

A Comparative Study of Downsizing Strategies applied in the Reforms of China's State-owned Enterprises

ETUDE COMPARATIVE DES STRATEGIES DE REDUCTION APPLIQUEES DANS LE CHANGEMENT DES ENTREPRISES D' ETAT DE LA CHINE

Wang Dongmin¹

Abstract: This paper analyzes two typical downsizing strategies applied in changes of China's state-owned enterprises based on behavioral science, which are proactive strategy and reactive strategy. It points out the different impacts upon employees from proactive and reactive strategies, using survey and field study methods. Finally, the conclusion is that proactive downsizing strategy is the best one in changes of China's enterprises nowadays.

Key words: downsizing, downsizing strategy, reforms of China's state-owned enterprises

Résumé: Cet essai analyse d'abord deux types de stratégie de réduction appliqués dans le changement des entreprises d'Etat chinoises et qui sont basés sur la science comportementale, à savoir la stratégie proactive et la stratégie réactive. Ensuite il indique, par des méthodes d'enquête et d'étude sur le terrain, les influences de ces deux stratégies sur les employés. Enfin, on aboutit à la conclusion : la stratégie de réduction proactive est la meilleure dans le changement actuel des entreprises d'Etat.

Mots-Clés: réduction, stratégie de réduction, changement des entreprises d'Etat

1 INTRODUCTION

The change of organization is the subject of the enterprise's development. In today's changes of China's state-owned enterprises, organizational restructuring and organizational downsizing are the common transformation methods. Downsizing is the considered strategy which enhances the organization achievements by the reduction of labor force. A two-sided influence is unavoidable in the course of the enterprise's changes. The influences are mainly reflected in the staff's psychological aspect. The purpose of the downsizing is to enhance the efficiency. Whether it is successful or not is based mainly on the choice and the implementation.

Freeman & Cameron (1993) show that the downsizing strategies could be classified as two sorts convergence and coordination. Convergence refers to the gradual adaptation of the changes. The changes are a long-term process, and attach more importance to enhancing the organization's efficiency, given the uniformity of the interior activity improvement. The changes accomplished mainly depend on the middle superintendent's participation. Another strategy is to refresh the direction. It emphasizes that the changes are the adaptable kind of severity and distortion. The

purpose is to enhance the efficiency through pursuing new strategy and goal. It mainly depends on the middle superintendent himself. The demonstration of connection has not been seen between these two strategies and the organization achievements in present research.

Kozlowski (1993) considered that the downsizing strategies could be classified into two sorts, one is proactive and another is reactive. The first one has platitudinous plans, which could consider much more organization and personal factors as to attend to the forecast of the consequence. The latter one pays more attention to the short-term purpose and ignores the long-term influence and aftermath. They thought that the leader's scientific nature, completeness of the human resources management and compatibility of the organization's culture are the organization's three characteristics that affecting the leader's environment consciousness, then affect the type of the downsizing strategies. They considered that the concrete method of downsizing consisted of Layoff, Hiring Freeze, Early Retirement Incentive, Work Sharing, Redeployment & Transfer etc. The research indicated that Early Retirement Incentive and Work Sharing are negative to employees compared with Layoff. Each mode of downsizing has its only characteristic which should be

¹ candidate of management school, China University of Mine & technology, associate professor of Pingdingshan Institute of Technology, China.

*Received 13 January 2006 ; accepted 12 May 2006

used is decided by different time and different situation.

Downsizing in China's state-owned enterprises has its only particularity which was the special result in China's special reformation stage. In the latter half of the year 1996 the central government adopted the downsizing policy in China's state-owned enterprises, then developed large-scaled downsizing from the latter half of the year 1996 to the first quarter of 1998, there were 1,010,000 employees have been laid off. Employees in China's state-owned enterprises was 6,560,000, occupied 9.2%. In fact it is the large-scaled downsizing that uses the traditional personnel administration management method or mode under imperfect human resources control system and ignorant to the course and the character of downsizing, so it is inevitable to have many problems. The appearance of the problem of downsizing with synergize comes apart, returned temporary worker, the role of government is chaotic and so on. Certainly it also has good experience, for example, the HUANENG power plant of Nanjing not only achieved the downsizing with synergize purpose but also produced the competition posts with the labor mechanism which consist the staff treats the work, the staff tries the work, the staff posts to be laid off. Actually, which downsizing Strategies to be decided in China's state-owned enterprises is correct? This paper attempts to answer the question through real diagnosis method of the behavioral science to reply.

2 INVESTIGATION OF DOWNSIZING STRATEGIES APPLIED IN THE CHANGES OF CHINA'S STATE-OWNED ENTERPRISES

This study used documentary and interviews method surveyed the downsizing situation of eight enterprises in Shandong and Liaoning provinces. They are Xuecheng Coking plant in Shandong province, Shanyi Cement Co. in Shandong province, The First cotton plant of Zaozhuang in Shandong province, Taizhuang borough citric acid plant of Zaozhuang in Shandong province, coal mining groups of Chaili in Yuan Tang pit of Zaozhuang, Zaozhuang magnetism material factory in Shandong province, Anshan Weibang beverage company in Liaoning province, Anshan environmental equipment industry in Liaoning province. Specific conditions described below:

These eight enterprises have been downsized in six months or less time. The investigation range of the study's document consists the documents of the company's, the sector of companies' and the government department's, simultaneously, the speech of principal leader's, incidents such as transcripts etc. The major object of the interviews is the personnel departments of enterprises and related major leaders of enterprises, and some general staff. Specific methods include individual interviews and group discussions.

