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## Study on the present situation, causes and countermeasures of the labor relations of Chinese private small and medium enterprises: labor-intensive industries as an example

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### ABSTRACT

Most of Chinese private enterprises belong to labor-intensive small and medium enterprises (SMEs). Labor relations of SMEs have become an important part of labor relations in China. With Chinese post-80s and post-90s migrant workers gradually enter the labor market, the labor relations will change accordingly. In this article, we took labor-intensive private SMEs as an example, compared with large enterprises, analyzed the problems of labor relations in labor-intensive SMEs. We found there are more variables, the forms of labor and industrial relations are more complex, the conflict of labor relations more directly. The productivity, the basis of production are significantly different from the large enterprises. According to the related factors of SMEs in labor relations that affect the harmony and stability. This article proposed a hierarchical, elastic, balanced and transitional labor relations coordination system of SMEs. Our aim is safeguard the legitimate rights and interests of the broad masses of workers, promote the healthy and sustainable development of small and medium-sized enterprises and form the mutually beneficial win-win pattern.

### KEYWORDS

Private small and medium enterprises; Labor-intensive industry; Labor relations; Labor protection.



## LABOR RELATIONS STATUS OF LABOR-INTENSIVE PRIVATE SMES

In this article, the SMEs as the concept and connotation of the determined in June 18, 2011 in accordance with the Ministry of Industry and Information Technology, the National Bureau of Statistics, the National Development and Reform Commission, Ministry of Finance in China jointly issued "The Standards for the Division of SMEs in the Provisions". In the SMEs scope, this article focus on labor-intensive SMEs which mainly include manufacturing, construction, wholesale, retail, transportation and accommodation and catering industry.

Chinese private SMEs has features of large quantities, wide distribution, short life cycle, low average yield. But they contribute large on Chinese economy and society. Feature 1, large quantities. According to estimates, by the end of 2011, the national all various types of SMEs amounted to about 12 million households, accounting for all enterprises around 97%. In addition, there are 37.565 million individual industrial and commercial households. A total of about 50 million households in two aspects. Feature 2, wide distribution. SMEs almost exists in more than 90 segment industries of the second industry and third industry. In wholesale and retail, accommodation and catering, resident services and other service industries, SMEs account for greater proportion. Feature 3, short life cycle. According to estimates, the average survival period of private SMEs is about 3 years. Feature 4, low average yield. SMEs' per capita of gross industrial output value, per capita of revenue from principal business, per capita of profit are lower than the average level of the corresponding indicators of industrial enterprises.<sup>[1]</sup> Feature 5, great contribution. SMEs play an important role in employment, promote innovation, stability maintenance. SMEs has created 60% national wealth for the country, contributed 50% of the fiscal revenue, provides 75% of urban jobs, completed more than 80% of new product development. (2010)

labor relations of SMEs have become an important part of the labor relations in China. According to estimates, the total number of employees in SMEs of China is at least 250 million. At the same time, employees of urban employment in SMEs reached 80%. Except some medium-sized enterprises signs a long-term contract with employees, the SMEs mainly adopts the short-term labor contract or a verbal contract to form labor rights and obligations of both parties. SMEs fully present market-oriented employment system. seasonal workers, temporary workers, part-time workers and other unformal workers in SMEs are more common. Both employers and employees significantly safeguard their respective interests, labor relations between the two sides on the whole in the is in the collision and running in process. In recent years, especially since the "Labor Contract Law" promulgated and implemented, the SMEs' standardization degree of labor relations gradually increased, rights awareness of employees is also growing. The labor relations of private SMEs in China begins to marketization, standardization and legalization gradually.

**TABLE 1 : Comparison between SMEs and larger enterprises in main indicators (2011) (100 million CNY)**

Item	Number of Enterprises (unit)	Gross Industrial Output Value (current prices)	Total Assets	Revenue from Principal Business	Total Profits	Average Annual Number of Employed Persons (10000 persons)
Large Enterprises	9111	351507	342999	358893	26434	3231.6
Medium Enterprises	52236	199366	162942	195163	15310	2946.2
Small Enterprises	256319	288178	165790	283400	19439	2957.3
SMEs	308555	487544	328732	478563	347479	5903.5
Total	317666	839051	671731	837456	61183	9135.1
Proportion of SMEs	97.13%	58.11%	48.97%	57.14%	56.84%	64.62%

