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## Research on the decisive role of market in human resource allocation

Yin Li Ping, Zhang Xiang Qian\*  
HuaQiao University, Fujian QuanZhou, 362021, (CHINA)  
E-mail : xqzhang1998@163.com

### ABSTRACT

It is the fundamental way of improving the current human resource allocation efficiency in China to make market play a decisive role in human resource allocation. By analyzing the connotation of market-oriented human resource allocation, the history and existing problems of human resource allocation in China are illustrated: supply and demand of human resources is unbalanced; the human resource allocation structure and flow trend are unreasonable. Finally, this paper proposes that the objective can be realized by implementing scientific macro-control of the government, perfecting market-oriented human resource allocation system, and optimizing service functions of human resource market.

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### KEYWORDS

Market;  
Human resource allocation;  
Decisive role

### INTRODUCTION

Decision of the CCCPC on Some Major Issues Concerning Comprehensively Deepening the Reform (hereafter referred to as Decision) approved by the Third Plenary Session of the 18<sup>th</sup> Central Committee of the Communist Party of China proposes the indication to “let the market play the decisive role in allocating resources”, which has pointed out a clear direction for allocation of human resources in China. Different modes of resource allocation will generate different allocation efficiencies. Practice proves that market economy is the most effective system of allocating resources when compared with other economic systems. It is the fundamental way of improving the current human resource allocation efficiency in China to let market play a decisive role in human resource allocation. Chinese and overseas scholars have also launched various researches. Through comparative analysis on human resource allo-

cation efficiency before and after reform and opening up in China, WU Li<sup>[1]</sup> pointed out that freedom degree of job selection among workers has positive correlation with the vigor of the market to allocate human resources as well as human resource allocation efficiency. WU Di<sup>[2]</sup> evaluated the allocation efficiency of scientific human resources in 30 areas of China in 2011 from the angle of input and output. According to the result, the overall human resource allocation efficiency is low in China; only 6 areas present effective allocation, just occupying 20% of the total amount in China. XU Jingyong<sup>[3]</sup> mentioned that it was beneficial to breaking the dual structure of city and town and realizing free flow of urban and rural elements to let the market play the decisive role in allocating resources. WU Guangbing<sup>[4]</sup> stated that major factors of affecting market-oriented human resource allocation in China included: state-owned enterprises did not truly realize independent management and responsibility for their own

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profit and loss; the existing mechanism restrained rational flow of talents; the social security system was incomplete. Irene<sup>[5]</sup> analyzed the development history of China's private enterprises and pointed out that the lifetime employment and equal salary system implemented by planned economy as well as the lack of autonomous right among employers affected the economic efficiency. Jie Ke, Chermack<sup>[6]</sup> etc. compared the influences of different economic systems before and after reform and opening up on human resource development in China. They mentioned that the demand for talent at high levels was rising sharply now in China; we had abundant human resources, but the overall labor quality was low; the brain drain phenomenon was severe; the combined action of political, economical and cultural systems was needed to solve the above problems. Marian<sup>[7]</sup> analyzed the reform process for central planning distribution system of Rumania in 1989, and pointed out that resource allocation modes under different organization patterns would bring about different economic efficiencies. Nattawut, Phapruek<sup>[8]</sup>, etc. indicated that human capital, market innovation ability, and reputation capital were indexes of assessing resource allocation of companies; besides, freedom degree of market, development prospect of market, and quality of human resources would also affect abundance degree of resources. Based on the previous researches, by combining with core contents in *Decision*, this paper analyzes the reasons for market to play a decisive role in human resource allocation, hoping to provide references for allocation of China's human resources.