Through the literature's research and the comprehensive analysis of the interviews, on the aspect of downsizing strategies of China's state-owned enterprises in the reform process could be concluded.

In the identity of the downsizing strategy, enterprises take the national policies and directives as the yardstick to guide downsizing work and pacify laid-off workers; Practically all the enterprises carry the downsizing into execution during the process of organizational restructuring; Most enterprises take the laid-off workers' allocation as the priority.

In the study of the downsizing strategy, there are two typical downsizing strategies. One characteristic is that it is based on the facts of the enterprise and familiar with the policies and designation of the nation and superior, it is cautious to decide the intensity (downsized numbers per time) and extent (scope of the downsizing) of downsizing; The procedures are fair, equity and opened; the modes are multiform; the downsizing is closed to the development of the enterprise should be restructured actively. Another characteristic is that it is strict in acting accord to the superior, the quota of people allotted properly; the mode of the downsizing is divided directly; the course is not clear; the downsizing can not be associated with the long-term development strategy, so it is also passive. Based on the Kozlowski's (1993) definition that the first strategy is proactive and the second is reactive.

3. COMPARATIVE STUDY ON TWO TYPICAL STRATEGIES

In the course of present downsizing which is better between proactive strategy and reactive strategy? The study followed by the investigation of three typical enterprises in the field of comparison, the first adopts proactive strategy, the second adopts reactive strategy and the third does not downsize. Because of the hypothesis, it is hard to reflect the effect of the downsizing by economic index. However some psychological index could reflect the effect more accurately. So the study used the psychology index of the on-job worker to investigate.

3.1 Brief introduction of the enterprise's downsizing

Enterprise A is Anshan Weibang beverage company that is not downsized, so it has not been influenced.

Enterprise B is Zaozhuang magnetism material factory that adopted proactive downsizing strategy and combined to the competitive obtained employment, the mode is flexible and diversiform, in the course it paid more attention to the justice, so it is considered the best enterprise in downsizing by Zaozhuang labour bureau.

Enterprise C is Taizhuang borough citric acid plant that adopted reactive downsizing strategy, the manner was single and it did not use the justice well, so it is very passive, received much earful.

3.2 Psychological index survey by downsizing effect

35 workers are chosen in every enterprise in the random

of 105 questionnaires in all, 98 questionnaires were effective were recovered, the pass rate was 93.33%.

Reference to other studies on successful practices, this study uses the psychological index includes prompting of work, spirit of group, tendency of demission and feeling of ascription. The explanation of various psychological indexes as follows.

Table 1 The explanation of various psychological index

Weight table	Theme number	α	Source
Prompting of Work	5	0.84	PM, Xu Lian-cang.etc
Spirit of group	5	0.85	PM table, Xu Lian-cang.etc
Tendency of demission	5	0.85	Liang Kai-guang, 1999
Feeling of ascription	8	0.89	Liang Kai-guang, 1999

3.3 Result analysis

Keeping on the staff's psychological index after the

diagnosis in the three enterprises, the result as table 2 shows:

Table 2 The comparison analytical of the staff's psychology index

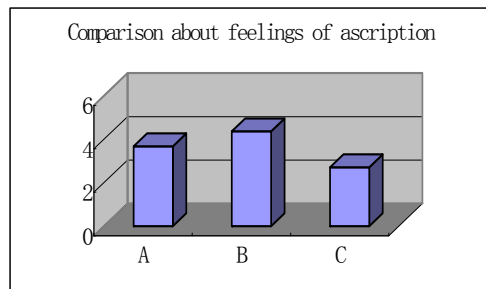
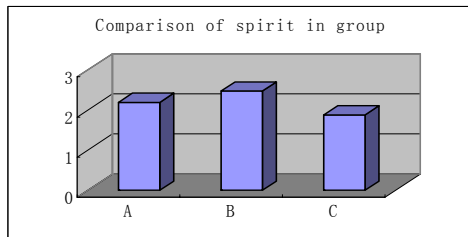
psychology reaction	enterprise	N	average	Standard deviation	Intergenomic df	Inner df	F	P
Prompting of work	A	34	2.0882	.3945	2	93	11.353	.000
	B	31	2.6452	.8193				
	C	31	1.9290	.6012				
Spirit of group	A	33	2.1879	.4270	2	62	10.447	.000
	B	30	2.4733	.8558				
	C	31	1.8774	.8143				
Tendency Of emission	A	33	3.6182	1.2633	2	92	19.834	.000
	B	31	3.9484	1.3125				
	C	31	5.4452	1.0939				
Feeling of ascription	A	31	3.6694	1.0511	2	89	28.790	.000
	B	30	4.3583	.6312				
	C	31	2.7056	.8245				

From the table above result can be obtained that the staff's prompting of work, spirit of group, tendency of demission and feeling of ascription are different in the three enterprises. Enterprise B had the best effect in prompting of work and spirit of group, but in multiple compared results showed that enterprise A&C had no difference in prompting of work and spirit of group(showed in chart1~2) . In further stresses, the proactive strategy has the greatest impact on prompting of work and spirit of group, whereas reactive strategy does not have.

