's extensive field investigations at XYZ's Chinese subsidiary and its headquarters between 2011 and 2014. The fieldwork involved the author's participant observation at XYZ and multiple rounds of interviews with relevant actors. Specifically, the author conducted numerous interviews with 13 subsidiary managers, four grassroots union representatives, five line managers, six shop-floor workers, two local journalists, three local labor lawyers, and also nine managers at its headquarters.

4. Analysis of XYZ

A manufacturing subsidiary of one multinational corporation, the firm XYZ was established in region A's industrial development complex zone in the year of 200x. The subsidiary had a total investment of more than 2xx million yuan and approximately 7,000 employees.

Foreign employers, except for small, labor-intensive foreign-invested enterprises (FIEs), have generally come to recognize unions in China for various reasons. For example, when a foreign firm acquires or establishes a joint venture with a state-owned enterprise, the grassroots union is transferred to the current firm, which has no choice but to maintain the existing trade union. In another scenario, a foreign firm may accept the local ACFTU's request for union recognition and collective bargaining[2] implementation to maintain a friendly relationship with local authorities, or it may reluctantly recognize a union after repeated visits by local ACFTU officials. A foreign firm may also identify the positive aspects of a union and its activities and thus adopt a proactive labor relations policy, voluntarily establishing a union. In the case of XYZ, the firm received local requests for union recognition and also considered government relations (GR) and the positive roles of a union. Based on these factors, XYZ decided to recognize the union and thereby to adopt a proactive labor relations strategy.

This paper illustrates how XYZ's interpretation of the union's functions has gradually changed. Based on multiple rounds of interviews with managers at both the subsidiary and the firm's headquarters and drawing on relevant studies, this paper classifies the XYZ union's role as follows: collective voice function, monopoly function, and external affairs function. The first and second functions support the two roles suggested by Freeman and Medoff (1984), whereas the third role is based on the author's field research.

4.1 *The union's three functions in XYZ*

4.1.1 *Collective voice function.* Freeman and Medoff (1984) suggest that labor unions have two faces, the first of which is the collective voice face. Building on the exit/voice model of Hirschman (1970), these researchers indicate that the union plays an important role as a communication channel. As an individual, an employee may feel afraid when she voices her complaints about her company. Therefore, she is likely to express her complaint by leaving the company instead of by showing her complaint directly. Conversely, if a union exists, the employee can express her complaint or suggestion via the labor union and therefore is likely to choose to stay and improve the situation (Bennett and Kaufman, 2007). Employees' voices can take various forms, from

passive (e.g. complaints about poor working conditions) to active (e.g. various suggestions for productivity improvement).

From a management standpoint, the union's collective voice has numerous positive impacts. The firm may reduce employee turnover by addressing complaints and grievances in advance, leading to lower hiring and training costs and higher productivity (Addison and Belfield, 2008). In addition, this bottom-up voice tends to be of high quality, acting as useful feedback for better workplace environment and effective human resource management. Further, the labor union contributes to building more stable labor-management relations by disciplining its members through its own rules. Overall, the union's collective voice tends to improve working conditions, heighten motivation, improve productivity, and enhance firm performance.

This collective voice function can be very helpful, particularly for foreign firms in China. First, to avoid the misunderstanding or miscommunication that often occurs between expatriates and local workers in the workplace, the labor union can act as a well-functioning communication channel to reduce any cultural and institutional differences. A second reason relates to the liability of being foreign in a host country (Zaheer, 1995; Zaheer and Zaheer, 1997). Given foreign firms' vulnerable position in the host country, the firms tend to experience various disadvantages (Eden and Miller, 2004). In terms of human relations issues, internal conflicts often develop into large issues that extend beyond company boundaries, and local employees tend to exaggerate their private issues into collective ones to obtain a favorable result. Given the recent increase in nationalistic sentiments in China, for example, it is probable that a small conflict may develop into a large issue. Hence, a well-functioning communication channel such as a union may prevent an undesirable scenario from occurring. As such, XYZ perceived the usefulness of a union and encouraged the union to act as an effective communication channel. To meet this goal, the union collects its members' opinions through face-to-face meetings, suggestion boxes, hotline services, and onsite meetings and then directly delivers employee feedback to management. XYZ's perception of collective voice function is well exemplified by the following quote from one expatriate manager:

The hardest thing for us is dealing with Chinese workers. They are not obedient, quiet workers. When upset, they easily quit their jobs. Further, some of them report their firm's shortcomings (violations of labor law) to the local labor bureau. Thus, we believe that, considering this recent situation, trade unions can act as an effective communication channel, especially for foreign companies (Interview with expatriate manager, June 2011).

