

The Organization and Management of Chinese Transnational Enterprises in South China

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As a result of the "third wave" of global investment penetration, the Chinese transnational economy has developed in South China since the late 1980s. Overseas Chinese have in particular played a crucial role in the establishment of Chinese transnational enterprises (TNEs). The article examines the relationships between Chinese and Chinese TNEs based on the author's field study in Guangdong and Fujian in April 1997, and concludes that the Chinese TNEs have formed their own characteristics in organization and management styles. Chinese TNEs are organized differently from the Western TNEs mainly in terms of the cultural values between transnational investors and their subsidiaries; the distance between mother and daughter firms; and the size of invested capital. Western advanced technology and technical skills have had an influence on the methods of Chinese management, but have been limited to technical aspects.

Keywords: South China; overseas Chinese; transnational enterprises; organization and management

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The surge of Asian investment represents a "third wave" of global penetration, in the sense that the "first wave" of internationalization brought companies out of their home countries into other parts of Western Europe,

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and the "second wave" involved investment in North America.¹ Expansion into East Asia has made transnational enterprises global in a more real sense. This expansion involves huge capital flows not only from industrially developed countries to Asia but also among Asian countries themselves. This third wave poses major strategic and organizational problems for transnational corporations. For them, it is not only important to establish and maintain profitable business operations in the area (based on their existing assets and their competitive advantages gained elsewhere), but also to integrate these new business operations into their global strategies and global organization.

Chinese transnational enterprises have played an important part in the third wave of transnational investment. The overseas Chinese who live outside of the People's Republic of China's (PRC's) administrative jurisdiction—mainly in Hong Kong, Macao, Taiwan, and Southeast Asia—have played a crucial role in the creation of the "economic miracle" in both Southeast Asia and South China in the past two decades. In 1996 alone, China actually utilized foreign investment amounting to US\$42.35 billion, of which some 70.9 percent, according to official PRC records, came from overseas Chinese.² By the end of 1995, overseas Chinese investment in China had employed an estimated 20 million people.³ Overseas Chinese have also been viewed as bridge-builders who (especially after the Tiananmen crackdown of 1989) have emerged as a critical group in providing the capital and expertise to fuel China's economic takeoff. The ties between overseas and mainland Chinese, between foreign investors and mainlanders, and between foreign capitalism and Chinese socialism have all helped to blur the political borders of the nation. Taking advantage of the linguistic and cultural affinity, overseas Chinese investors have successfully managed to transform South China into an export-oriented dynamo.

¹Hans Jansson, *Transnational Corporations in Southeast Asia: An Institutional Approach to Industrial Organization* (Aldershot, England: Edward Elgar Publishing Company, 1994), 1.

²Chen Qiang and Hu Xiaowei, "An Analysis of China's Utilization of Foreign Investment," *Qiaowu yanjiu* (Study of Overseas Chinese Affairs) (Beijing) 72, no. 2 (1997): 21.

³East Asian Analytical Unit, *Overseas Chinese Business Networks in Asia* (Sydney: Australian Department of Foreign Affairs and Trade, 1995), 6.

This paper aims to study the organization and management of Chinese transnational enterprises (hereafter referred to as Chinese TNEs), which are a result of the third wave of global capital penetration in China. The data used in this paper were collected during a field study undertaken by the author in China's Guangdong and Fujian provinces in April 1997. Fourteen Chinese TNEs in South China were selected for study, and interviews were conducted with overseas Chinese investors, managers, and workers in the enterprises as well as with local partners and officials. The paper is divided into three sections: the establishment of Chinese TNEs; the organization of Chinese TNEs; and the management of Chinese TNEs. Due to time limitations, this paper is only a preliminary study on the topic.

