

# Bringing the Managers In: A Case of Rising Influence of Enterprise Managers in Rural China

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*Based on empirical findings in Shandong, this paper suggests that the advent of rural industrialization has contributed to the rising position of enterprise managers in rural China. Two worlds of enterprise managers are emerging. While mediocre managers are still under the administrative purview and blessing of the local governments, high performers have earned themselves greater operational autonomy, better rewards and status, and access to the policymaking process. The latter are serving as the engines of growth and are hence indispensable to the progress and development of the local economy. Their growing functional indispensability has provided them with leverage to pressurize local governments for concessions, both in enterprise ownership restructuring and political power sharing. Unlike the civil society scenario, the trajectory of this reconfiguration of local governance does not entail direct confrontation between state and society; instead, a symbiotic relationship is taking shape. The heterogeneity and particularistic nature of the state-manager relationship also warrant a look beyond the corporatist framework in conceptualizing the interaction. This case study shows that focus on this interconnection is the key to understanding transition politics in rural China.*

**KEYWORDS:** transition politics; state-manager relationship; rural industrialization; manager's autonomy; rural governance

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This paper focuses on the rise of enterprise managers in rural China. While the early stage of rural industrialization may be characterized by the heavy involvement of the local state in the development of rural enterprises,<sup>1</sup> this paper argues that a more recent development has been the growing functional indispensability of managers for local economic progress. As a result, this recent change has sparked off a negotiation process with the local government in the rural community. For the local government, the rising cost of monitoring enterprise operation is the prime motive for concession. The growing sophistication in the operation of rural enterprises, due to the expansion in the scale of production and the escalating links with outside markets, has required a greater degree of professionalism in enterprise management. The administrative skills and personal connections of cadres may no longer be sufficient for the job; managers with professional expertise and experience in management are now assigned greater responsibilities and freedom in running these firms. They are the center of business transactions and consequently the information asymmetry between the principal (the local government) and the agent (the enterprise manager) is moving in a direction favorable to the latter. For managers, greater responsibilities must be coupled with more rewards and greater autonomy; these demands, moreover, are spurring a change in the government-enterprise relationship.

The implications of this story, however, go beyond the transformation of rural governance; there is a more fundamental issue concerning the complexity of power redistribution inherent in the market transition process. Earlier studies of reform politics have emphasized the demise of the totalistic control of the party and the possibility of the rise of social actors. White perceptively described market reform as the end of the Maoist ideocratic regime and stressed the inherent processes of secularization and de-

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<sup>1</sup>William A. Byrd and Lin Qingsong, eds., *China's Rural Industry: Structure, Development, and Reform* (New York: Oxford University Press, 1990); and Jean C. Oi, "Fiscal Reform and the Economic Foundations of Local State Corporatism in China," *World Politics* 45 (October 1992): 99-126.

politicization. He argued that the regime was "increasingly judged in terms of its ability to deliver economic growth and higher living standards."<sup>2</sup> As suggested by institutional economists, changing rules entail different pay-offs and incentives.<sup>3</sup> This logic justifies numerous inquiries into the rising status of different social groups that possess the valuable skills and knowledge necessary for the modernization drive and market transition.<sup>4</sup> Recent works, however, reflect differently upon the extent of the retreat of the state. Common to most research is the emphasis on the state's capacity to promote economic growth. Works by Blecher, Oi, and Duckett have underlined the developmental as well as entrepreneurial ability of the state and hence warrant a sober reexamination of the validity of the claim of state decline.<sup>5</sup> While few major scholarly works imply that these two lines of inquiry must be comprehended in dichotomous terms, important is to address the interconnectedness of the two processes. The state may be retreating in certain spheres of regulation, *but why and how is such power transferred to specific social actors, but not to others?* What is the basis for the accession of power of this social actor? How does the state actor respond in protecting its interests? Nee's notion of the hybrid elite of cadre-entrepreneur shows clearly the impact of the enduring bureaucratic redistributive order on economic management under the present form of partial marketization.<sup>6</sup> He stresses that cadres or peasants with bureaucratic connections are the likely winners in capturing market opportunities unleashed by marketi-

<sup>2</sup>Gordon White, *Riding the Tiger: The Politics of Economic Reform in Post-Mao China* (London: Macmillan, 1993), 147-69.

<sup>3</sup>Douglass C. North, *Institutions, Institutional Change, and Economic Performance* (New York and Cambridge, U.K.: Cambridge University Press, 1990), 73-82.

<sup>4</sup>See, for example, Michael Bonnin and Yves Chervier, "The Intellectual and the State: Social Dynamics of Intellectual Autonomy during the Post-Mao Era," *The China Quarterly*, no. 127 (1991): 569-93, and Arthur L. Rosenbaum, ed., *State and Society in China: The Consequences of Reform* (Boulder, Colo.: Westview Press, 1992).

<sup>5</sup>Marc J. Blecher, "Development State, Entrepreneurial State: The Political Economy of Socialist Reform in Xinju Municipality and Guanghan County," in *The Chinese State in the Era of Economic Reform*, ed. Gordon White (London: Macmillan, 1991), 265-91; Jean C. Oi, *Rural China Takes Off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999); Jane Duckett, *The Entrepreneurial State in China* (London and New York: Routledge, 1998).

<sup>6</sup>Victor Nee, "Organizational Dynamics of Market Transition: Hybrid Forms, Property Rights, and Mixed Economy in China," *Administrative Science Quarterly* 37 (1992): 1-27.

zation, at least during the early stage of reform. Similarly, the seminal work by Szelenyi on the earlier experience of Hungarian reforms also points to the possible overlapping of the bureaucratic hierarchy and the newly emerged market-based hierarchy.<sup>7</sup> In other words, the dynamic of reform politics is not just about state actors redefining their roles or social groups scrambling for greater autonomy or resources. Rather, the process is one of negotiation and interaction between the two, and the exchanges are largely defined by the larger process of progressive reform.

Put in this light, a micro-level study of the rise of manager status in the rural collective sector—a sector that used to be tightly controlled by local state—is a good example for demonstrating the intricacies and subtlety of the bargaining between state and social actors. As shown in this case, the interaction is not necessarily a story of David against Goliath as depicted by civil society theorists who assume a state versus society scenario;<sup>8</sup> instead, manager empowerment is sustained by their growing functional indispensability to the local economy. While corporatism theory may provide a more nuanced understanding of the interactive element between state and society than civil society analysis, managers do not appear to be as homogenous a group as assumed by this analytical framework.<sup>9</sup> In fact, there exist two worlds of managers delineated by success and mediocrity. That is, inappropriate is to expect a crude generalization of the overall pattern of interaction between state and managers; instead, the result of each interaction is contingent upon the resources and bargaining power of the concerned parties in each case.

Based on data collected from fieldwork in Huantai county, Shandong

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<sup>7</sup>Ivan Szelenyi, *Socialist Entrepreneurs: Embourgeoisment in Rural Hungary* (Madison: University of Wisconsin Press, 1988).

<sup>8</sup>See, for example, Thomas B. Gold, "The Resurgence of Civil Society in China," *Journal of Democracy* 1, no. 1 (1990): 18-31; Gordon White, "Prospects for Civil Society in China: A Case Study of Xiaoshan City," *Australian Journal of Chinese Affairs*, no. 29 (January 1993): 63-87; and Kate X. Zhou, *How the Farmers Changed China: Power of the People* (Boulder, Colo.: Westview Press, 1996).