4.1.2 Monopoly function. The second function of unions, as suggested by Freeman and Medoff (1984), is the monopoly functions. By monopolizing the supply of labor, the union can set a higher price for labor compared with the competitive labor market. Neo-classic economists call this model "monopsony unionism," noting that labor unions distort resource distribution and produce overall inefficiency (Bennett and Kaufman, 2007; Hirsch and Addison, 1986). They firmly believe that the unions' monopoly function causes adverse effects including higher production costs and product prices, lower sales and employment, and distorted income distribution (Hirsch and Addison, 1986; Booth, 1995).

However, like most FIEs, XYZ did not worry about the union's monopoly function because the grassroots union at the time served as a paper union or a shell union, and collective bargaining remained ceremonial, if it occurred at all (Chen, 2009; Gallagher, 2005; Metcalf and Li, 2006). Management commonly appointed a middle manager as the

adjunct union chairman, who, unsurprisingly, would be supportive of management policies. The local governments primarily heeded the quantity rather than the quality of unionization and collective bargaining. Thus, union chairmen at the firm level usually accept the contract prepared by management (Chan and Hui, 2014; Clarke *et al.*, 2004; Chen, 2007). At the initial stage, XYZ had no concerns regarding the union's monopoly function considering the union's weak status and power, as well exemplified in the following quote:

It is true that we had had some kind of prejudice about it due to our experience in our home country. But we soon realized that nobody cared about it. Local officials cared only about the increase of membership, not about real union functions (Interview with expatriate manager, August 2011).

4.1.3 External affairs function. Based on multiple rounds of field research, this study suggests that XYZ's union also played an important role in external affairs in addition to the two aforementioned functions. The company, as a foreign firm, realized its inherent limitations regarding local knowledge and networks, legitimacy, and resources, whereas its trade union, acting as a semi-governmental organization, could express the firm's voice *vis-à-vis* local authorities. By attending numerous local official events, a union chairman can informally communicate with local officials, thereby helping local authorities to understand a firm. XYZ therefore decided to use the union and its representatives in an external affairs function. XYZ's union chairman has since played an important role in GR in terms of taxes, labor, and environmental protection issues. For instance, in individual labor disputes, the union chairman actively explains the firm's circumstances and negotiates on the firm's behalf at the local labor bureau and/or before arbitration committees. In addition, the union takes the lead in conducting local community activities and actively engages in local relief, cleanups, and environmental protection activities. These activities often receive positive coverage in the local media and enhance the firm's image in the community. Below, the quote from the union representative interviewed shows union's external affairs functions well:

As union representatives, we participated in local events and activities. It seemed that because we had better connections and communication skills with local authorities, the company encouraged and supported our activities (Interview with union representative, May 2011).

From a management standpoint, the ideal functions of a trade union are the maximization of the communication and external affairs functions and the minimization of the monopoly function. Until the mid-2000s, the union's functions remained as expected by XYZ – providing effective channels for internal (with employees) and external (GR and local community activities) communication while the monopoly function remained minimal. In the mid-2000s (specifically, along with the introduction of the Labor Contract Law – 2008 and the the Labor Disputes Mediation and Arbitration Law – 2008, as well as the government's campaigns for unionization and collective contracts), however, unions' monopoly function began to change dramatically. The voice and external affairs functions also changed, as described below.

4.2 Changes in XYZ's labor relations

Noticeable changes in unions' monopoly function have occurred amid pressure from two sources. One influence is the government's top-down pressure on employers to

strengthen the process and the content of collective bargaining. The government, which has recently made concerted efforts to increase the implementation rate of collective bargaining through various campaigns (e.g. the Rainbow and Breakthrough Programs), now asks employers to implement actual, rather than ceremonial, collective bargaining. The local ACFTU requests that firms conduct collective bargaining with their unions formally, as the regulations stipulate. More importantly, and differently from previous collective consultations, wages have emerged as a primary topic in collective bargaining, extending beyond labor law compliance. Chan and Hui (2014) suggest that this type of government-led collective bargaining plays an important role in holding employers and their associations accountable and applying pressure to employers directly in cases involving non-settlement. In this study, the author's field research also indicates that an increasing number of employers now conduct collective bargaining more formally and that wages are established at a level far above the legal minimum wage, partly because of this government-led collective bargaining. Notably, this top-down pressure is often intensified by a wildcat strike by workers. The strikes at foreign firms (e.g. Honda) illustrate how local authorities and union bureaucracies force foreign employers to concede to striking workers to end strikes as quickly as possible. As such, XYZ now experiences stronger top-down pressure regarding collective bargaining requirements and workplace stability (Figure 1 and Table I).