The Establishment of Chinese Transnational Enterprises

To understand how the organization of transnational firms has developed in South China, it is important to consider the process of establishment that is currently occurring within transnational investment and distant localities. Aihwa Ong and Donald M. Nonini suggest that the transnational "Chinese-based economy" is based on ties of common ethnic origin, language, and culture.⁴

Why have overseas Chinese invested in China, especially in South China? The motives of overseas Chinese investment have been debated among not only researchers but also the policymakers of the nations which are involved in this phenomenon. Some researchers suggest that overseas Chinese have invested in China primarily for profits, not because of loyalty to the Chinese nation-state.⁵ In other words, they are opportunists and parvenus eager to enrich themselves while incidentally benefiting China. Aihwa Ong argues that overseas ethnic Chinese acknowledge their home-

⁴Aihwa Ong, "Chinese Modernity: Narratives of Nation and of Capitalism," in *Underground Empires: The Cultural Politics of Modern Chinese Transnationalism*, ed. Aihwa Ong and Donald M. Nonini (New York and London: Routledge, 1997), 181.

⁵Leo Suryadinata, "China's Economic Modernization and the Ethnic Chinese in ASEAN: A Preliminary Study," in *Southeast Asian Chinese and China: The Political-Economic Dimension*, ed. Leo Suryadinata (Singapore: Times Academic Press, 1995), 203.

land, but mainlanders cannot assume that they all have China's real interests at heart.⁶

Others believe that there is a correlation among culture, institutions, history, and the direction of transnational capital flows in the fast growth of "Greater China" and the formation of the Southeast Asian "growth triangle." Lee Kuan Yew states that "what ethnic Chinese from Hong Kong, Macao, and Taiwan [have done is] to demonstrate to a skeptical world that *guanxi* connections through the same language and culture can make up for a lack in the rule of law and transparency in rules and regulations."⁷ Lee's statement sketches a vision of a large reality underlying transnational Chinese cooperation: "People feel a natural empathy with those who share their physical attributes. This sense of closeness is reinforced when they also share culture and language. It makes for easy rapport and the trust that is the foundation of all business relations."⁸ Many overseas Chinese investors who were interviewed in this study agreed that compared to other overseas production sites, China is more attractive because of the cultural and linguistic affinity between themselves and mainlanders.

There are also economic reasons why overseas Chinese have invested in South China. A major factor is that rapid economic development there has created profitable markets. The high rate of economic growth encompasses many new industries and large investments in infrastructure, which has led to the demand for many types of industrial products. Many investors interviewed agreed that cheap labor and the sufficient labor force is an important reason why they have set up enterprises in China. For example, a Hong Kong investor said that a worker's monthly salary in a Chinese manufacturing company was one-twentieth of what he pays to his Hong Kong workers.

There are favorable investment conditions for foreign investment in China, especially in coastal provinces. In recent years, land lease has become a major channel for attracting foreign investment to the region, and

⁶Ong, "Chinese Modernity," 175.

⁷*Ibid.*, 177.

⁸*International Herald Tribune*, November 23, 1993, 4.

has also been one of the major sources of revenue for local governments. Large areas of agricultural land have been transferred into industrial parks and commercial housing projects in South China. It was reported, for example, that the revenue generated from the sale of land in the coastal cities of South China accounts for more than 35 percent of the total annual revenue of these cities. In the cities of Shenzhen and Zhuhai, where special economic zones are located, the figure can be as high as 50 percent.⁹ Among the enterprises that were studied, more than half of them had leased land from local authorities, and in all cases the land lease is for a term of fifty years. All of these enterprises have built their own factory buildings on the leased land. According to a town official from the Pearl River delta region, most investors have come to the region in the 1990s due to the attraction of land lease policies there.

The establishment of Chinese TNEs in South China has proceeded through three different stages. The first stage began with overseas Chinese entrepreneurs from other countries or areas travelling to the region. In the very beginning, many of them went back to their ancestral hometowns to seek business opportunities. The second stage involved the establishment of contacts and networks with local authorities to negotiate investment conditions and contracts. The first two stages have often been combined into one. The third stage has been the establishment of manufacturing firms in the region. Two trends have been clearly observed in the enterprises studied: (1) overseas Chinese entrepreneurs tend to first establish themselves in locations that are geographically and culturally proximate and gradually increase their involvement in more distant places, in this case inland China; and (2) they tend to move into manufacturing industries from the first establishment of their global organizations. This presents a difference from European transnational corporations in Asia, as their manufacturing firms would be established after a long trial period of experiments with their representatives and agency firms in the region.¹⁰

⁹Hsing You-tien, "Building Guanxi Across the Straits: Taiwanese Capital and Local Chinese Bureaucrats," in Ong and Nonini, *Underground Empires*, 147.