<sup>9</sup>Margaret M. Pearson, *China's New Business Elites: The Political Consequences of Economic Reform* (Berkeley: University of California Press, 1997); and Jonathan Unger and Anita Chan, "China, Corporatism, and the East Asian Model," *Australian Journal of Chinese Affairs*, no. 33 (January 1995): 29-53.

province (山東省桓台縣),<sup>10</sup> this paper tries to illustrate that as a result of the growing functional indispensability of managers, there is a rise in their position in local governance. The case in Huantai shows that owing to the unique opportunity structure in the rural context, entrepreneurship is possible despite the fact that these managers are not the enterprise proprietors. In reality, those managers with proven capabilities are serving as the engines of growth and are hence indispensable to the progress and development of township and village enterprises (TVEs). Competence not only breeds managerial autonomy, but also grants access to the local political hierarchy as successful managers are being courted by local governments into positions of political influence. The pressing concern for the local government now is how to tap into this human capital, and this need is the cornerstone of the interdependent relationship between the local government and the manager. This process entails some form of political concession as well as ownership reforms. Consequently, a symbiotic relationship is emerging.

### Huantai:

#### A Developed County with Industrial Heritage

Huantai, one of the eight county and district administrations under the Zibo (濰博) prefecture government in Shandong, has a population of 470,000. Located 100 kilometers east of the provincial capital, Jinan (濟南), Huantai has a solid economic base and is relatively affluent. The county is particularly famous for enjoying high agricultural productivity, with its farmland having gained the outstanding reputation of *dunliangtian* (噸糧田) —literally meaning that the average productivity is more than a

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<sup>10</sup>The findings are based on the primary data gathered from eighty-five interviews conducted in Huantai county between October 1995 and August 1999 and from published Chinese and English sources. Forty-one TVE managers were interviewed, of whom thirty came from collective enterprises at the township level which were either industrial or construction companies. These constitute 28 percent of the total number of township-level collective enterprises of the county. These managers were selected mainly on the basis of the economic importance of their enterprises; these enterprises are mostly key collective enterprises in their respective communities.

ton per acre.<sup>11</sup> This provided a strong base for industrial investment when the opportunity came. However, the industrial development in Huantai can be traced back to the collective era. Huantai had inherited a substantial base of the handicraft industry developed since the early Qing era. In 1952, there were about 700 households engaged in these trades. With the advent of people's communes, these industries were soon collectivized and collective ventures soon replaced private initiatives as the dominant component of the local industry. By 1987, 775 collectively-owned industrial enterprises had been set up with the number of workers employed reaching a total of more than 32,000,<sup>12</sup> approximately one-seventh of the local labor force. Thus, when the county decided to accelerate the development of the local industries in the mid-1980s, Huantai had already accumulated a substantial pool of local talent experienced in industrial management. These human resources were crucial to the rapid industrial development that occurred. By 1998, there were 2,080 industrial enterprises in the county,<sup>13</sup> with the secondary sector contributing 57 percent of local gross national product (GNP).<sup>14</sup> Petrochemicals, food processing, paper manufacturing, and construction-related businesses are the major components of this sector.

Local finance benefits substantially from this development. As can be seen from table 1, nonagricultural activities have already replaced agricultural activities as the major source of county revenue. Among the former, about half of the local budgetary income collected by the county government is from value-added tax, sales tax, and income tax, and enterprises are the major contributors of these taxes. They are also the major suppliers of extrabudgetary incomes through profit remittance and other forms of financial contributions to the local government. Thus, even this conservative estimate reveals that the overall financial contribution of rural enterprises in Huantai is about one-third. Therefore, within less than two

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<sup>11</sup>*Huantai nianjian 1988-1991* (Huantai yearbook 1988-91) (Jinan: Qilu shushe, 1992), 1-2.

<sup>12</sup>*Huantai xianzhi* (Huantai county gazette) (Jinan: Qilu shushe, 1992), 243-48.

<sup>13</sup>*Shandong Huantaixian guomin jingji tongji ziliao 1998* (Economic statistics of Huantai county, Shandong, 1998), 114.

<sup>14</sup>*Ibid.*, 66.

**Table 1**  
**Revenue of the Huantai County Government, 1998**

Unit: Million yuan

| Item                                   | Revenue | Item  | Revenue |
|--|---------|---|---------|
| Value-added tax                        | 24.56   | Animal slaughter tax  | 0.11    |
| Business tax                           | 16.10   | Agricultural tax  | 59.60   |
| Enterprise income tax                  | 10.50   | Special agricultural product tax                                      | 0.66    |
| Foreign enterprise income tax          | 0.52    | Farm land-use tax   | 0.86    |
| Personal income tax                    | 9.49    | Contract tax  | 0.20    |
| Fixed asset investment orientation tax | 3.01    | Administrative charges  | 3.00    |
| Urban Construction and maintenance tax | 5.26    | Fines   | 4.22    |
| Real estate tax                        | 5.43    | Earmarked incomes   | 7.51    |
| Stamp tax                              | 0.59    | Other incomes   | 5.16    |
| Urban land-use tax                     | 0.83    | Earmarked subsidies and other transfers from the municipal government | 57.02   |
| Vehicle tax                            | 0.12    |   |         |
| Total                                  | 214.75  |   |         |
| Extrabudgetary income                  | 15.77   |   |         |

**Sources:** *Shandong Huantaixian guomin jingji tongji ziliao 1998* (Economic statistics of Huantai county, Shandong, 1998), 216; *Huantaixian zhengfu gongzuo baogao 1999* (Huantai county government work report 1999), 6.

decades, Huantai has developed a solid industrial base that makes important contributions to the local economy and finance.

At the heart of this dramatic transformation, collective enterprises play a crucial role. As shown in table 2, despite the high growth rate of the private sector in recent years, TVEs remain pillars of the local industries. Together they generate more than 60 percent of total industrial output and contribute more than 60 percent of the total financial contribution of local enterprises. For local residents, TVEs provide access to prosperity and better prospects, and for the local government, they are both the resource pool for financing public expenditure and living proof of successful governance. A successful enterprise is thus a pillar of local prosperity and effective governance; inevitably, the status of those who play a crucial role in steering these firms toward success is high. This is the basis for the rise of enterprise managers.

**Table 2**  
**Composition of Industrial Output of Huantai**

| Year | Total Output | Contribution of: |                     |
|------|--------------|------------------|---------------------|
|      |              | TVEs             | Private Enterprises |
| 1992 | 4,230        | 3,336 (78.9%)    | 894 (21.1%)         |
| 1995 | 5,235        | 4,297 (82.1%)    | 938 (17.9%)         |
| 1996 | 5,187        | 3,964 (76.4%)    | 1,223 (23.6%)       |
| 1997 | 6,157        | 4,435 (72.0%)    | 1,724 (28.0%)       |

**Sources:** *Zibo tongji nianjian* (Zibo statistical yearbook), 1993, 74-75; 1996, 52-53; 1997, 48-49; and 1998, 66-67.

### Managers: Highly Motivated for Success

Being the de facto owner of collective enterprises, the township government must give their approval during the procedure for appointing (任命 *renming*) a manager to a collectively-owned enterprise at the township level (鎮辦集體企業 *zhenban jiti qiye*). As seen in Huantai county, there are three ways in which a rural resident can reach the top managerial position in a township enterprise: (1) internal promotion or invitation by the township government; (2) winning a contract; and (3) administrative transfer. These are examined, in turn, below.