**Resource: China statistical year book 2012**

### ANALYSIS OF THE EXISTING PROBLEMS AND REASONS OF LABOR RELATIONS IN LABOR-INTENSIVE PRIVATE SMES

#### Serious problems of labor relations in labor-intensive private SMEs

The prominent problems of labor relations existing in the current Chinese large enterprises mainly are the labor dispatch is not standard, staffs get unequal pay for equal work because of employment system, the collective contract and the collective consultation become a mere formality etc.. The private SMEs especially labor-intensive enterprises have more labor relations problems due to the impact of various factors. Compared with large enterprises, problems of SMEs in the following eight aspects present more prominent:

First, more variable in labor relations. labor relations of SMEs often represent shorter duration, greater mobility around employee. In many SMEs, a considerable part of the staff is the "water type" staff.<sup>[2]</sup> This phenomenon is very

common in the manufacturing and food industry. On the contrary, in recent years, many SMEs experience “recruitment difficulty”. In some SMEs employee leave without saying good-bye makes this situation more serious.

Second, more complex in the form of recruitment and employee-employer relationship. SMEs often have variable recruitment form and employee resources. In Chinese large enterprises, the recruitment form mainly include authorized strength and labor dispatch. SMEs have more forms which include full-time employee, seasonal worker, hourly worker etc.. Its employee covered internship students, apprentices, re-employment of laid-off workers and retirement personnel.

Third, non-standard labor relations establishment. On one hand, the ratio of labor contract establishment is low in SMEs, accompany with obvious hierarchical characteristics and industry characteristics. Take migrant workers for an example, data in 2009 showed that 42.8% migrant workers signed labor contract with their employers. On the other hand, the contents of labor contract are informal which cause bad implementation.

Fourth, low remuneration. Compare with large enterprises, the remuneration of SMEs is obviously low. Compensation structure of most SMEs is fixed salary or fix salary with little bonus. A large proportion of SMEs’ fixed salary fluctuate above and below the local minimum wage standard.

Fifth, the provisions of the work and rest time is not clear and the implementation is casual. The working hours of SMEs is flexible. According to the current rules of labor laws, working overtime is ubiquitous. A large proportion of employees in SMEs only have 4 or 2 rest days per month.

Sixth, working conditions and labor protection are bad. The labor protection and living conditions in SMEs are generally bad. A large proportion of employees in SMEs engage in low technological content of bitter, dirty, tired and risk work. Compare with large enterprise, the working environment is appalling. Many employers are lack of legal consciousness, enterprise management knowledge and labor protection knowledge. Driven from profit maximum, they neglect even ignore labor protection.

Seventh, social security is not perfect. The coverage of social insurance is small in SMEs and the employers often treat different group of employees with different policy. On one hand, the employers pay social insurance for core managers and technical personnel and reluctant to pay social insurance for the majority of ordinary employees. On the other hand, the employers select some of social insurance program.<sup>[3]</sup> They prefer to pay some social insurances which government supervise and inspect often and cheaper, such as industrial injury insurance. For other social security projects they defer, pay less or even non payment.

Eighth, the conflict between employer and employee are more direct. The employers have clear consciousness of “boss” and the the employees have clear consciousness of “worker”. When conflict occurred there be lack of buffer.

### **Analysis of labor relations problem in labor incentive private SMEs**

There are five aspects of direct reasons: First, both employer and employee are not mature, they are lack of legal right and obligation consciousness. Most enterprise owners have low educational degree. They are autocratic and not familiar with related rules of laws and modern managerial principals. Most employees in labor incentive private SMEs are migrant workers, they are lack of modern social contract consciousness and rules awareness.<sup>[4]</sup> Second, the labor managerial system especially labor communication and coordination system is not sound. Many SMEs are man-ruled, often directly governed by firm owners. Moreover, if the labor relations problems occurred, the employers often adopt “One thing, One discussion” and “One person, One discussion” to deal with. There are no related rules and programs. Third, the organizational construction that coordinate the relationship between employer and employee is not sound. Most private SEMs are lack of labor union. Fourth, related laws and policies are not individualized and adaptable. Fifth, the government role in coordinating the labor relations is far from perfect. In the guidance of current fiscal & tax system and political performance evaluation, some local government neglect even sacrifice the basic rights and interests of SMEs labors. In addition, some local labor security departments are not familiar with the of SMEs, which affects the coordination of labor relations.