¹⁰Jansson, *Transnational Corporations in Southeast Asia*, 81.

The concentration and rapid growth of overseas Chinese capital in South China since the late 1980s suggest that transnational capital does not flow without constraints. National borders might be threatened in the age of globalization, yet cultural-institutional maps still dictate the direction and the way in which transnational capital expands and is accumulated. Based on shared cultural identity and linguistic fluency as well as increasing local autonomy in China, overseas Chinese investors have successfully established interpersonal relationships with state officials, which in turn have consolidated their business partnerships. As a result, the Chinese transnational economy has developed prosperously in South China.

The Organization of Chinese Transnational Enterprises

Transnational enterprises in a broad sense are defined to cover all enterprises plus affiliates which own or control production or service facilities in two or more countries.¹¹ Transnational business operations in South China have for the most part been established since the 1980s through building up export-processing manufacturers and joint ventures by foreign investors. It was reported that by 1996, some 120,000 foreign-funded enterprises had already gone into operation in China.¹²

Transnational enterprises are often organized and controlled differently from their parent companies. Distance may create uncertainty in many ways for transnational entrepreneurs. Hans Jansson notes that the remoteness of TNEs in relation to their parent firms is defined in terms of both physical (geographic) distance and of psychic distance, mainly due to dissimilarity in operating conditions. He also concludes that the distance from headquarters, mainly from industrially mature countries, involves at least five aspects: (1) different markets and market institutions; (2) different cultural and social values; (3) a lower level of technology utilized by customers and

¹¹F. von Kirchbach, *Economic Policies towards Transnational Corporations* (Baden-Baden: Nomos Verlagsgesellschaft, 1983), 4.

¹²Zhang Jiaheng, "China's Opening Policy Guidance," *Beijing Review*, February 10-16, 1997, 13.

Table 1
Information of Investors

Cultural Identity	No. of Cases	Language Spoken	No. of Cases
Chinese	13	Chinese	10
International, including Chinese	1	Chinese & other	4
Origin of Investors		Origin of General Managers	
Hong Kong	7	Foreign (overseas Chinese)	11
Taiwan	3	Local	3
Southeast Asia	3		
Other	1		
Origin of Technician in Charge		Amount of Investment	
Foreign (overseas Chinese)	9	Under US\$5 million	5
Foreign (non-Chinese)	1	Between US\$5-10 million	6
Local	4	More than US\$10 million	3

by suppliers; (4) infrastructure which is often deficient by Western standards; and (5) governments much more involved in the control of business operations than is usually the case in industrially mature countries.¹³

Several characteristics of Chinese TNEs have been observed in this investigation. The first and most significant is that Chinese TNEs share similar cultural identities and linguistic preferences with local partners and workers. All foreign investors in the enterprises studied identified themselves as being Chinese in cultural origin and speaking Chinese (see table 1).

A second characteristic is that not all Chinese TNEs are big multinational firms. Many of the enterprises studied were established by small and medium-sized overseas Chinese firms with a small or medium amount of investment. This presents a significant difference from Western TNEs, which generally speaking are technologically superior, and are backed and influenced by a large organization outside the host country.¹⁴

The third difference is that the Chinese TNEs have not been established at a far distance from their parent companies as many Western corporations

¹³Jansson, *Transnational Corporations in Southeast Asia*, 4.