1. *Internal promotion or invitation by the township government:* Most managers interviewed had a long service record in their respective enterprises, having usually started as junior workers. Their experience and seniority made them the natural heirs of the now-retired managers that were in power during the early stages of rural industrialization in the post-Mao period. Alternatively, some were invited by the township government to take charge of reorganized or newly established firms. Candidates were those who had established their reputations as being competent and successful business administrators. An examination of the backgrounds of the managers of the enterprise groups (企業集團 *qiye jituan*)—the most important enterprises—in Huantai is revealing. With an average asset value of above 100 million *yuan* and an annual tax contribution of more than 2 million *yuan*, these business conglomerates are the motors of local indus-



trial growth. There are seventeen enterprise groups in Huantai. Available information on the career history of twelve of these managers shows that their path of ascent can be traced to either of the patterns mentioned above and that the average length of service in enterprises is more than twenty years.

2. *Winning a contract*: This route usually begins with a call for tender from the local government. The process is open and public, and the conditions of the enterprise concerned and the general terms of the proposed contract are published in the local newspaper. This is mainly a formality as most interested parties in the local community are quite well informed about the general situation of local enterprises, and news of a forthcoming opportunity usually spreads before the official announcement is made. Interested parties submit their bids and the contract will in most cases go to the applicant who makes the best bid. This is not, however, the path commonly pursued by the managers we interviewed. Only a few cases fall into this category.

3. *Administrative transfer*: Managerial posts can also be filled by cadres transferred directly from the local bureaucracy. At the township level, the township economic and trade commission, an administrative unit that specializes in enterprise management, supplies most of the cadres for this task. This is understandable, as the nature of the work of the commission is highly relevant to the new task of enterprise management. Equally important, cadres in these posts are obviously much better placed to seize these opportunities than colleagues serving in other administrative units; they are better informed and well connected with the local business sector.

The experience of industrial management appears to be a key factor in determining manager appointment. A closer examination of the background of township managers illustrates the meritocratic element of the selection process. Prior management experience is common among managers. As shown in table 3, twenty-one out of the thirty-one managers interviewed in T Township (one of the most industrialized townships in the county) had experience working in enterprises before being appointed to their present positions.

Two points are particularly noteworthy. First, the number of managers who had spent their *entire* career as bureaucrats before their mana-

**Table 3**  
**Previous Experience in the Business Sector of Managers in T Township**

| Type   | Number of Managers |
|--|--------------------|
| A. Managers with previous cadre experience               | 12 (39%)           |
| of which:  |                    |
| without any previous experience in enterprise management | 6                  |
| with previous experience in enterprise management        | 6                  |
| B. Managers without previous cadre experience            | 19 (61%)           |
| of which:  |                    |
| (1) with previous experience in enterprise management    | 15                 |
| of which:  |                    |
| started as technicians or workers                        | 7                  |
| started in junior management posts                       | 8                  |
| (2) without previous experience in enterprise            | 4                  |
| Total  | 31 (100%)          |

**Source:** Author's interviews.

gerial appointment is limited. Only six out of the thirty-one fall into this category. The other six managers who had had cadre experience prior to their appointment had worked in enterprises in varying capacities. In other words, even in the cases of cadres-turned-managers, a close look at their background reveals that political connections only partly account for their appointment in the business sector.

Second, experience in business is even more important for those who do not have any previous service record in the local administration. Fifteen out of the nineteen who are "disadvantaged" in this respect had a taste of enterprise work before being appointed to their present managerial posts. Seven began as ordinary workers or technicians and gradually expanded their experience from production to other activities. Another eight began their business careers in various management posts at a lower level—such as salesman, accountant, or division chief.

## Cinderella Stories

The career trajectories of the three most successful managers in T Township are consistent with this pattern:

**Case 1:** Wang Li,<sup>15</sup> now forty-five, joined the T Township Construction Company in 1975, three years after its foundation. The company is the biggest employer in the township and is also one of the most profitable ventures in the county. He began as a worker and has spent his entire career in this company. He was promoted to the posts of division accountant, technician, and division leader, and eventually reached the post of general manager in 1993. In the same year, he was invited to be the deputy township head.<sup>16</sup>

**Case 2:** Wang Bing, fifty-five, began his career as a technician in a village factory in 1967. He spent ten years in this factory, was awarded the title of "advanced worker," and was also classified as an engineer due to his technical competence. His outstanding performance in this factory as well as his relatively high level of educational attainment (a senior high qualification) paved the way for his appointment in 1977 to his present post of general manager of the Township Metal Factory. Under Wang's leadership, the factory has developed from a small factory with a staff of less than fifty and primitive technology into a leading local business with a total staff of more than five hundred and an annual tax contribution of three million *yuan*. In 1993, he too became a deputy township head.<sup>17</sup>

**Case 3:** Zhang Jian represents a new generation of enterprise managers. Aged thirty-seven, he is in charge of the Township Chemical Factory, the most profitable enterprise in the township, which brings in an annual profit of more than six million *yuan*. The firm is also regarded as a successful model of local development and has been chosen as a showcase for entertaining high-level visitors, including Premier Li Peng (李鹏) and Chairman of the National People's Congress Wan Li (万里). After spending a few years in the army, Zhang returned to his village and worked

<sup>15</sup>In order to protect anonymity, all managers are given fictitious names.

<sup>16</sup>Author's interview.

<sup>17</sup>Ibid.

as a teacher for two years. His career began in enterprise management as the head of the production division in a brigade-level chemical factory in the mid-1980s. The technical knowledge of mechanics and engineering he accumulated during his military training and his relatively high level of literacy probably contributed to his ascent. He was invited to be the manager of the enterprise when it was reorganized into a new chemical factory in 1987. His good performance was recognized, and he was awarded the title of "outstanding enterprise manager" by the prefecture government in 1990 and 1992. In 1993, when the factory was restructured, he retained his managership and also became a deputy township head.<sup>18</sup>

In short, experience in industrial management appears to be a strong factor affecting managerial appointment in Huantai. Political capital, as measured in terms of previous service record in local administrations, does not predetermine the outcome of the race for these top managerial posts.<sup>19</sup> Cadres and ex-cadres certainly excel in administrative and social skills, qualities which provide a competitive edge in the contest for top managerial posts. However, whether these are sufficient skills to make a good enterprise manager is debatable. Their experience in the bureaucracy can in some way hinder their prospects in the business sector.<sup>20</sup> Two crucial ingredients for entrepreneurial success—technical skills in production and knowledge of the industry and enterprise concerned—are hardly monopolized by veteran cadres. The former includes basic bookkeeping and accounting skills, and specific knowledge of the technical aspects of the

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<sup>18</sup>Ibid.

<sup>19</sup>Certainly, the limitation of using this attribute as a proxy of political capital has to be acknowledged, though. As rightly pointed out by Ole Brunn, career choice is an individual as well as a household strategy, and the above analysis which concentrates mainly on managers' formal affiliation with the administration may not be able to present a full picture. This analysis, however, demonstrates the importance of individual competence in the manager selection process. In addition, information on the background of the parents of the managers of twelve of the largest enterprise groups of the county also shows that they all come from peasant families. That is, their parents also had had no cadre experience and were mainly involved in agricultural production. see Ole Brunn, *Business and Bureaucracy in a Chinese City: An Ethnography of Private Business Households in Contemporary China* (Berkeley: Institute of East Asian Studies, University of California, 1993).

<sup>20</sup>Michael Kennedy and Pauline Gianoplus, "Entrepreneurs and Expertise: A Cultural Encounter in the Making of Post-Communist Capitalism in Poland," *East European Politics and Societies* 8, no. 1 (Winter 1994): 58-93.

production process concerned. The latter involves an understanding of the operation and market conditions of the specific industry, an awareness of the prospects and constraints of the industry, and a comprehension of the strengths and limits of the existing staff of the enterprise. These are not accessible to someone who has no actual experience of working in the industry or the enterprise concerned, and are definitely not available to those cadres who work in their office and monitor progress from a distance. Without these capabilities, managers cannot make innovations which contribute to the more efficient use of enterprise resources. Such managers may also fail to detect the market potential of their products and hence may miss lucrative business opportunities. The inability to make these important decisions hinders the chance of survival of the enterprise in an intensely competitive market. Such knowledge can, of course, be acquired over time, yet the costs of the learning process are a matter of concern. However, in local economies like those of rural China, local governments—which are ultimately responsible for the profits and losses of rural enterprises—are highly motivated to make sure that their businesses are in the hands of good managerial talent.