### CONNOTATION OF THE DECISIVE ROLE OF MARKET IN HUMAN RESOURCE ALLOCATION

In order to make the market play a decisive role in human resource allocation, the law of value, competitive mechanism, and supply and demand mechanism must play a decisive role in the process of human resource allocation, so as to realize self-control, self-restraint, and self-actualization of human resource during the allocation process. Specifically speaking, The market in decisive role of human resources allocation is embodied in three aspects<sup>[9]</sup>. 1. Price mechanism. Price on the human resource market is shown as the salary degree. It is a dominant index of evaluating the value of human resource; besides, it is also the economic lever-

age of automatically adjusting allocation among different regions, industries, and positions. Price mechanism can stimulate the advanced things, spur those that are backward, and adjust the supply and demand through specific prices. In this way, human resource allocation will be able to meet the requirements of law of value, and the highest efficiency can be gained with the lowest cost. 2. Competitive mechanism. On the human resource market, workers will compete with each other in order to acquire favorable remuneration and development space; meanwhile, employers will also fight for excellent and high-quality talents according to their strategic targets and development trend, so as to realize profit target of the enterprise. Principle of maximum profits between workers and employers has formed the competitive mechanism based on two-way selection. On the one hand, such mechanism forces workers to study hard and make continuous progress. On the other hand, it also promotes effective allocation of human resources and material resources. 3. Supply and demand mechanism. Supply and demand mechanism can adjust the contradiction between supply and demand of human resources, so as to push them into a balanced state. When a certain kind of talents is scarce, more human resources, material resources, and financial resources will be put into this field. If supply exceeds demand, input of human resources will be automatically adjusted to other fields. In addition, supply and demand mechanism can also regulate structural balance in human resource allocation, and make human resources flow among different departments and regions. In this way, the overall balance of human resource allocation will be realized.

### HISTORY OF HUMAN RESOURCE ALLOCATION IN CHINA

Great changes have happened to China's economic system since the new China was founded: from the single public ownership system and planned economy to the system dominated by planned economy and supplemented by market economy, and finally to socialist market economy. Human resources, together with material resources and financial resources, have formed three production factors, and its allocation ways have also experienced a process of constant changes and continuous optimization. The process can be divided into four stages:

The first stage (1949-1977) was dominated by planned allocation of the state. After the new China was founded in 1949, a large amount of low-quality labor force was gathered in rural areas. On the other hand, cities lacked high-quality and high-skilled talents, so supply and demand of talents lost balance seriously. In order to guarantee the demand of nation-building for talents, the government regulated that college graduates should be allocated by the state in the 1950s; meanwhile, independent recruitment of enterprises and public institutions was restricted. As a result, highly concentrated system of planned management was formed gradually. As for the major characteristics, the right of human resource allocation was controlled by the government: workers had no right of job selection and free flow, and employers had no right of independent management. The phenomenon of “egalitarian practice” was quite common in allocation. With development of social economy, disadvantages of planned allocation were revealed gradually: human resource structure allocation seriously lost balance; employers lacked staff and meanwhile had redundant personnel; invisible unemployment was serious; as a result, the efficiency of human resource allocation was severely affected and the production rate was low. Gross domestic product of China in 1978 was 364.52 billion Yuan, while gross domestic product of America during the same period was 3,864.27 billion Yuan, 10.6 times more than that in China.

In the second stage (1978-1992), planned allocation and market allocation co-existed. After the Third Plenary Session of the 11<sup>th</sup> Central Committee of the Communist Party of China, economic policy of the country was transformed into market economy under planned economic system, which was a system in which planned allocation system of the government and market allocation system co-existed, but planned economy still took dominant position. During this stage, huge changes happened to policy and system of human resource allocation: the commodity attribute of human resource was acknowledged gradually; the scope of mandatory planned allocation decreased gradually; labor factor market started to develop; the old pattern in which job selection and personnel flow was controlled by the state was broken preliminarily; both enterprises and workers gained relatively great autonomous right of employment and job selection. However, the way of planned allocation still occupied a great proportion, administrative regulation was the major form of labor flow, and

the function of market mechanism was still weak.