A second source of change originates from the bottom-up pressure of workers' increasing associational power. In the Chinese context, this associational power comes not from the grassroots union but rather from unorganized workers who declare sudden wildcat strikes. In this type of scenario, XYZ's management realized that its union could not represent its members effectively. First, workers consider their unions to be a government organ or a company union; hence, workers tend to ignore or avoid their unions when they have complaints. Second, workers' high turnover makes it more difficult for unions to represent their workers. Third, because financial motivation is a critical factor for workers, it is not surprising that workers ignore their unions if the unions cannot fight against employers in terms of wage interests. Examining recent cases, one expatriate manager at XYZ noted that workers were supportive when unions acted on their members' behalf regarding wage increases but ignored unions in the opposite situation. Fourth, when workers declare wildcat strikes, they are rarely punished as long as the strike is based on economic issues. Therefore, workers do not experience a collective action dilemma and need not rely on their firm-compatible unions.

Two cases (one about strike and the other about collective wage increase) involving nearby foreign firms have provided valuable lessons for XYZ. The most critical lesson from nearby firms is that issues involving wages can create an immediate common interest among workers. Although workers tend to bypass their unions, as they did in the XYZ strike, the wage issue can also prompt workers to unite around even a seemingly weak union during the wage negotiation process. Interestingly, regardless of the degree of independence of its union, a union chairman cannot completely ignore the workers' bottom-up pressure, and consequently, management often encounters strengthened requests from its union. Overall, the monopoly function has emerged as a major concern for XYZ directly and indirectly, applying double pressure from both the top-down and bottom-up perspectives on the firm. This situation presents the firm with additional challenges because monopoly issues were not a concern at all in the past.

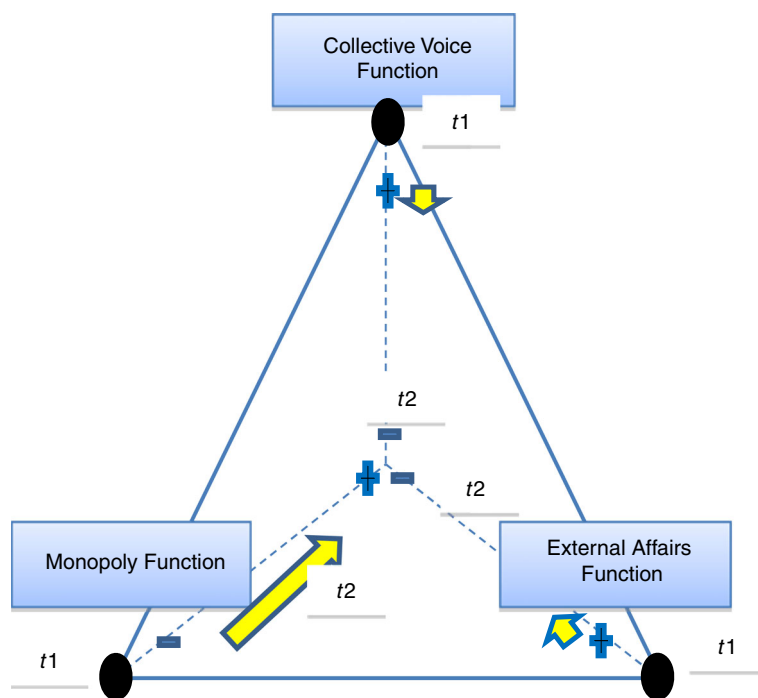


Figure 1.
The changes in
XYZ's interpretation
of the union's three
functions

Union's functions in XYZ	Ideal situation (for management)	Stage 1 (before 2010)	Stage 2 (after 2010)	Employer responses
Collective voice function	High	High	High but a growing concern about "bottom-up collective" voice	Emphasize individual grievance procedures
Monopoly function	None	Very low	Mid-high	Minimize and decollectivize
External affairs function	High	High	High, but a growing concern about union chairman's power consolidation	Maintain (while reducing union chairman's role in external affairs)

Table I.
XYZ's interpretation
of its trade union
and its IR strategies

Another concern involves the collective voice function of unions. Although XYZ has provided various individual and collective communication channels, the firm is concerned that united workers may discover a common interest, raise an issue, and request collective discussions with management regarding company issues.