¹⁴*Ibid.*

Table 2
Organization of Enterprises

Market Orientation	No. of Cases	Type of Labor	No. of Cases
100% export	6	Labor-intensive	7
50% export	2	Semi-technological	3
30% export	2	High-technological	2
100% domestic	4		
Labor Force		Gender of Workers	
100% migrant	7	90% female	7
40% migrant	2	60% female	5
100% local	5	30% female	1
		100% male	1
Type of Workers' Organization		Workers' Benefit Package	
Clan organization	5	Accommodations	7
Informal networks	5	Meals	12
Political organization	2	Health care insurance	3
None	2	Work-related injury insurance	11
		Pension plan	3
Factory Handbooks			
Handbooks	9		
Written regulations	4		
Oral rules	1		

do. The enterprises studied were all invested in by overseas Chinese who reside in the vicinity of South China, such as in places like Hong Kong, Taiwan, and Southeast Asian countries (see table 2). This offers these TNEs a special characteristic: namely, the manageable distance allows frequent travelling by transnational managers and technicians between the mother firms and their subsidiaries. The upshot is that investors are able to have close contacts and exercise control in management and production of their subsidiaries in the region.

The fourth characteristic of the Chinese TNEs is that they tend to be export-oriented manufacturing firms. Processing manufactured goods for export was the main orientation of the Chinese TNEs studied; however, all overseas Chinese investors interviewed expressed great interest in domestic markets to which they currently have limited access.

A fifth characteristic is the massive and diversified labor force employed in the Chinese TNEs. To churn out the low-cost toys, clothes, sport

shoes, and plastic goods that flood consumer markets worldwide, transnational Chinese entrepreneurs have established production systems that are diverse in space and labor. Table 2 shows that the majority of the Chinese TNEs studied were labor-intensive, migrant, and female-dominant manufacturing firms. Most of the workers in these enterprises were young, of peasant origin, with a low educational level, and lacked industrial work experience.

In this study, particular attention was also paid to workers' organizations in Chinese TNEs. Three types of social organization were found among workers in the Chinese TNEs that were studied (see table 2). The first type is the clan organization. It was noted that the investors of these enterprises are mostly hometowners or relatives of the town or the village where the enterprise was set up. Workers employed in these enterprises are most likely local residents. Many of them share the same surnames, and might be relatives to each other. The managers of the factory are often appointed by the investor, and in many cases are either a dominant figure of the clan or a relative of the investor. The managers in these enterprises are like a father figure to workers whose words must be obeyed. The social structure of the enterprise is clearly hierarchical, with trust (*xinyong*) being very important in the relationship between managers and workers in these enterprises.

The second type is an informal social network among the workers (see table 2), which appears in enterprises where the majority of workers are migrants. The most common formations of the hidden groups are hometown solidarity and friendship networks. Workers who are part of these hidden networks gather together in groups privately after work. Informal networks, on the one hand, are loose social organizations for workers who feel a need for sharing and belonging. However, on the other hand, they seem to be related to the workplace regimes and to despotic authorities. It was interesting to note that the five enterprises that had informal social networks were managed in authoritarian and military styles.

The managers who were interviewed expressed worries about the existence of the informal social networks in their enterprises, and believed that these networks could result in unexpected problems, such as strikes and high turnover of workers. Some of the enterprises have made clear

regulations on the prohibition of hometown solidarity. One workers' handbook writes: "Workers who express strong feelings of hometown solidarity will be fined or dismissed depending on the degree of violation." Another indicates that "supervisors who practice nepotism with their village workers will be fined 50 *yuan* or demoted." Informal social networks can have an important impact on workers' behavior and movements. For example, it was reported that a massive worker runaway occurring in an industrial town of Shenzhen in June 1996 was created by and spread among informal networks of hometown solidarity workers.¹⁵

The third type of workers' organization is political organizations, including the Chinese Communist Party (CCP), trade unions, women's federations, and Communist Youth League groups. This type of organization is not mandatory for firms with foreign involvement; however, it was found that CCP secretaries and trade union officers were operating in the two joint ventures that were studied. The party secretaries are in principle the head of the joint ventures. Workers are organized collectively in activities not only in assembly lines but also at leisure times. A local manager indicated that having the political leadership in joint ventures has both advantages and disadvantages. The party line and trade union are used to protect workers' rights and welfare, but they may also cause difficulties in the advancement and reform of the enterprise toward better technology and quality of products through too much political intervention. According to an overseas Chinese manager, because Chinese workers are more familiar with political control than the business management, to keep the political organization in operation is an efficient way to maintain regular control of the enterprise. Other studies also find that political organizations have maintained their operation in joint ventures. For example, a study found that 92 percent of foreign or foreign-participating firms in Shenzhen have trade unions.¹⁶ Another study suggests that it is likely that these kinds of organizations are present in the majority of such firms.¹⁷ Furthermore, it was

¹⁵ Author's fieldwork interview notes, April 1997.