In the third stage (1993-2013), market played a foundational role in resource allocation. After summarizing the experience of socialist economic construction, The 14th National Congress of the Communist Party of China clearly pointed out that “market plays a foundational role in resource allocation under socialist state macro-control”, thus the status of market economy was determined. With expression for the foundational function of market, human resource allocation was also more liberalized and marketized. In the late 1990s, state-owned enterprise reform was implemented and civil servant system was carried out. At the same time, the system in which college graduates were allocated by the state was cancelled, and household registration reform was conducted, thus allocation efficiency of human resources was further increased. The Third Plenary Session of the 16<sup>th</sup> Central Committee of the Communist Party of China further proposed that “the foundational role of market in resource allocation should be expressed to a larger extent”. Therefore, the status of market economy was intensified ceaselessly, but market was still positioned at a level of foundational role in resource allocation.

In the fourth stage (2013-now), market plays a decisive role in human resource allocation. After the allocation way based on market was preliminarily established and operated for several years, some contradictions at deeper level were disclosed. For example, talent allocation structure was seriously unreasonable in China, and labor distribution was unbalanced among industries and regions. There was a lack of high-quality labors, but supply of common workers exceeded demand. Allocation of offices and public institutions was still dominated by planned allocation. At the same time, household registration system, file system, and compilation system seriously hindered talent flow in China, and the talent allocation way could not adapt to the demand of economic development any more. Under such situation, the Third Plenary Session of the 18<sup>th</sup> Central Committee of the Communist Party of China held in Nov. 2013 clearly pointed out, “Reform of the economic system should be deepened by closely centering on the decisive role of market in resource allocation.” Thereby, the market law of value should play a dominant role and administrative regulation of the government must be weakened in the allocation process of

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human resources. Meanwhile, the restriction of various institutions and mechanisms of market-oriented allocation of human resources must be broken down. Both theory and practice prove that market-oriented resource allocation is the most effective form.

### MAJOR PROBLEMS OF HUMAN RESOURCE ALLOCATION IN CHINA

#### Unreasonable structure of human resource allocation

Firstly, the space structure of human resource allocation in China is unreasonable. China's human resource mainly flows from rural areas to cities, from central and western regions to eastern regions, and from China to developed countries. It possesses obvious characteristics of "seeking profit", "pursuing urban life", and "going to foreign countries". The proportion of employed population in cities and towns in the east, middle part, and the west was 47.4:21.7:22.0 in 2012. Due to long-term existence of such trend, there is a severe lack of talents in rural areas as well as central and western regions in China; first-tier cities lack high-level innovative talents. This has further widened the economic gap among different regions and countries. Secondly, the allocation structure of industries is also unreasonable. In 2012, the structure of three industries was 10.1:45.3:44.6 in China and the labor distribution among three industries was 33.6:30.3:36.1. However, human resource allocation among the three industries is relatively even. There is a great deviation between the output value and employment structure. A large amount of labor force stays at the level of traditional industry. In addition, in the microscopic view, idle human resources and human resource shortage co-exist. More than half of talents concentrate on non-industry departments like government agencies and public institutions. Talents in industry departments occupy less than 60% of total talents, which has resulted in critical shortage of talents in industry departments, such phenomenon has caused a huge waste of human resources.

#### Imbalance between supply and demand of human resources

Personal quality and ability of labors are inconsistent with social needs. On the one hand, there is an

absolute shortage of high-level talents; on the other hand, there are idle human resources including those with unemployment problems. Under the traditional human resource allocation system, human resource allocation carries thick administrative color. Employers lack the right of free employment and workers do not have the right of flexible job selection. Household registration and file systems have become the shackle of talent flow. According to data issued by National Bureau of Statistics, registered unemployment rate in cities and towns was 4.05% in 2013. If people with invisible unemployment in rural areas are all considered, China's unemployment rate will be higher. On the other hand, there is a lack of "3-high" talents. According to statistical analysis of China Human Resources Market Information Monitoring Center, the demand gap for middle-level or high-level talents is still great; demand far exceeds supply. The ratio between job vacancy and number of job application people of technicians, senior engineers, and high-level skilled personnel is the greatest, 1.89, 1.79, and 1.66 respectively. Input in human resource development is seriously insufficient in China. Quality and professional structure of talents cultivated by colleges and universities is inconsistent with the social demand for labor quality and structure. As a result, the contradiction between supply and demand of human resources is aggravated.