### **Managers: Entrepreneurs without Ownership**

Managers are highly motivated to perform as well. The adoption of various forms of performance-related remuneration methods in collective enterprises in the post-Mao period has significantly strengthened the linkage between business failure and personal losses by the manager. For managers, making a profit is important. Basic wages are guaranteed, but there exists a huge gap between just getting by and having a comfortable standard of living. Managers running top firms in Huantai can take home a bonus of more than 100,000 *yuan*—an astronomical amount by rural standards as the average income of a peasant/worker is no more than 5,000 *yuan* a year.<sup>21</sup> However, even more important is to realize the uniqueness of the

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<sup>21</sup>Information provided by a township economic and trade commission.

opportunity structure in the rural business sector, which, in turn, reinforces the incentive and motivation mechanism necessary for the growth of entrepreneurship.

In most rural communities in China where the population remains basically immobile, the implications of failure for a manager go beyond income loss; not achieving success can be a constant source of embarrassment and humiliation. The scale of such social pressure is likely to be magnified in small communities where most rural enterprises are located. The story of manager Zhang Cheng, who is in charge of a big township food manufacturing factory in Huantai, is a good illustration. Founded in 1991, the factory used to be the largest food manufacturing firm in the county in terms of fixed asset value and profit and tax payments. Total assets were valued at more than 16 million *yuan*, and the total tax and profit payments were as high as 7 million *yuan*. However, the business began to deteriorate and Zhang was assigned to reverse its decline in 1994. Yet his efforts were futile. By the time the factory was visited by the author, production had already stopped. Laying the blame for the company's misfortune on Zhang may be unfair since the downward trend predated his arrival. Nonetheless, there seems to be a general feeling in the community that Zhang should be held responsible. Fellow managers in other enterprises expressed contempt whenever his name was brought up in conversation and some even regarded him as a "loser." In this township of about 40,000 residents, with about 20 percent of the labor force employed in a few collective enterprises, such gossip and personal attacks can be truly damaging to one's reputation.<sup>22</sup>

The misfortune for people like Zhang is more than psychological. His long-term career, either in business or administration, will be significantly jeopardized too. Unlike in a market economy, the possibility of a second chance for those who fail in managing an enterprise in rural China is rather limited. The parochial nature of rural enterprises implies that managerial posts are unlikely to be opened to outsiders; so one's chance is in most cases confined to the managerial posts available in the local community. Worse still, as economic development is gaining importance in the performance

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<sup>22</sup> Author's interview.

appraisal of local cadres, failure in enterprise management will surely have an adverse effect on one's administrative career should one desire to join the bureaucracy later. While performance appraisal for cadres was highly politicized in Mao's time, greater weight has been assigned to their ability and achievement in the reform era.<sup>23</sup> Ability in economic management has become an important variable in determining the career prospects of cadres.

### Manager's Growing Assertiveness in Operation

Autonomy is the key for decisionmaking and effective management. Also evident in Huantai is that managers are enjoying more and more operational freedom, particularly those in charge of prospering business entities. An overview of the managers' role in enterprise management probably requires a separate study. Yet the general sketch of the role of the managers in Huantai in two major aspects of enterprise operation—securing credit supply and initiating investment projects—may help to illustrate their growing assertiveness.

Certainly controversial is to argue that local governments have lost all their influence over credit supply at the grass-roots level. Given their role in personnel matters, local party secretaries can obviously still apply pressure on local bankers to cooperate. Local officials also still enjoy considerable discretion in recommending business projects for state funds, e.g., earmarked funding for technological improvement and innovation. There are, however, countervailing developments. More of a commercial flavor has been introduced into the banking sector in China since the early days of reform. In sum, Chinese banks are subject to greater pressure to adopt a cautious approach with an emphasis on creditworthiness.<sup>24</sup> Avoidance of

<sup>23</sup>Lee Hungyong, *From Revolutionary Cadres to Party Technocrats in Socialist China* (Berkeley: University of California Press, 1991); Chow Kingwai, "The Politics of Performance Appraisal," in *Public Administration in China*, ed. Miriam Mill and Stuart Nagel (Westport, Conn.: Greenwood, 1993), 105-29.

<sup>24</sup>Fernando Montes-Negret, "China's Credit Plan: An Overview," *Oxford Review of Eco-*

bad debts is one of the primary concerns of local bankers in Huantai. This is motivated not only by the institutional interest of the local branch but also by the personal interest of staff. Whereas under the previous system there was no clear link between branch operational profits and staff earnings,<sup>25</sup> the connection has been strengthened in recent years. Staff can now earn a substantial bonus if a good balance of assets can be maintained throughout the year. The Huantai Rural Credit Cooperative instead adopts a collective penalty system. Forty percent of the basic salary of its staff is withheld by the office every month and this sum with interests will be returned to the staff at the end of the financial year only if the financial targets are met.<sup>26</sup> The local banks' decision in 1993 to reject administrative units as legible guarantors for bank loans further tied the hands of the local government in this matter. This was a move consistent with the greater emphasis on the debt-repayment ability in credit decisions and the increasing awareness of the danger of bad debt. Since then, only economic entities can provide a guarantee for bank loans. Performance has become a more decisive element of loan decision. In 1995, 12 million *yuan* of new loans was released in T Township by the Huantai Rural Credit Cooperative; all the money was shared by the three most successful enterprises in the township.<sup>27</sup> The same principle of selective support for core enterprises (骨幹企業 *gugan qiye*)—enterprises with sound financial strength and prospects—has been adopted by all the banks in the county.<sup>28</sup> The deputy director of a township economic and trade commission admits,

At present, we can no longer be 100 percent sure that our intervention can secure a loan for an enterprise as in the past. We are of course still in a position to lobby and pressure local bankers, yet they have the final word. Our views matter only when the conditions of our case and the other applicant's are exactly

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*omic Policy* 11, no. 4 (1995): 25-42; "Agricultural Bank Plans to Be More Market Oriented," Foreign Broadcast Information Service, *Daily Report: China*-93-007 (January 12, 1993): 36.

<sup>25</sup>Zhou Xiaochuan and Zhu Li, "China's Banking System: Current Status, Perspectives on Reform," *Journal of Comparative Economics* 11 (1987): 399-402.

<sup>26</sup>Interview with the assistant director of the Huantai Rural Credit Cooperative.

<sup>27</sup>These three enterprises together value more than 40 million *yuan* in assets and deliver more than 10 million *yuan* in profit.