¹⁶ John Child, *Management in China during the Age of Reform* (Cambridge: Cambridge University Press, 1994), 23.

¹⁷ Ibid.

interesting to note that the managers of the two enterprises which did not have any types of social organizations among workers expressed their interest in setting up party leadership and trade union representatives in their factories, reasoning that having a political organization of workers is a convenient way to manage TNEs in China.

Management in Chinese Transnational Enterprises

Foreign investment has brought about three types of change in the management of Chinese TNEs. The first is the introduction of new techniques. While these usually require some modification to the content of people's jobs, they do not necessarily involve a major change either to their behavior or to the pattern of relationships between them. Generally speaking, Chinese manufacturers are production-oriented: they produce and then wait for buyers. It was thus found that marketing and market research were among the techniques to be first introduced into the two joint ventures studied; they invested 3 million *yuan* and 2.5 million *yuan* respectively in marketing and market research in 1996.¹⁸ The intended marketing advancement will bring the companies new prospects for production and future products. However, although the marketing and research aspect has been strengthened, the structure and content of production and management in enterprises has not changed significantly. As a local manager commented: "I do not feel there has been a big change through joint-venturing, but the company seems to be more productive since the marketing department was set up." Technical changes such as these might be seen as the first step of foreign involvement in the management of Chinese TNEs.

The second type of change is what John Child calls the systemic change.¹⁹ This refers to the introduction of new procedures and systems which are likely to have behavioral consequences. Systemic changes generally affect large numbers of people within the enterprise, and their ways

¹⁸ Author's fieldwork interview notes, April 1997.

¹⁹ Child, *Management in China*, 264.

of working and interacting. It was found that new ways of production and management had been introduced in some of the enterprises studied. This change had taken place in both newly-established export-oriented manufacturers and big multinational firms. Specifically, two aspects were observed: (1) Foreign senior managers had taken charge of general management, production, finance, and marketing and sales in these enterprises. These managers had brought new management and production ideas into practice. (2) Training has been broadly provided to not only managerial staff but also workers in the enterprises. Some of the enterprises studied had placed an emphasis on education and training in their management plans. For example, two enterprises had set up training programs with nearby universities for their managers and technicians, and one of the transnational firms had sent its managers abroad for advanced courses.

The foreign-appointed managers interviewed told us that one of the difficulties they had encountered in mainland China included "the workers having no concept of quality control, no concept of marketing principles, and things like that"; "lacking in self-control, self-motivation, and self-discipline"; "very few workers having a sense of responsibility concerning what they were doing." Education and training of workers was stressed in all enterprises studied, though, as they commented, it will be very difficult to see the result in the short term. Some firms selected a few "high" qualified workers to be trained, then let them be examples and tutors for the rest of the workers, while some held monthly training for newly-recruited workers. An important quality that was strongly stressed in the training was workers' discipline habits. In short, through the introduction of new technologies, management skills, and the rise of worker quality, systemic change has gradually taken place among managers and workers in these enterprises.

The third type of change is strategic and refers primarily to a new pattern of thinking about business objectives and how they can be realized through interaction with the environment.²⁰ This is essentially a cognitive level of change and learning. Strategic learning constitutes a greater learning challenge for both foreign and local managers, who have generally

²⁰Ibid.

been not familiar with each other, though the difference might sometimes seem to be a relatively small one between overseas Chinese and local Chinese. In the two newly-established high-tech manufacturers, strategic change took place in the following two aspects: involvement of local partners in the strategic discussion and decision-making processes; and integration of and interaction between both sides on marketing and production control. One of the general managers noted that "it is difficult to involve local partners in the strategic planning process because we have different standards in management and technology. However, to interact with local partners and to enter local markets are the only ways we can achieve success in China." Strategic changes are only at the beginning stages in the Chinese TNEs, and will probably first start in enterprises with intensive capital and technology investment.