#### Unreasonable flow of human resources

Characteristics of human resource flow in China are the flow subject is general human resource, while professional human resources lack sufficient flow. Rapid development of urban economy has formed a tensile force. As a result, a "peasant worker rush" has formed, which has caused large-scale blind and disordered transfer of labor force in a short time. Correspondingly, numerous social problems are brought about. Comparatively speaking, the flow rate of professional skilled talents and high-skilled talents is low. Ownership system of talents cannot be broken, and talents are restricted by identity, registered permanent residence, and file relation. As a result, it's hard for talents to freely enter the market. Those who want to go are closely grasped by units, while abundant talents cannot flow out. Besides, China's human resource information network construction cannot serve human resource allocation well. Supply and demand information channels among different

regions and industries are not smooth, which has seriously affected flow of human resources. In conclusion, under the traditional system, due to the restriction of household registration system with urban and rural isolation, planned allocation mechanism, and labor and personnel management system, high demission cost, job application cost, migration cost, and opportunity cost must be paid for human resource flow. Thereby, the overall human resource flow in China has a small scale, low frequency, and low efficiency<sup>[10]</sup>.

### Imperfect laws and regulations

The current labor laws of China are incomplete. The protection of laborers is lack, the relevant provisions are too general, The state law is inconsistent with laws issued by different regions. Besides, conflict and contradiction even exist in some aspects. As a result, during the specific implementation process, different regions often execute laws according to the local conditions, and various enterprise also do things in their own way. The method of “management”, “barrier” and “coaxing” is adopted for workers, thus free flow of talents is seriously restricted. Management for employers is still substandard. On the one hand, there is a lack of effective support measures and policies for employers; on the other hand, no scientific and reasonable supervision measure is formulated. As a result, the employers cannot gain strong support in talent introduction and development, and it is often more difficult for private enterprises to introduce high-level talents. Moreover, due to the imperfectness of law, some employers will utilize the legal loophole and damage the rights and interests of talents during employment and job selection.

### Constraint of traditional thought of planned economy

The organs and public institutions of China have been reconstructed, but the reform is halfway. Most administrative organizations and state-owned enterprises of China still implement the management system of planned economy era. With the backer of government and good economic strength and monopoly capitals, they are not worried about profit of the units. As long as they edge in the “China’s” enterprise, they will gain a lifelong guarantee. Regardless of their ability and performance, they will be able to get the salary every month. Besides, there is considerable retirement pay after re-

tirement. Such “iron bowl” stemming from the era of planned economy is pursued by different levels of graduates. Therefore, the phenomenon of “pursuing public institution” or “pursuing civil servant” is formed. More than 1.5 million people participated in state civil service examination in 2013, with an overall competitive ratio of about 75:1. “Hot trend of state civil service examination” reflects some underlying problems in China’s income distribution and social security. Employment mechanism of administration sections is rigidified, which has seriously restricted vitality and creativity of human resources in the whole nation.