<sup>28</sup>*Huantai bao* (Huantai News), March 20, 1996, 2; *ibid.*, May 22, 1996, 2.



the same. The financial strength and repayment ability of enterprises are the key factors of consideration for banks now.<sup>29</sup>

The growing assertiveness of managers can also be measured by their rising role in investment decision. As a result of their business insight or knowledge of emerging opportunities, managers appear to be the driving force behind business innovation in the county. Most of the new projects began as proposals offered by managers. The standard procedure requires a full feasibility study to be submitted to the township economic and trade commission for examination. A detailed financial analysis of the proposed project is needed, and the report must include an estimate of the prospective flow of income and expenditure, the asset composition, a forecast of production, and the sources of financing. The commission reserves the ultimate right of approval over this matter. For any project involving more than one million *yuan*, the township government has to be informed and its approval is necessary.<sup>30</sup>

Nevertheless, the extent of local government involvement varies between enterprises, and in some cases such power of approval is no more than a formality. Approval depends on the confidence of the government in the manager's professional competence to make an accurate financial analysis, the financial strength of the enterprise, and—most of all—the manager's track record. These factors also affect the attitude of managers toward the involvement of the local government. Managers of large enterprises usually have a low opinion of the value of this; for example, the managing director of one of the largest construction companies in Huantai regards the role of the township economic and trade commission as "advisory." By this, the director means that he is the ultimate decisionmaker, although officials' advice "will be taken into account." Despite the potential tension, there has not yet been any direct confrontation between the two parties. According to this manager, none of his proposals have been rejected, and occasionally official approval was in fact obtained after the project had already commenced. He may have exaggerated his independ-

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<sup>29</sup> Author's interview.

<sup>30</sup> Ibid.

ence, yet views from local officials appear to be consistent with his description. A township commission director agrees that "big enterprises which have sufficient financial strength and business experience should be encouraged to take more initiative. This is good for the community. The commission should not pose an obstacle to their entrepreneurial drive."<sup>31</sup>

Managers running less successful businesses, however, are still living under the administrative purview of local officials. Extensive monitoring practices such as monthly meetings, the filing of regular reports on enterprise operation, and on-site investigation by officials are strictly followed. Managers also depend on officials for business intelligence and connections. These mediocre managers are not hesitant to ask for officials' help whenever problems arise. Their limited resources deprive them of the alternatives enjoyed by their larger counterparts. The blessing of the local government is the only support they can fall back on when a situation arises which cannot be handled by their own efforts. As one manager explains,

Enterprise still cannot live without government support. From dispute settlement to business negotiation, from raw materials to bank loans, we all need local officials' help to sort these out. It is true that local officials are keeping a close watch on our operation. I bear no resentment and think it is a reflection of their concern.<sup>32</sup>

Moreover, one township mayor succinctly opined,

There is a great difference in the relationship between the government and managers running enterprises of different size. For core enterprises, their managers do not bother to talk to us. Most of these managers are arrogant bastards! They treat us like their poor relatives who come to beg for money and do not show much respect. For other smaller enterprises, however, it is the opposite. You just have to hide out of sight of their managers as they will come to the office frequently to ask for all sorts of assistance and favors.<sup>33</sup>

In other words, there exist two worlds of enterprise managers. They are demarcated not only by the size of the enterprise concerned and the social recognition, income, and lifestyle of the managers, but also their attitude toward the local government. The expertise of competent managers

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<sup>31</sup>Ibid.

<sup>32</sup>Ibid.

<sup>33</sup>Ibid.

and their proven records have earned them respect, confidence, and—most importantly—autonomy from the local government. As the manager of one of the most successful enterprises in the county claims,

We are very independent these days and basically government interference and support are not necessary. Problems such as the supply of raw materials, market, and capital can be solved by the market or by our own efforts. I cannot recall any major incident which I could not solve without government intervention.<sup>34</sup>

Whether this is a genuine reflection or a mere exaggeration of the status of managers in enterprise operation is not the primary issue here. In fact, for allocation of some resources that are still under planning, the local government's support is still crucial. Access to a steady supply of electricity is an example. The ultimate control of electricity supply lies outside the immediate jurisdiction of the township or county government. However, the township officials have a significant influence in determining local priority in distribution. For example, Huantai, like other rural communities, faces electricity shortages and periodic power cuts are necessary. The township government can lobby the county electricity bureau on behalf of local enterprises to arrange cuts at times which cause the least interruption and loss for the local industry. A county official disclosed that the T township government had intervened on at least one occasion to postpone a planned power cut. This postponement was at the request of a leading local factory; in that instance, the plant was already behind a schedule with a major deal and further delay would have had disastrous financial consequences. Intervention by local officials is also valuable when conflict between enterprise and peasants arises. The most common case is conflict over land use. Local officials can always act as a useful intermediary in negotiations and help to avoid violent confrontation.<sup>35</sup> Thus, even for large enterprises, the contributions of local officials as state agents to business transactions still cannot be completely discarded despite the changes mentioned above. However, what does matter here is the changing perception of the role of management. The managers' self-evaluation is what defines

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<sup>34</sup>Ibid.

<sup>35</sup>Ibid.

their cost-benefit analysis and hence their claims for a fair reward for their contribution.

### **Impact of the Private Sector**

The private sector has developed rapidly in Huantai in recent years. By 1998, there were 18,000 private and individual enterprises employing 56,000 workers.<sup>36</sup> A strong private sector can surely reduce the dependence of local finance on collective enterprises, and hence affect the bargaining between the local government and managers in the collective sector. In her latest work, Jean C. Oi points to a development strategy contrary to early experiment of rural industrialization. She suggests that due to the rising importance of the private sector to the rural economy, local governments have shifted from a stance which gave favorable treatment to collective enterprises, to one which is also supportive of the private sector.<sup>37</sup> In the case of Huantai, however, the private sector has yet to produce an impact on the local economy comparable to the collective sector. In terms of employment and revenue, the total contribution of this sector is at most one-third of that of the collective enterprises.<sup>38</sup> Nevertheless, a developing private sector does exert an impact on the managers' evaluation of their own position. In short, the private sector appears as a frame of reference of fair reward and a possible exit option for these managers. A striking finding of the interviews in Huantai is the general frustration among enterprise managers about their financial status. They think they are underpaid both for their contributions to the enterprises and for bearing the immense pressure inherent in the management task.<sup>39</sup> The emergence of the private sector adds fuel to this sentiment. The financial status of their counterparts

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<sup>36</sup>Ibid.

<sup>37</sup>Oi, *Rural China Takes Off*, 85-89.

<sup>38</sup>Author's interview.

<sup>39</sup>This is more a result of their rising expectation than genuine deprivation. The annual income of most of these managers is about ten to twenty times that of the average worker in their enterprises.

in the private sector always serves as a guide to defining fair income. The living standard and lifestyle of local private entrepreneurs were frequently quoted as examples of a decent and comfortable life. In addition, the private sector also affected these managers' valuation of the opportunity cost of staying in their present jobs. The private alternative can be more than a reference point. Local officials admit there is a danger of enterprise managers "setting up their own turf and building a new stove" (自立山頭另起爐灶 *zili shantou lingqi luzao*), i.e., starting their own businesses, and the stabilization of the management team (穩住管理隊伍 *wenzhu guanli duiwu*) has occupied a dominant place on the agenda of local industrial management.<sup>40</sup>

### Demands for Better Financial Rewards

This is not to say there exists a brain-drain from the collective sector. The requirement of a substantial amount of initial capital and the possible loss of official blessings deter many discontented managers from making the move to the private sector. The cost of resignation is further increased by the immediate nullification of specific knowledge of the firm under the manager's stewardship—an important basis of his or her entrepreneurship—and by the antagonism of the local government.

The most important brake on the outflow of talent is the willingness of the local government to make economic concessions. The new round of ownership reform in rural enterprises, particularly shareholding cooperative reform, presents a means for local governments to keep managers by giving them a substantial share in the reformed enterprises.