The cultural distinctiveness of the Chinese TNEs shows its unique perspectives of management. What is Chinese transnational management? Are there differences between Chinese management and Chinese transnational management? Particular attention in this study is paid to the following issues: the cultural roots of Chinese transnational management and the management practices of Chinese transnational enterprises.

The Cultural Roots of Chinese Transnational Management

Management of the Chinese TNEs in this study is seen as a model of the Chinese cultural tradition slightly modified by imported ideology, technology, and technical skills. Various writers on Chinese culture have put forward somewhat different lists of key elements which are likely to have a particular bearing on management. Four cultural values which have particular relevance for management in China include: orientation toward groups; the preservation of "face"; the respect for age and hierarchy; and the importance of personal relationships.²¹ It has been understood that the Confucian tradition stresses order, hierarchy, quality of relationships, and obligations to social groups, especially to the family.²² This tradition favors

²¹Martin Lockett, "Culture and the Problems of Chinese Management," *Organizational Studies* 9 (1988): 475-96.

²²David Howard Smith, *Confucius and Confucianism* (London: Paladin, 1974), 62-76.

organizational hierarchy and centralized decision-making.

The strong sense of family lies deep in Chinese culture, and as an extension of the family structure, leaders of social groups are an amplification of the Confucian model of the father as the absolute authority in the family. Just as the father's word is absolute in the family, so the ruler can tolerate no challenging authorities. The role and function of the father in the Chinese family can be elaborated upon as follows:

The Chinese father is expected to be aloof and distant, invulnerable to all but the most subtle hints of criticism. To challenge the father's decisions would be equal not just to questioning his judgment, but worse, to suggesting that he has been disloyal to his family and hence to his ancestors. Children learn early that it is not wise to question their parents' conduct; they must instead concentrate on deporting themselves according to the rules of ethics they have been taught in the hope that their exemplary conduct will shield them from the wrath of parental authority. In China it is the parents who use shame to control their children, and not the other way around; and therefore in the adult world those who use shaming to influence the behavior of others usually fancy themselves to be powerful figures.²³

Two instruments are used in the traditional family management: shame and fear.²⁴ Shaming is a blunt instrument, especially for purposes of management. However, it is difficult for the Chinese to initiate routine family administration without giving it a strong moral or idealistic gloss, followed by suggestions that anyone who fails to comply with the rules is morally deficient. Such is the logic of paternalistic authority; the rule must be total conformity. Chinese management also exploits fear, an emotion which is the opposite of hope, as when a leader adopts draconian measures to compel compliance and punish deviance. The mechanics of fear in Chinese family management blends the terror of being out of step, of being singled out in contempt, with the horrors of shame and physical punishment.

There is a serious problem with the purposeful use of power in Chinese management. In manipulating power, the father, or leader, tends to go to extremes: sometimes he is the masterful "teacher" who "effortlessly"

²³Lucian W. Pye, *Power and Politics: The Cultural Dimension of Authority* (Cambridge, Mass. and London: The Belknap Press of Harvard University, 1985), 199.

²⁴*Ibid.*, 207-8.

achieves results either by shaming others or by using ploys and tricks; and sometimes he is the ruthless aggressor who dispenses harsh or even cruel punishment.²⁵ In other words, power in the Chinese management system can remain a crude, blunt instrument. Each act of authority and each proclaimed rule tend to be enveloped in affect (either blind hopefulness or diffuse fear, or a blend of both), and consequently the precision of rational authority is missing.

The acknowledged need to be severe in administering punishments also can be found in cultural roots. It is believed that severe punishment provides an outlet for aggression, which otherwise is supposed to be completely repressed in the Confucian model of authority. The ideal is that governing is possible if rules are arrayed in a hierarchy of ascending virtue which would awe the masses into correct conduct, except in cases where punishment is needed.²⁶ The question raised in this study is "How do transnational Chinese entrepreneurs apply traditional values of authority in their management practices?"