Finally, XYZ has concerns about its union's external affairs function, primarily regarding the union chairman's identity crisis and status. In China's uncertain labor environment, the union chairmen in foreign firms tend to face several dilemmas. Although the chairmen are company employees appointed by management, these representatives tend to be in their late 40s or 50s, particularly in a foreign firm. Because many chairmen are near retirement, it is reasonable that they may pursue their next career in the local ACFTU or outside their current firms. With this next step in mind,

giving the impression of being an outright “company man/woman” to workers and local authorities does not help chairman’s future career prospects. Given this background, the management of XYZ may prevent the consolidation of power to the union chairman.

Overall, recent IR changes in China have served as a turning point in XYZ’s interpretation of its union’s functions. The union’s previously accepted wage function has emerged as a major concern for the firm. In addition, XYZ has a growing concern about its collective communication channels (regarding an increasing collective voice) and external affairs channels (regarding the union chairman’s status). The next section demonstrates how XYZ has gradually changed its IR strategies.

4.3 XYZ’s new labor relation strategies in China

Recent experience has strongly affected XYZ’s labor relations responses. XYZ has come to realize that the firm should adopt proactive steps in a smooth, creative way to protect itself from looming unfavorable labor environmental pressures. The firm has initiated its own compliance strategies to make favorable changes in this dynamic labor environment.

Generally speaking, XYZ has sought to form a friendly union, to decouple the union’s functions (distancing its union from collective bargaining while encouraging its welfare and external social activities), to individualize or decollectivize its employment relations through either effective human relations practices or stricter policies, and to scale down its size and reduce its administrative burden.

4.3.1 Forming a “friendly” union. Faced with collective bargaining requests, XYZ has attempted to dictate the nature of labor relations by selecting what the firm regards as “friendly” union representatives. Through a series of labor regulations (e.g. the Labor Contract Law and the Drafts for Collective Wage Negotiation from a growing number of regions) to strengthen labor unions and local government’s guideline, trade unions have emerged as an important actor in the Chinese workplace, taking part in an enterprise’s decision-making process. When an enterprise determines major issues regarding its business, it must consult the trade union for advice; when the enterprise holds meetings to discuss issues regarding the immediate interests of employees such as wages, benefits, safety and health, and social insurance, trade union representatives participate in the meetings. The implementation of collective bargaining will also likely restrict employers’ ability to implement company rules. Because collective contract provisions must cover company rules that affect employee interests, any rules issued unilaterally by an employer without consulting the employees would likely be deemed ineffective and nonbinding.

XYZ anticipates increasing demands for collective bargaining (focussed on wage increases). In determining how to respond to this pressure, the firm is well aware of the influence of the trade union in the collective bargaining process. Accordingly, XYZ believes that it is more beneficial to guide its own trade unions through the collective bargaining process than to involve the local ACFTU branch. XYZ’s new direction is well exemplified by the below quote from one expatriate manager:

As the function and role of the union becomes more important, along with a series of new labor regulations, a cooperative relationship is more necessary. Therefore, we seek to form a union with more friendly members who can understand management. In addition, once the union representatives are elected, we help them have a good understanding of a constructive labor-management relationship (Interview with expatriate manager, June 2012).

Overall, this dynamic labor environment has increased Chinese trade unions’ importance and status. For all of these reasons, XYZ has reconsidered the trade union’s

role and paid particular attention to the selection of a friendly union representative and the construction of a union organization, as expressed by desired features such as “well-respected,” “well-aware and understanding of the company’s internal situation,” “equipped with functional expertise such as quality control,” and “mild, not radical.” Once the union representatives are selected, the firm provides instruction regarding appropriate labor relations. Through this approach, the firm attempts to convey the idea of labor relations (which management pursues) to these union representatives.