The last decade of enterprise development in Huantai witnessed a tug of war between managers and the local government over income rights. Previous discussion has shown how the expansion of enterprises involved

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<sup>40</sup> Interview with the manager of the Zibo Zhoucun Wangcunzhen Collective Asset Management Company. See also CCP Wangcunzhen Committee and the Wangcunzhen People's Government, "Promotion of Cooperative Shareholding Reform Brings New Momentum for Development" (November 6, 1992).

a greater delegation of power to managers, particularly those who had demonstrated their ability to deliver profits. For managers, good performance must not only result in enhanced autonomy, but must also win them greater material rewards. This accounts for the evolution of the reward system for managers in Huantai. In the early years, the local government had tried to satisfy managers' claims by introducing various forms of bonuses. In short, a lump sum linked to an enterprise's performance would be given to a manager during good years. The exact amount of bonus was subject to negotiation between the manager and the local government, with the latter having the final say on the outcome.

An alternative method, the contract responsibility system (承包制 *chengbaozhi*) was experimented with for a brief period in the early 1990s. For managers, the attraction came from this new scheme's inherent delegation of greater managerial freedom, and most importantly, the assignment of greater residual power. Both parties agreed upon a fixed amount which the contracted enterprise had to submit to the local government in each financial year, and in some cases, an arrangement was made for the sharing of above-quota profits according to a preagreed formula. For managers, a guaranteed reward and the strengthened linkage between reward and performance was an incentive. However, the experiment was confined and short-lived due to the reservations of the local government. As one local official recalls,

The major danger is that the contract responsibility system always left "the monk getting rich while the temple stays bankrupt" (富了和尚窮了廟 *fuliao heshang qiongliao miao*). Managers only cared about their financial rewards during the contract period and they would never think about the long-term development of the company. We could not blame them because they could not be sure whether their contract would be renewed after its expiry. They are not the owners after all.<sup>41</sup>

Shareholding reform is conceived of as a new instrument with which to improve the financial status of enterprise managers in a socially acceptable way. A manager is entitled to buy shares in the company that has been reorganized in line with the shareholding principle. Such share purchases

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<sup>41</sup> Author's interview.

can be a means to improve his financial status as he is now entitled to a new source of income, namely share dividends. While there may be jealousy or even resentment about high wages, the attitude toward the higher income generated from shares seems different. Many rural workers fail to recognize the specific rights or privileges (with respect to the company) inherent in these financial documents, instead regarding them as a form of high-interest loan to the company or some kind of compulsory company bond which they have little incentive to buy.<sup>42</sup> In addition, by making managers co-owners of the company, their motivation in striving for a long-term development of the enterprise is likely to be enhanced.

In most cases, the manager is likely to be the largest private shareholder in the company. There are various reasons for this primacy. First, he is the most senior staff member in the company and is usually among those with the longest service record. As basic shares of the reformed enterprise are distributed according to the seniority and rank of staff, the manager is entitled to a larger share than his subordinates. The requirement of an extra share purchase also enables him to use his entitlement fully because he is more likely than ordinary workers to be able to afford to make the purchase. In addition, his specific knowledge of the enterprise's potential gives him greater awareness of the company's prospects and thus may increase his willingness to invest.

The local government also deliberately keeps the asset value at a low level in order to facilitate managers' purchases, through toleration of an improper valuation process. Legally speaking, the valuation process should be handled by a professional auditing agency. The enterprise management will be consulted, but the actual valuation work should be conducted independently by professional auditors who have no direct interest in the enterprise.<sup>43</sup> Yet there are many complaints about managers' intervention

<sup>42</sup>Their ignorance of the new financial concept, their relative inferiority in terms of what they can afford, and—most important of all—the limited transferability of these shares make the workers in general uninterested in buying these shares. See "Stockholder as Virtue Criticized," *Journals and Periodicals Research Service (China)* 43 (July 9, 1993): 1; and Wang Xinglong, "Why Are Workers Unwilling to Buy Shares?" *Zhongguo xiangzhen qiye bao* (China's TVE News), August 28, 1995, 2.

<sup>43</sup>Rural Enterprise Bureau of the Ministry of Agriculture, "Methods of Asset Valuation for Rural Enterprises," *Zhongguo xiangzhen qiye bao*, September 6, 1994, 2.

in the process.<sup>44</sup> Worse still, the local government is quite prepared to scrap the independent auditing process altogether and to transfer the responsibility to the management personnel of the enterprise concerned. The local government, in short, simply opens the door for the management personnel, who have much interest in keeping the value of the enterprise down, in order to influence the valuation process.

The rising status of managers is clearly reflected in the new round of ownership reform in Zibo initiated in 1998. Two specific goals were stressed in this drive for ownership reform: the further dilution of collective shares and a larger portion of shares assigned to managers. The Huantai county government stipulated that a zero-percent collective shares policy in reformed enterprises was the guiding principle for shareholding restructuring, which was to be implemented by the end of 1998.<sup>45</sup> Most importantly, the principle of "operator holding majority share" (經營者占大股 *jingyingzhe zhan dagu*) was also enshrined in the county government's reform strategies. The benchmark for a reasonable proposition of total shares for managers is 30 percent.<sup>46</sup> By mid-1999, most of the shareholding co-operative enterprises had been restructured along these lines. Managers of the seventeen enterprise groups in the county each hold on average 30 percent or more of company shares. Collective shares also disappear in most reformed enterprises. Unlike the first round of shareholding restructuring, the rule of zero percentage has commonly been applied to leading local business ventures. Consequently, managers are in most cases the largest single shareholders of their enterprises.

The local government is ready to yield to their demands and, as shown in the case of Huantai, the rising status of managers has been the momentum for ownership reform in collective enterprises. One manager in charge of an enterprise group admitted,

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<sup>44</sup>Huantai County Commission for Restructuring the Economy, "Report of the Huantai County Commission for Restructuring the Economy 1995" (January 26, 1996).

<sup>45</sup>"Annual Report of the Huantai County People's Government" (Passed at the First Session of the Fourteenth People's Congress of Huantai County) (January 16, 1998), 16.

<sup>46</sup>"Speech of Comrade Wang Shuwu to the County Government's Third All-Members Meeting" (January 17, 1999).



My contribution is simply too big for a small share. I had been unfairly treated over the past few years. The government thought that they could have my devotion by giving me a few shares. They were wrong, I can tell you. Honestly, I acted one way when I was underrewarded, and act differently when I am now a major shareholder. The latest reform is just righting the wrongs.<sup>47</sup>

Nevertheless, important is to realize the managers make concessions in "compensating the local government's loss." There are many cases in Huantai in which managers "voluntarily" agreed to honor certain new financial obligations to the township government in the new round of ownership reform. Two approaches have commonly been adopted. First, enterprises agree to contribute regularly to community welfare. Such donations can be enormous. In one case, the amount was more than one million *yuan* per year.<sup>48</sup> Second, new charges have been imposed. One particularly common area is the charge for land use. The situation in the Guoli (果里) township is illustrative. The total expenditure of the township administration was 5.6 million *yuan* in 1998. However, Guoli's budgetary income could only provide 3.4 million *yuan*. In the past, the government would maintain its balance by imposing a surcharge on rural households (提留 *tiliu*) and extracting profits from its enterprises. From 1998 onward, the government has been signing new forty-year land leases with local enterprises, which guarantees Guoli an income of one million *yuan* per year.<sup>49</sup> In sum, there are informal arrangements between managers and the local government that compensate the latter for their losses in formal rights over enterprises. Like an absentee landlord, the local government is sacrificing its user rights over enterprises but retaining considerable income right.

### Managers on the Road to Political Power

Entrepreneurial success also provides access to political power. There is a strong reason to co-opt successful TVE managers into the local political hierarchy, and this entails an attempt by the local government to en-

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<sup>47</sup> Author's interview.

<sup>48</sup> Ibid.

<sup>49</sup> Ibid.