The Management Practices of Chinese Transnational Enterprises

Many of the transnational managers interviewed shared common experiences and difficulties in managing their China operations. Their management experiences in South China can be summarized as (1) becoming friends with the local government; (2) becoming financially self-reliant; (3) gaining total control of purchases and sales; (4) giving low salaries with award policies; (5) being strict with workers, and strengthening all disciplines and regulations; and (6) instituting a punishment system (mainly monetary, physically if necessary). Management difficulties with workers included: (1) poor quality of workers in general; (2) low education, and no training in discipline; (3) lack of a sense of responsibility; (4) no understanding of the concept of quality, collective, or hierarchy; (5) a strong sense of hometown solidarity; and (6) high turnover.²⁷

²⁵Ibid., 208.

²⁶Ibid.

²⁷Author's fieldwork interview notes, April 1997.

It can be seen from the above that establishing good relationships with local governments, having total control, and regulating strict factory rules are major concerns of transnational management in China, while labor control and management are the most difficult tasks. The above summaries in some aspects reflect traditional Chinese values on management, i.e., quality of relationships, self-reliance, authority, order, and obligations.

Some of the managers interviewed believed in incentive tools to raise worker productivity (see table 2). Half of the total fourteen enterprises studied provided subsidized accommodations to workers, and twelve provided subsidized or free meals to workers. Work-related injury insurance was widely adopted by eleven enterprises, due to the labor law. However, eleven enterprises did not have health care or pension plans for their workers. An explanation by a Hong Kong manager may provide the reason why some overseas Chinese investors have not provided a full welfare package to their workers:

The main reason I set up an enterprise in China is because of the low labor cost. The sense of cheap labor does not mean only in monetary terms, but refers to the whole labor management. In China, because of the low living standards, the company does not need to spend much on welfare systems like they do in industrially developed countries. For example, workers in Hong Kong would calculate their pay checks by every minute they worked. However, in China if you treat workers a little better than they were treated before, they will work harder and longer for you. This is why I say workers in China are cheaper and easier to manage.²⁸

The notion of a factory regime is a useful starting point for conceptualizing modes of labor control.²⁹ It was found that control was overt, visible, and publicly displayed in the Chinese TNEs studied. Some factory grounds were fenced around high concrete walls, and the main entrance gates were watched over by security guards carrying batons. Notice boards along the production lines tabulated daily and hourly output targets, and the names of the best and worst workers were featured on a weekly basis. Mottos such as "ask your supervisor when you have problems," "quality

²⁸Ibid.

²⁹Lee Ching Kwan, "Factory Regimes of Chinese Capitalism: Different Cultural Logics in Labor Control," in Ong and Nonini, *Underground Empires*, 120.

comes first," and "quality is our life" were painted on the walls on bold Chinese characters, and in some cases in English as well. The visible display of rules and regulations, plus the amount of fines if violation took place, were posted on the walls along the production lines. Thus, using publicly displayed policies and punishment to rule workers' consciousness can be seen as a manipulated method of using shame and fear to control individuals in the workplace. It was noted that the environment of the enterprises studied was strikingly similar to the prototypical factory in Karl Marx's time, when "all punishments naturally resolve[d] themselves into fines and deductions from wages."³⁰

Company's handbooks and factory regulations were an important management instrument in the enterprises studied. Among them, nine enterprises issued their own workers' handbooks, four enterprises had written regulations, and one enterprise had only oral rules (see table 2). The handbooks reflected not only the content but also the style of labor management in these TNEs, containing detailed rules and regulations that the workers had to obey. In one of the handbooks, there are 143 described rules and fines. Some of the handbooks were filled with despotic codes and penalties proscribing workers' appearance and attire. An obvious characteristic of the regulations is that they were authoritarian and punishment-oriented in nature. The following are the quoted rules collected from several company handbooks:

Workers must wear a factory identity card on their uniforms. Violators are fined five *yuan*.

Workers punching cards for others are fined three days' wages. Workers who do not line up for punching time cards are fined two *yuan*.