As to the tendency of demission enterprise C is the most serious, they have obvious difference, but after comparing in multiple we can find that enterprise A&B have no difference (showed in chart 3). In further stresses the reactive strategy makes demission rate increasing, whereas the proactive strategy and none strategy does not.

As to the feeling of ascription, enterprise C is the worst, the B is the best, the three enterprises have obvious difference (showed in chart 4). Namely, It is the one that adopted the reactive strategy can cause the staff's loyalty falling, the result is identical with the tendency of demission.

Chart 1 Comparison of prompting in working
Chart 2 Comparison of spirit in group



4. CONCLUSION

Through the above investigations and the comparison research, we know that it is propitious to enhance the work enthusiasm while adopting the proactive strategy, then the level of the prompting, spirit of group and feelings of ascription are enhanced too. The other way round the tendency of demission is depressed; whereas the proactive strategy is against the work enthusiasm

and is worse in the aspects mentioned above, even it is not better than the enterprise that does not adopt the downsizing strategy. So it is conditional to increase efficiency through downsizing strategy, the strategy is important in the course of downsizing, the proactive strategy is the best in present downsizing.

Chart 3 Comparison about tendency of demission

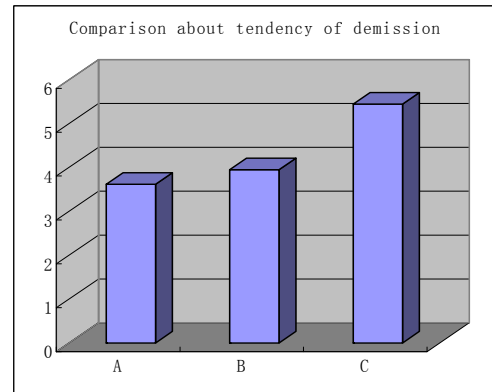
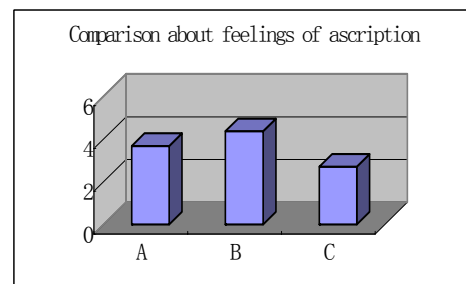


Chart 4 Comparison about feelings of ascription



REFERENCES

- Brockner J., & Greenberg J.. (1990). 'The impact of layoffs on survivors: An organizational justice perspective. In J. S. Carroll (Ed.)'. *Applied social psychology and organizational settings*, 45-75. Hillsdale, NJ: Erlbaum;
- Casey M. K., Miller V. D., & Johnson J. R.. (1997). 'Survivors' information seeking following a reduction in workforce'. *Communication Research*, 24, 755-781.
- Chen Guidi. (1998). 'Several questions that enterprises cut personnel and reemploy'. *Economy and management research*, 5, 46-47.
- Freeman S. J., & Cameron K. S.. (1993), 'Organizational downsizing: A convergence and reorientation framework'. *Organization Science*, 4, 10-29.
- Greenhalgh L., Lawrence A. t., & Sutton R. I.. (1988), 'Determinants of workforce reduction strategies in declining organizations', *Academy of Management Review*, 13, 241-254.
- Huaneng Power Nanjing plant, (2000). *Compete for postions in the recruitment mechanism*, 1, 21- 23.
- Kozlowski S. W. j., Chao G. T., Smith E. M., Hedlund J.. (1993). 'Organizational Downsizing: Strategies, Interventions, and Research Implications'. *International review of Industrial and Organizational Psychology*, 8, 263-332.

- Niu Xiongying. (1999). Layoffs general plan of state-owned enterprise: Course analysis that enterprises reduce the staff. *China's manpower resources development*, 5,14-15.
- Wagar T. H.. (1998). 'Exploring the consequences of workforce reduction'. *Revue Canadienne des Sciences de l'Administration*, 15,300-309.
- Xu Liancang,Chenlong. (1985). 'Psychology serves for improving the quality of enterprise'. *Psychological journal*,17(4),343-348.
- Yangfan.(1998). 'commented on China's economic situation in the first half of this year'. *Science decision*, 4,3-22.

THE AUTHOR

Wang Dong min (1970-) , Male, Ph.D. candidate of management school, China University of Mine & technology, associate professor of Pingdingshan Institute of Technology; Main research field: organization management; Address: Science and Technology Department of Pingdingshan Institute of Technology, Pingdingshan, Henan Province, China, Postcode:467001.

E-mail: wangdongmin@hncj.edu.cn