**Table 4**  
**Present Political Involvement of Collective Enterprise Managers in Huantai**

| Type   | Number |
|--|--------|
| A. Managers concurrently holding official posts in party/state organization                  | 17     |
| of which:  |        |
| (1) as deputy township heads   | 9      |
| (2) as secretary/deputy secretary of village party committee                                 | 8      |
| B. Managers holding seats in the people's congress or political consultative conference only | 12     |
| A + B  | 29     |
| C. Managers with none of the above titles  | 12     |
| A + B + C  | 41     |

**Notes:** For managers holding more than one post, only the most important title in the analysis will be counted.

**Source:** Author's interviews.

hance its own capability in local economic management and its legitimacy in general governance. As shown in the case of Huantai, the process goes beyond the conventional practice of granting social celebrities fame and recognition—a move in which the local government has wide discretion and in which the titles granted are mostly of little real political significance, e.g., "model manager" and "socialist worker." In a growing number of cases involving successful managers, the awards are the leading positions in the party-state administration. Managers are making their presence felt in the public decisionmaking process, but this assertiveness does not mean that they are confrontational or provocative in their claims for political power; instead, managers make their voices heard by playing an indispensable role in local economic management. The local government still has the final say in the distribution of political capital, yet again the demands of political and economic reality have limited the freedom of the local authorities. The functional requirements of the new economic order necessitate the accommodation of the claims of those managers with proven talent and success.

Table 4 provides a summary of the political involvement of TVE managers interviewed by the author. About two-thirds of managers inter-

**Table 5****Profile of Enterprises Run by Managers Holding Deputy Township Headship in Huantai**

| Manager    | Staff Employed | Total Asset<br>Value (million <i>yuan</i> ) | Tax Submitted in<br>1998 (million <i>yuan</i> ) |
|------------|----------------|---|---|
| Jing Jie   | 583            | 136   | 3.5   |
| Zhang Jian | 590            | 130   | 6.3   |
| Zhang Ying | 1,088          | 85  | 4.5   |
| Zhou Cai   | 210            | 119   | 4.8   |
| Xun Li     | 820            | 182   | 3.7   |
| Li An      | n.a.           | n.a.  | 4.0   |
| Wang Li    | 5,000          | 280   | 4.0   |
| Wang Bing  | 514            | n.a.  | 3.0   |
| Ma Zhen    | 200            | 50  | 4.5   |

**Notes:** The average amount of tax revenues generated by TVEs in a township in Huantai is about 10 million *yuan* every year. In order to protect anonymity, all managers are given fictitious names.

**Source:** Author's interviews.

viewed have been granted political access of various kinds. Particularly noteworthy in this group are those who are concurrently serving in leading positions in party-state institutions. Nine of them have been made deputy township heads and the other eight serve as secretaries or deputy secretaries in the village party branch. In addition, another twelve managers (26 per cent) who have failed to break into these ranks have been granted some consolation—political titles of lesser significance, such as membership in the local people's congress or people's political consultative conference.

There is a high correlation between managerial success and political status. All nine deputy headships go to managers of enterprise groups. Table 5 gives details of the economic entities under their stewardship. Obvious is that in terms of employment and revenue, these enterprises are making huge contributions to the local economy. Again, the hierarchy among managers is evident. Difference in managerial performance not only leads to contrasting social and economic status, but also creates variations in terms of political entitlement as well.

The connection between managerial performance and political status becomes even clearer if the analysis is narrowed to the political involve-

**Table 6**  
**Political Involvement of Managers of Township-Level Collective Enterprises in T Township**

| Manager         | Conditions of Enterprise |                          |                        | Political Title of the Manager |
|-----------------|--------------------------|--------------------------|------------------------|--------------------------------|
|                 | Number of workers        | Fixed assets (mil. yuan) | Net profit (mil. yuan) |                                |
| 1. Wang Li      | 4,000                    | 17.00                    | 4.00                   | DTH                            |
| 2. Zhang Jian   | 432                      | 11.57                    | 3.49                   | DTH                            |
| 3. Wang Bing    | 600                      | 13.83                    | 2.61                   | DTH                            |
| 4. Rong Yao     | 185                      | 2.20                     | 0.25                   | CPC                            |
| 5. Zhang Bing   | 90                       | 2.00                     | 0.15                   | TPC                            |
| 6. Zhang Jin    | 50                       | 0.62                     | Nil                    | TPC                            |
| 7. Zhang Ping   | 30                       | 5.00                     | Nil                    | TPC                            |
| 8. Xu Cheng     | 130                      | 1.95                     | Nil                    | TPC                            |
| 9. Hu Zheng     | 40                       | 0.52                     | Nil                    | TPC                            |
| 10. Shi Guang   | 390                      | 2.84                     | Nil                    | TPC                            |
| 11. Gong Zi     | 140                      | 5.74                     | -0.30                  | TPC                            |
| 12. Zhang Yue   | 70                       | 3.00                     | 0.20                   | None                           |
| 13. Chen Heng   | 11                       | 0.30                     | 0.05                   | None                           |
| 14. Zhang Cheng | 280                      | 16.86                    | Nil                    | None                           |
| 15. Rong Wen    | 90                       | 0.97                     | -0.20                  | None                           |

**Notes:** DTH—deputy township head; CPC—county people's congress member; TPC—township people's congress member. In order to protect anonymity, all managers are given fictitious names.

**Sources:** Data from interviews and from statistics provided by the T Township Economic and Trade Commission. All figures are for the year 1994. See Ray Yep, "The Limitations of Corporatism for Understanding Reforming China: An Empirical Analysis in a Rural County," *Journal of Contemporary China* (Forthcoming).

ment of managers of the fifteen township-level collective enterprises in T Township. As shown in table 6, the parallel between success in enterprise management and political access is obvious. The most important post—the deputy township headship—has been granted to the managers of the three most profitable enterprises in T Township (cases 1, 2, and 3). Together these enterprises earned more than ten million *yuan* after-tax profit in 1994, i.e., more than 90 percent of the total after-tax profits earned by all township-level collective enterprises in the township that year. They also occupy a similarly dominant position in terms of employment and fixed asset value.

It appears to be normal to include enterprise managers in the local people's congress in T Township. The congress can hardly be regarded as the center of the local political process. However, despite the institution's limitations, membership in the people's congress is highly valued by these managers. Such a post is a sign of recognition and approval and can also be a stepping stone to a higher level in the power hierarchy.

A few words can be said about those who have been marginalized in this process. Zhang Cheng (case no. 14) was an ex-cadre from the township economic and trade commission and was transferred directly from the bureaucracy to take up this post. However, he failed to transform this enterprise into an economic success. Similarly, Chen Heng (case no. 13) and Rong Wen (case no. 15) had both worked as leading officials in the township Agricultural Machinery Station which was not performing particularly well. The rise of Chen Heng in the local political hierarchy may be hindered by the remote link between his enterprise and the township government,<sup>50</sup> but Rong Wen has one of the worst profit records. This shows that previous political connections alone cannot guarantee success in enterprise management. Similarly, the occupation of a managerial post will not automatically bring political glory. Failure to deliver the economic goods can block anyone from access to political capital and status, which are reserved for competent enterprise managers.

Contribution to local finance is certainly the major reason for the growing political stature of enterprise managers. Nevertheless, three other factors also help to account for the anxiety of the local party-state in co-opting managers into the formal power institutions.

First, the demise of the collective framework in post-Mao China has deprived rural administration of an effective means to control and regulate the local economy. However, driven by the concern for local prosperity and by the residual effect of the paternalism of the collective era, local governments are eager to find means of maintaining coordination. The rising role of enterprise managers further intensifies their anxiety. Managers, be-

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<sup>50</sup>These two collective enterprises are under the vertical line of authority of the Agricultural Bureau at the county level. The most important implication is that the local government—administration at the township level—is not the residual claimant of these ventures.

ing endowed with independent expertise and effective management skills, simply cannot be pushed around by the local administration. An arrangement which could help to maintain better economic coordination without antagonizing enterprise managers or violating the new reform requirements would be welcomed. The co-optation of managers into the decisionmaking process appears to be one option.