4.3.2 Decoupling a union’s functions and activities. XYZ managers believe that collective bargaining will eventually unite workers and further empower the unions, although this process is still in the initial stages. For example, the Guangdong Regulation on Collective Contracts took effect in January 2015. In addition, XYZ’s management paid special attention to the central government’s efforts toward a tripartite mechanism, such as “The Construction of Harmonious Labor Relations – 2015”, because they suspect that this direction is highly likely to lead to the strengthening of a grassroots union’s status and power. Management is well aware that firms in close proximity that have adopted a progressive collective bargaining strategy have suffered from an unexpectedly high level of association power from workers. Thus, XYZ has attempted to prevent the union’s current weak status and functioning from developing into something more formidable.

Given its specific situation, XYZ has decided to minimize the union’s collective bargaining functions while providing its union with a proper role to play. First, the firm has attempted to distance its union from playing a role as the workers’ representative in the form of collective bargaining. Formal consultation (regarding important issues mandated by law such as wage increases and layoffs) remains minimal. To prevent internal power from consolidating in the position of the union chairman, the firm has attempted to decrease the power of the union chairman by changing the full-time position into an adjunct (or part-time) position. In addition, the position of the union chairman has been divided with the chairman of the workers’ congress to prevent the union chairman wielding too much control with the support of local government. All of these steps are intended to prevent the worst-case scenario, in which the union’s strong power and collective bargaining exercise would bolster the workers’ association power.

Second, the firm has attempted to provide a proper, so-called “non-sensitive” role to its union by encouraging it to lead welfare functions and external volunteer activities. The union’s internal social activities and welfare functions have been noticeably strengthened through sporting events (e.g. mountain climbing), cultural performances (e.g. singing competitions) and employee-caring activities. The union also participates more actively in diverse external volunteer activities such as relief efforts, local community building campaigns, neighborhood cleanups, relationship building with impoverished inland areas, and environmental protection campaigns. Using this approach, XYZ seeks to provide its union with a milder role to play and to conduct part of its corporate social responsibility (CSR) activity via its trade union. One manager from headquarters shows the firm’s decoupling strategy as follows:

We seek to guide the labor union in China’s subsidiary towards employee welfare activities and local CSR activities. As far as we understand, a union’s priorities in China are to increase employee morale through welfare activities and to improve the company’s reputation in the local society (Interview with HR manager, October 2014).

To summarize, XYZ has sought to decouple its union’s role from its traditional conflict-laden associational function. The firm aims to confine the union’s role to welfare

functions and external volunteer activities, distancing its union from the union's natural collective bargaining function. Further, through these activities, the firm intends to shape employees' perceptions of the union in this direction and away from the typical conflicts between capital and labor.

4.3.3 Individualizing (decollectivizing) employment relations. In contrast to the collectivization trend observed in a series of labor regulations in China, XYZ has attempted to individualize (or decollectivize[3]) employment relations and to enhance managerial power and control in the workplace. XYZ deploys both hard and soft ("carrot" and "stick") tactics. The firm has recently strengthened its bottom-up communication channel from individual employees by conducting a systematic employee survey, introducing open-door policies, and operating communication rooms. Further, the firm has institutionalized a voice channel in which local workers can directly e-mail headquarters' top management team regarding complaints and suggestions. It also encourages informal grievance discussions with an employee representative, line manager, or direct supervisor. XYZ also provides special training for local line managers and expatriate managers to prevent the mistreatment of employees in the workplace. In addition, the firm has strengthened its internal mediation committee to resolve workplace disputes in a quick and timely way. Overall, management seeks to facilitate communication and gather information proactively.

In another development, the firm has noticeably legalized labor relations. Documentation has become far more important, and management has strengthened human resources functions through HR staff with legal backgrounds. The firm has updated existing employee handbooks (particularly regarding disciplinary provisions). Overall, rules have become stricter and more clearly defined, and violation penalties have become more stringent. Through repeated exposure to these new disciplinary provisions, workers clearly understand critical company rules and the results of repeated violations. One manager from headquarters confirms this policy as follows:

Our goal is to care for employees well, with humane practices, so that they do not feel the necessity of engaging in collective complaining. In addition, because our factory is large, we have implemented stricter rules. We think our soft and hard policies fit the recent changes in labor relations in China (Interview with HR manager, March 2013).

To summarize, in response to the collectivization trend observed in China's labor relations, XYZ has generally sought to individualize its employment relations with so-called "good" human relations tactics such as individual communication channels and individual grievance procedures. In addition, the firm intends to legalize employment relations with various stricter disciplinary provisions regarding individual issues.