Workers who do not change shoes to enter the workshop, have long nails, or wrap up uniform sleeves are fined two *yuan*.

Workers who spit or litter are punished to wash the factory toilet for a week.

³⁰Michael Burawooy, *Politics of Production* (London: Verso, 1985), 88.

Workers who smoke in the dormitory room are fined ten *yuan*.

Workers must apply for a "leave card" when going to the bathroom. Each violation is fined two *yuan*.

Workers who refuse overtime shifts are fined two *yuan* for the first time, four *yuan* for the second, eight *yuan* for the third, and deduction of all wages for the fourth.

Leave of absence without prior permission is fined two days' wages for the first day, four days' wages for the second, and dismissal for the third.

Workers who do not obey the supervisor's orders are given a warning. Workers who do not obey supervisors' orders for the third time are dismissed.

The majority of the managers interviewed agreed that the strict and punishment-oriented labor policy is an efficient way to control workers in China. They believed that this type of management would result in high productivity and better quality of workers. There are many cases reported on how Chinese workers have been badly treated by foreign managers in recent years. Anita Chan found that there are disgraceful working conditions in the export-oriented foreign-funded sector in South China, such as long working hours, low wages, and physical abuse meted out to workers.³¹ Although no obvious physical abuses against workers in the enterprises studied were found, many stories were told in this regard. Mistreatment of workers in the foreign-funded enterprises has consequently drawn attention both inside and outside China.

There was an interesting case in the study in which a different method was employed in labor management. An overseas Chinese manager educated in the United States believed that good management was based on proper moral standards set up in the factory. He adapted moral teachings (mainly from Confucianism, with some from Christianity) and practiced

³¹Anita Chan, "Workers' Rights and Human Rights: The Plight of Chinese Workers Must Be on the International Agenda," *Journal of Human Rights in China*, Summer 1997, 4-7.

them in his factory. In the factory, posters on the walls told workers how to become good human beings, with such qualities as sharing, modesty, tolerance, and generosity being strongly encouraged. Rules and regulations were written in a format which was thought to make workers feel more comfortable in accepting. Quotations related to morality were printed and distributed to workers. Meetings with workers were arranged regularly to discuss problems and share decisions made between managers and workers. It was related by a local labor official that the turnover of workers in this factory was the lowest in the district, though its wage level was also rather low compared with most other foreign-funded enterprises. The reason for workers staying was attributed directly to the atmosphere of the factory and the way that the workers were treated. It was seen in this case that the Chinese cultural tradition was nicely blended with Western ideologies in management practices, and although it was the only such case in this study, it represents a new way of management in Chinese TNEs.

Conclusions

As a result of the third wave of global investment penetration, the Chinese transnational economy has developed prosperously in South China since the 1980s. Overseas Chinese have played a crucial role in the establishment of Chinese transnational enterprises, as they are seen not only as foreign investors who have brought capital into China's economic development, but also as transnational entrepreneurs who have transferred advanced technology and management skills into China's business practices. This study shows that the Chinese TNEs have formed their own characteristics in organization and management styles. They are organized differently from the Western TNEs mainly in the cultural values shared between transnational investors and their subsidiaries; the distances between mother and daughter firms; and the size of capital invested in the transnational operation.

The management of Chinese transnational enterprises has its roots in Chinese cultural traditions, i.e., family, social relationships, hierarchy, order, and obligations. The traditional values on authority and power were

seen clearly in the management of the enterprises studied. Western advanced technology and technical skills have had an influence on the methods of Chinese management, but have been limited mainly to technical aspects. It has been found that new management strategies have taken hold in a few Chinese TNEs, in that Chinese traditional management ideas have been modified with Western ideology in respect for individual workers and decentralized decision-making processes.

This study is preliminary research into the organization and management of Chinese transnational enterprises in South China, and has several limitations. For example, the data were collected through a short field study trip to South China, and the enterprises studied might not represent other Chinese TNEs. Therefore, the purpose of the paper is to "cast a brick to attract jade"; in other words, to offer a few commonplace remarks by way of introduction so that others may contribute deeper and more valuable opinions.