A second factor is the lack of managerial experience among cadres. The profiles of the party secretaries and heads of the twenty-five most developed townships in Zibo prefecture raise doubts about the competence of the local government to manage the new rural economic order. These cadres today have excellent educational qualifications,<sup>51</sup> but only one-fifth of them had ever been involved in economic management, and most of this experience was confined to service in administrative posts in the taxation, finance, or commercial bureau of the local government. Only three of the forty-nine cadres who were surveyed here had been in charge of an enterprise.<sup>52</sup> The co-option of managerial talent can be a solution to such limitations.

Local government dual concerns of state control and power intermediation also work in the managers' favor. Hierarchical control and sensitivity to local sentiments are two primary concerns for the central government with regard to rural administrations. The former is guaranteed by the appointment of officials from the higher levels whereas the latter is secured by the absorption of natives into the local administration. The rural administration in Zibo prefecture reveals the same pattern. All but two of the heads and party secretaries in the twenty-five most developed townships of the prefecture are outsiders in their communities.<sup>53</sup> In addition, of the total of 9,045 cadres serving at the township level, half are local cadres.<sup>54</sup> Locals regard these locally recruited cadres as the embodiment of local trust and

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<sup>51</sup>For instance, 80 percent of them had tertiary education.

<sup>52</sup>CCP Zibo Prefectural Committee Propaganda Department, *Fuqiang zhilu: Laizi ershiwuge jingjiqiang xiangzhen de baogao* (Path to prosperity: Report from twenty-five economically prosperous townships in Zibo) (Zibo, 1993).

<sup>53</sup>*Ibid.*

<sup>54</sup>*Zibo tongji nianjian 1992* (Zibo statistical yearbook 1992) (Jinan: Shandongsheng tongjiju, 1992), 33.

values. They describe people from the same community by using the phrase, "growing up with others by drinking water from the same well" (喝同一口井的水長大的 *he tongyikoujing de shui changdade*), and believe that through these locally recruited cadres, their sentiments can be felt by the administration.<sup>55</sup> Managers-cum-cadres can serve a similar function. The ability of the managers is, in general, well admired. They are usually regarded as "*nengren*" (能人) which literally means a "man of competence." Many workers believe that an enterprise is a meritocratic institution where talent excels. For them, these capable persons should naturally be included in the local leadership. There is a sense of pride when a fellow villager manages to reach the top of the local administrative hierarchy. For the local government, this co-optation will hopefully lead to an automatic transfer of trust and respect for authority.

### Conclusion

The case of Huantai shows how the advent of rural industrialization has sparked off a negotiation process between managers and the local government over governance in a rural community. There appears to be an elite whose strategic role in developing local enterprises has forced the local government to reconsider its position in relation to this elite. Unlike their mediocre colleagues running enterprises exhibiting little or no profit, they distinguish themselves from the rest by their excellent managerial ability. Some form of power status and economic concessions has to be granted to these managers in response to the new economic landscape. A collective enterprise provides a platform from which these local talents can elevate themselves, not only to strategic management positions with control over valuable economic resources, but also to an elite rank in the local hierarchy of power. Managers' rising economic contributions have helped to transform themselves from government appointees to co-owners of the enterprises. Similarly, those outstanding performers go a step further by

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<sup>55</sup> Author's interview.

breaking into the local party-state hierarchy as deputy township mayors. Power, defined as control over resources and access to formal policymaking in this context, is the mark of manager ascent.

However, incorrect is to claim that the rural political order in China has already been transformed into a new power configuration in which managers have replaced the local government as the dominant actors. The partial market reform still preserves the usefulness of official assistance in reducing transaction costs and bypassing red tape. Moreover, the new form of power-sharing between managers and the local government is still in its infancy, and is confined to a small minority of managers who have proved their value. Those who can deliver high returns and prosperity are well ahead of others in the scramble for economic and political rewards. They are pioneers in reconstructing a new power balance with the local government, while their less competent colleagues may still have to struggle under the purview of the local administration. In addition, the relationship between managers and the local government remains collaborative rather than confrontational. As seen in the Huantai case, there remain extensive economic and political linkages between the two parties. The new power configuration is sustained by compromise and mutual concessions. The rising income rights and user rights over enterprises enjoyed by managers are to be balanced by their consent to informal payments to the local government. Moreover, managers are involved in policy discussion only when matters concerning their enterprises arise. "Self-constraint is the rule of the game," as articulated by one manager-mayor.<sup>56</sup>

Whether the power balance between managers and the local government will remain as a co-optation process defined by the latter or transform into a rivalry hinges very much on the pace of economic reform. As long as there is no dramatic acceleration in the pace of market reform, the basis of mutual dependence between managers and the local government—the lack of an alternative market supply and the value of the bureaucratic connection in reducing transaction costs—is likely to be preserved. Logically, the rise of managers will be checked by this structural inertia.

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<sup>56</sup>Ibid.



However, even the status quo contains seeds for upsetting the balance. Managers are highly motivated to tighten their grip on this newly acquired access to the local policymaking process. With their newly granted positional power, they are now in a better position to influence local policies. Their appetite for political power and status will probably be stimulated as they realize that these positions in the political hierarchy are closely connected to the success of their business. This is, however, only one side of the two-way traffic between business and politics. If synergy is the key to local prosperity, a career in the business sector is certainly also attractive for personnel on the other side of the equation, i.e., the bureaucracy. If the pull of higher income in the business sector is not enough, the cadres can be further pushed out from their posts by a growing frustration with their jobs. The mounting discontent with declining respect and their difficulty in getting jobs done are evident, and rampant corruption among cadres is a clear reflection of these sentiments.<sup>57</sup>

The status quo facilitates the inflow of cadres into the business sector in two ways. First, the persistence of the bureaucratic order preserves the value of their administrative connections for business transactions. Second, the underdevelopment of the labor market also implies that the local bureaucracy can be a convenient source of management personnel. Experience in the local bureaucracy cannot by itself make a good business administrator, but their relatively higher level of educational attainment and social exposure still makes them better candidates than the average peasant.

Thus, a higher degree of intimacy between business and politics in rural China may develop beneath the surface of the status quo. The consequence of such a development is intriguing. The growing exchange of personnel between business and politics may imply the penetration of a

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<sup>57</sup> See, for example, Richard Latham, "The Implications of Rural Reforms for Grass-Roots Cadres," in *The Political Economy of Reform in Post-Mao China*, ed. Elizabeth J. Perry and Christine P.W. Wong (Cambridge, Mass.: Council of East Asian Studies/Harvard University Press, 1985), 157-73; Richard Levy, "Corruption, Economic Crime and Social Transformation Since the Reforms: The Debate in China," *Australian Journal of Chinese Affairs*, no. 33 (January 1995): 1-25; and Chen Feng, "The Origin and Remedy for the Change in Status and Corruption of Cadres during the Transformation," *Shehuixue yanjiu* (Sociological Study), 1997, no. 5:93-101.

new ethos into the party/state machinery, and this may in turn transform the social as well as the ideological underpinning of the local state. How the local state manages to preserve its distinct esprit de corps within its organization in the face of this influx of new values and interests, and how to maintain its immunity from cadres' self-interest is a crucial test for the preservation of state cohesion in general. These issues are certainly an important research agenda for further inquiry into the dynamics of the rural political economy.