4.3.4 Restructuring through the optimization of operational size. Given the recent labor environment (e.g. strikes and wage negotiations), XYZ has begun to reconsider its optimal operational size. A large factory is vulnerable to wildcat strikes and may easily become controlled by local managers. The high ratio of local residents *vis-à-vis* migrants may emerge as another labor risk in the near future because local workers can take advantage of local resources during labor disputes or strikes. Further, as is well described in a recent newspaper article (Harney and Ruwitch, 2014), XYZ's management is concerned about local managers. Chinese managers tend to play more active roles in negotiations and work stoppages because they have more at stake

and have a better understanding of the internal situation. Given these factors, XYZ has decided to downsize its current operation. After carefully assessing the required labor force for each job/production line, the company has scaled down its workforce by 20 percent. Further, the firm has assessed the value of each job and divided the jobs into an internal workforce and outsourcing. Through this approach, the firm seeks to reduce the administrative burden by outsourcing simple, repetitive jobs to staffing agencies. In addition, XYZ has examined the cases of other large manufacturing factories such as Foxconn. After seriously considering the relocation of its facilities, the firm has decided to remain in its current location. One HR manager from headquarters shows the company's concern about size as follows:

Previously, factory size meant scale economy, efficiency, and bargaining power. But now, under the new labor environment in China, a larger size equals a greater administrative burden. This is why we need to reduce employee numbers (Interview with HR manager, November 2013).

5. Conclusion

Although studies on Chinese IR have examined topics such as unionization and collective bargaining, little is known about foreign employers' reactions to recent IR changes, particularly given the huge volume of FDI in China. Amidst this background, this paper conducted an exploratory, inductive study of the Chinese subsidiary (XYZ) of one multinational corporation to determine how foreign employers have perceived and responded to the recent IR changes in China.

The case study of XYZ suggests that the union of a foreign firm in China serves three major functions – a collective voice function, a monopoly function, and an external affairs function – and that the firm's interpretation of these functions and labor relations strategies has gradually changed within China's dynamic IR environment. For example, the previously accepted monopoly function of XYZ's union has emerged as a major concern for firm management. Additional concerns include the firm's collective communication channels (i.e. an increasing collective voice) and its external affairs channels (i.e. the union chairman's status). As a result, XYZ has initiated its own compliance strategies for implementing acceptable changes in a dynamic environment. These strategies include the following: forming a "friendly" union; decoupling the union's functions (distancing the union from collective bargaining while encouraging welfare and external social activities); individualizing or de-collectivizing employment relations through effective human relations practices and stricter policies; and scaling down in size to reduce administrative burden.

This study contributes to the existing literature in two notable ways. First, by introducing an employer perspective regarding recent IR changes, the study provides a more balanced and nuanced understanding of unionization and collective bargaining implementation in China. Second, this paper identifies an emerging pattern of employer perception and response in China, highlighting unique features that have not been addressed in the existing literature on employers' anti-union behavior. This study's contributions also facilitate further research encompassing different contexts.

However, this study does have limitations. First, because the study focuses on only one foreign firm, it is difficult to generalize the findings to represent all foreign firms in China. Therefore, future research could examine additional foreign firms to achieve a more systematic analysis and more far-reaching generalizations. Second, the author's

field study focussed on only three years. Future research could closely examine the changes in employer perception and responses over a longer period.

Notes

1. In 2010, the Ministry of Human Resources and Social Security promoted collective contracts under the Rainbow Program. As the Rainbow Program turned out to be less fruitful than expected, the government began to put more pressure on firms, especially foreign firms, with the Breakthrough Program in 2014, which had a specific plan to increase the collective contract rate to 80 percent of the employers in China by the end of 2015.
2. As many studies stressed (e.g. Clarke *et al.*, 2004; Chen, 2003; Lee, 2009), collective bargaining in China is different from the western definition of collective bargaining normally discussed in industrial relation studies. The formal term, collective consultation (*jiti xieshang*), which is preferred in China, implicitly assumes that the interests of each party do not conflict. However, the author noticed that despite these differences in trade unionism in China, the interviewees (managers in the sampled firm) consistently used collective bargaining instead of collective consultation, probably due to their experiences in their home country. Therefore, the author follows the term collective bargaining instead of collective consultation in this paper.
3. Drawing upon Peetz (2002), this paper defines decollectivizing as the efforts by management to reduce the influence of collective power in its workplace.

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