The deep reasons of employer-employee tension are: poor economic performance and excessive supply of worker. On one hand, labor incentive private SEMs have low productivities, poor operational environment, uncertain operation. The weak economic basis make it hard to protect labors’ legal rights and coordinate the employer-employee relationship. Which restrict the harmonious development of labor relations fundamentally. In China, SME accounts for 97% of all enterprises. However, its gross industrial output value, revenue from principal business and total profits take around 50% of all industrial enterprises above the set scale in each item. In per capita of profit item, large enterprise is 81,800 and SME is 58,900, the gap is large. In addition, SME shoulders heavy social burden. Because of informal government behavior in some local government, the burden of payment beyond the provisions of laws and regulations policy is generally heavy. On the other hand, relation between market supply and demand is not balanced. In low-end labor market, there are excessive labor supply and weak labor discourse power. Which restrain the harmonious and stable labor relations of SMEs fundamentally.

Most employees in labor incentive private SMEs who affected by unfair distribution of education and other public service resource, are equipped with low technical skills. Which make them at weak position, possibly be obliged to give up some legal rights and accept harsh conditions.<sup>[5]</sup> Voting with their feet at most or passive quit. This circumstance is the origin of disharmonious labor relations in SMEs.

**Figure 2 : Comparison between SMEs and larger enterprises in main indicators (2011) (10 thousand CNY)**

Item	Number of Enterprises (unit)	Per Capita of Gross Industrial Output Value	Per Capita of Assets	Per Capita of Revenue from Principal Business	Per Capita of Profit	Business Profit Margin	Average Annual Number of Employed Persons (10000 persons)
Large Enterprise	9111	108.77	106.14	111.06	8.18	7.37%	3231.6
SMEs	308555	52.27	82.59	81.06	5.89	7.26%	59035

Resource: China statistical year book 2012

### SPECIFIC MEASURES OF LABOR RELATIONS COORDINATION IN LABOR-INTENSIVE PRIVATE SMES

This article proposed 8 specific measures to deal with the existed problems in labor incentive private SMEs.

First, guiding SMEs to establish sound and practical labor management system and labor relations coordination system. We could strengthen propaganda work, promote legal consciousness, explore labor relations related free training to achieve this measure.<sup>[6]</sup>

Second, providing more pertinent and standard rules for labor relations coordination in labor incentive private SMEs. On one hand, we should research on how SMEs adapt labor rules of laws and policies. On the other hand, we should refine the labor laws and policies, which make them more practical.

Third, promoting wage increase of ordinary employees in labor incentive private SMEs. To get this target there three aspects: (1)Adjusting the reasonable arrangement of the minimum wage standards, establishing minimum wage standard evaluation system, and gradually raising the minimum wage standard;<sup>[7]</sup> (2)Exploring the linkage mechanism of wage growth of labor-intensive SMEs' tax relief; (3)Through the social security subsidies, reducing labor-intensive SMEs' burden, promoting employees SMEs involve into the social security system, indirectly increase the income of employees.

Fourth, establishing recruitment information platform. Guiding SMEs and employees pay attention to credit. We could establish national recruitment credit collection system. To achieve lifetime document and search. Guiding SMEs and employees pay attention to recruitment credit and career credit. Providing related information for labor relations coordination.

Fifth, strengthening organizational construction in SMEs, fostering collective negotiation culture. Government could offer related professional personnel of labor union and encourage establishing labor union in SMEs.

Sixth, pay more attention to labor relations coordination in SMEs. Government could often supervise on labor security and actively solve labor dispute. Especially deploy more labor administrative staffs in gross-roots where SMEs clustered. Labor supervision watchdog should focus on arrears wages, deduct wages and non-contracting.

Seventh, researching on labor relations in SMEs and migrant workers especially new-generation migrant workers comprehensively. At present, new-generation migrant workers have been the significant part of labors in SMEs.<sup>[8]</sup> They concerns higher life quality and prosperous career development. Thus, we should not only rise the low wage in SMEs but also pay more attention to assure they could get equal public service.

Eighth, promoting heathy development of SMEs through comprehensive assistance and industry upgrade. Heathy development of SMEs is the economic fundamental to coordinate labor relations. It is also the permanent cure.

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