## RELEVANT POLICIES OF REALIZING THE DECISIVE ROLE OF MARKET IN HUMAN RESOURCE ALLOCATION

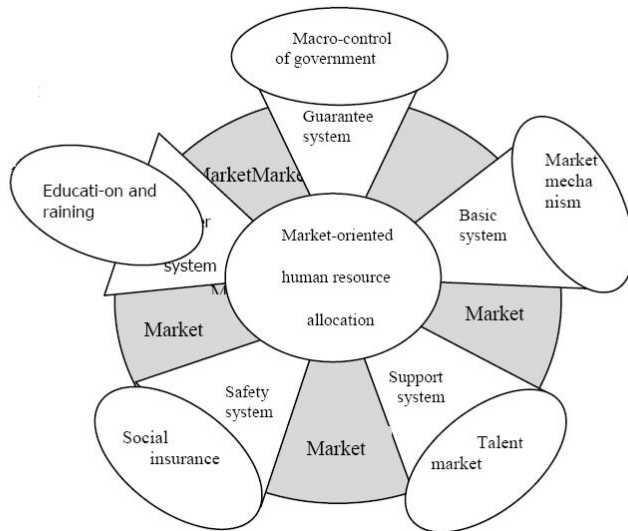
As shown in Figure 1, in order to realize market-oriented allocation of human resources, five systems covering target system, basic system, support system, security system, and power system are required. Specifically speaking, macro-control of the government is the guarantee system to realize market-oriented allocation of human resources. Scientific macro-control of the government can create excellent conditions for market economy and guide sound development of market economy under market failure. Perfect market system is the basic system of realizing the decisive role of market in human resource allocation. It is the basic condition of market-oriented human resource allocation to help talents flow freely by breaking household registration and file restrictions and to allocate human resources according to law of value. Highly developed talent market can greatly promote optimized allocation of human resources through sufficient exchange and deployment of talent flow, intelligence flow, and information flow. High-quality human resource is an important premise of realizing market-oriented allocation; perfect education and training system has provided continuous power for increasing the overall quality of human resources. Finally, in order to let the market play a decisive role in human resource allocation, social insurance should be the security system, and it will convoy market-oriented allocation of human resources.

### Scientific macro-control of the government

Market-oriented allocation of human resources is the huge transition of China’s human resource alloca-

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tion, and it has created a good condition for reasonably allocating human resources. However, in order to effectively express the decisive effect of market, scientific macro-control of the government is required. The market is not almighty, and it is bound to have some defects: China's socialist market economy is an economic system under the special historical and cultural



**Figure 1 : Driving figure to realize the decisive role of the market in human resource allocation**

background of China; it is still at a stage of exploration and constant perfection. If human resources are allocated completely via market economy, disorder will be caused and the human resource allocation will become blind and invalid. Successful operation of an economic system should certainly adapt to development of the economic society in a country. Practice of reform and opening up during the past 30 years has proved that market economy can gain the maximum benefit only under scientific guidance of the government; the function of the government in market economy is gradually reflected in the economic policies of Western capitalist countries during recent years. Thereby, scientific macro-control of the government plays a guidance role in human resource allocation, and it is a support system to realize efficient allocation of human resources. The government guarantees overall balance between supply and demand through macro-control, to make human resource structure adapt to economic development. Besides, guidance is provided in target, level and key point of human resource allocation. Meanwhile, externalities of the market are solved, so as to protect rights and interests of labors and employers, and maintain a healthy

environment of human resource allocation.

### Perfecting market-oriented human resource allocation system

Perfect market-oriented talent allocation mechanism is the basis to let the market play a decisive role in human resource allocation, and free flow of human resources is an important premise for reasonable allocation of human resources. Therefore, the precondition for market-oriented talent allocation is to promote reasonable and orderly flow of talents. The government should formulate loose policies and regulations that are beneficial to human resource flow. The restriction of household registration, file and region that hinders free flow of human resources should be broken, and a uniform file and social security system must be established. Besides, various unreasonable limits need to be broken, and talent flow procedures should be simplified. Meanwhile, cost of talent flow can be reduced, so as to promote free and flexible job selection of talents. Secondly, open market access should be established, to positively introduce competitive mechanism and promote deeper reform of China's monopolized industry. At present, China is actually at a monopoly status in numerous fields such as telecom, civil aviation, transportation, and postal service. This has resulted in over-staffing in organizations and low working efficiency. With development of market economy, the state should loosen control over market access gradually, reform the property right system, and cultivate a batch of market competition subjects, so as to create conditions for market-oriented allocation. Finally, overall reform must be conducted for employment system, income distribution system, and evaluation system of organs and public institutions. The concentrated and uniform salary generation and management system should be changed. Moreover, a wage system that can fully reflect supply and demand situation of labor market as well as personal skills and ability must be built according to requirements of human resource market.

### Perfecting service system of human resource market

Talent market construction started late in China. The profit pattern of most human resource service enterprises is single, with low level, low efficiency, and small scale. In talent allocation, the major business model is field recruitment exchange, recruitment newspaper, and

recruitment website; this is far from satisfying the demand of market allocation. Now, talent market with different functions should be established, comprehensive talent market must intensify, the job market of undergraduates needs to be developed, and industry market has to be built. Besides, high-level talent service market must be developed, and the talent allocation function should be perfected continuously. At the same time, extending services like human agency, talent training, talent assessment, and career counseling must be positively launched. In addition, the current employment information network of human resource needs to be perfected. Meanwhile, we have to establish a unified, multi-level and multi-type network system covering both urban and rural areas that integrates human resource data collection, processing and timely issuance of supply and demand information as soon as possible. In this way, considerate and timely socialized service will be provided for supply and demand parties of human resources. Besides, informatization of human resource management must be realized gradually. A unified information platform should be built for skill identification, personal information about staff, education and training, and social insurance. Thus employers and workers will be able to gain information conveniently, and independent human resource management can be realized.

### Perfecting China's social security system

Perfect social security system is the safety system to realize the decisive role of market in human resource allocation; it can provide guarantee for talents during job selection, employment and entrepreneurial process, so as to provide the rear secure for talents. Now China's social security system is still imperfect, with low coverage and level. Besides, relevant policies are not properly implemented and no unification is reached among different regions. According to the current situation of China's social insurance, a national and unified social security system must be built as far as possible, so as to break the limitation of departments, regions and identities. In this way, every worker will be able to participate in market competition on the social basis of equity. Secondly, legislation in the aspect of human resource market needs to be further perfected. At present, China's laws and regulations in human resource guarantee are still weak and incomplete; the enforcement

degree is low. Therefore, legislation and law enforcement of human resource market should be strengthened. We must complete legislation and supervision for labor contract law, social insurance law, employee benefit law, labor export law, and human resource market management law related to the process of human resource allocation, so as to protect legitimate interests of workers and employers. Besides, development, application and allocation of human resources must operate in a legal and standard rail.

### Developing education and training cause

High-quality human resources provide continuous power for efficient allocation of human resources. The primary goal of education and training is to constantly optimize talent structure and cultivate high-quality talents. In order to realize this target, the government should loosen the market access in the education subject, and develop education in multiple channels by mobilizing the social force to invest in education and encouraging non-government funded education, cooperative education, and education via social funding, so as to form a personnel training mode dominated by the country and supported by all sectors of society. As for contents of education and training, reform of the educational system must be deepened continuously. Curriculum and major should meet industrial structure adjustment and long-term requirement of social and economic development. Therefore, the education target is to cultivate students with innovation ability, innovation consciousness, and innovation spirit, so as to store excellent talents for social and economic development. In form of education and training, except developing common education, vocational education, continuing education and no-degree education should also be developed vigorously. The concept of lifelong learning must be established in the entire society. Governments at all levels need to formulate feasible education and training policies according to type, structure, and supply and demand of human resources in the local place. Besides, benign interaction between schools and employers should be promoted, to set up a bridge for optimized allocation of human resources.

### CONCLUSION

The 14<sup>th</sup> National Congress of the Communist Party of China proposed that "the market plays a

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fundamental role in resource allocation under state macro-control"; the Third Plenary Session of the 18<sup>th</sup> Central Committee of the Communist Party of China proposed the policy to "let the market play the decisive role in allocating resources". Such transformation has pointed out a clear direction for allocation of the current human resources in China. To make the market play a decisive role in human resource allocation is a fundamental way of solving problems like unreasonable talent allocation structure, imbalance between supply and demand, and low efficiency of talent allocation. At present, we should urgently relieve the constraint of mechanism, system and concept under scientific macro-control of the government, and continuously perfect China's social security system. Besides, perfect market system must be built and the education and training cause should be developed vigorously, so as to realize the decisive effect of market in human resource allocation. Marketization of human resource allocation is our inevitable choice. Meanwhile, it is also the fundamental requirement of guaranteeing rapid, sound, harmonious and sustainable development of China's economy and society.

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