

Definition of sme in china



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Abstract

Chapter 1 Introduction

1. 1 Background

A large number of Small and Medium sized Enterprises (SMEs) came out in 1980s as China has been moving from a centrally planned system towards a market-oriented economy. State-owned enterprises (SOEs) have been involved in the economic reforms. Until the end of 2004, major SOEs rapidly change into small and medium non-SOEs. At the same time, many SMEs sprouted as the implementation of non-SOE promotion policy. Nowadays, Chinese SMEs have increasingly contributed to China's economic growth. As recorded until 2007, there are 42, 291 medium-sized enterprises and 2, 327, 969 small enterprises which represent 1. 78 percent and 98 percent respectively of the total number of enterprises operating in China. The output value of SMEs contributed at least 60 percent of gross domestic product (GDP) as well as generating more than 82 percent of employment opportunities in China. Since SMEs growth rapidly and pay the critical roles in China's economic, in order to improve SMEs performance, the government has provided various ways to support SMEs such as introduced promotion law in 2003, issued a document “ State Council on Encouraging, Supporting and Guiding the Development of Private and Other Non-Public Owned Economies” in 2005 and published the SMEs growth project in 2006.

Despite the external support, the internal factor such as human resource management (HRM) has been evolving dramatically in recent years. The Chinese labor market is characterized by a vast pool of poorly qualified personnel, more than 15 per cent of the populations are illiterate and many

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university graduates lack marketable skills. The shortage of top-class professionals and managers is acute, especially in areas such as accounting, HRM and marketing. Aggravating such shortages is the concentration of professionals in the major coastal cities of Beijing, Shanghai and Guangzhou (Verburg, 1996). Human Resource Management in China as new as its market economy, with its traditional personnel administrative system undergoing a period of profound change. Besides, HRM in China are different from those in other countries because of different political, economic systems and social and cultural backgrounds. Therefore, HRM in China faces several problems. First, Chinese enterprises in general do not have a systematic approach to HRM that is consistent with their enterprise business strategy. Second, despite the oversupply of labor, many employees are experiencing recruitment and retention problems. Third, there is a lack of an effective system which links long-term motivation and performance with reward. Forth, there is a lack of coherence and continuity in enterprise training. The growth of human capital is obviously lagging behind that of enterprise profit (Pawan, 2004).

Hence, this study aims to find out what are the problems about HRM in Chinese SMEs, what are the roles of HRM in SMEs, how is the role of HRM affect employee performance, and extent where this employee performance affect organization performance.

1. 1. 1 Definition of SME in China

With the SME Promotion Law of China effect in 2003, the new definition of SME came out as well. The new guidelines base on the number of employees, revenue and total assets of enterprises. The SME definition in <https://assignbuster.com/definition-of-sme-in-china/>

China is quite complex. Such as the specific criteria about the total assets of enterprises in industrial sector, including mining, manufacturing, electric power, gas, water production and supply and construction. However, in the industries like transportation, wholesale and retail business, and hotels and restaurants, there is no assets requirement. Guidelines for the industrial sector requires SMEs to employ a maximum 2, 000 people, and to have an annual revenue not exceeding RMB300 million. Their total assets should not exceed RMB 400 million. Medium-sized enterprises should employ a minimum of 300 people. Their annual revenue and total assets should not exceeding RMB30 million and 40 million respectively. The rest are classified as small enterprises (Details see EXHIBIT 1-1). Consequently, an SME in China may be quite large relative to SMEs in other countries. Therefore, this paper mainly focuses on small enterprises (SEs), including the problems of SE, the survey of SEs, and the recommendations about human resource perspective for SEs.

EXHIBIT 1-1 The definition of SME in China

1. 1. 2 Challenges to Chinese SMEs

During the twenty-first century, businesses became more than slim; some became anorexic. Cost cutting achieved impressive short-term results. According to some studies, about 50 per cent of the company cost is the employee salary pay. Therefore, in order to cut operation cost, companies start to cut employee salary. Consequently, cutting the pay for the employee caused employee dissatisfaction and left. In China, the serious problem which the organization faces is the shortage of skilled staff to carry out maintenance and repairs or lack of trained employee. Likewise, one of the

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significant difficulties of SME is the cost of doing business in industrial areas and host towns are high; physical infrastructure is poor; and operational costs are high.

1. 2 Research objectives

In general, small firms pay less attention to human resource management than their larger counterparts do (Barron et al., 1987; Hornsby and Kuratko, 1990). The available empirical information on HRM within SMEs suggests that smaller firms make less use of high performance HRM practices than larger organizations do (Barron et al., 1987; Homsby and Kuratko, 1990). This is in line with the finding that small organizations are in general more likely to operate in an informal and flexible manner than larger firms are. For instance, Koch and McGrath (1996) find that, normally, firm size is positively related with the incidence of HRM planning and formal training, and with the level of overall HRM sophistication. Westhead and Storey (1997, 1999) find that both managers and employees are less likely to get formal training in a small firm. In a study by Jackson et al., (1989), smaller companies are found to have less formalized performance appraisals, less likelihood of bonuses based on company productivity and less training than larger companies do. Aldrich and Langton (1997) find that larger companies have more formalized recruitment practices. However, firm size is not the only factor in predicting HRM practices. A large heterogeneity exists in the type and formalization of HRM practices found among smaller firms.

Thus, this study aims to find out the problems of HRM within Chinese SMEs, to increase our understanding of HRM practices in SMEs and seek out what are the roles of HRM in SMEs. What is more, the impact of HRM practice will

be also considered, via the chain of better HRM, better outcomes, to better firm performance, and then to better and more sustainable economic performance in the national economy. As well as what are the challenges for HRM in Chinese SMEs.

1.3 Problem statement

The importance of HRM has received much attention in recent years. Some researchers approved that the practice of HRM might lead to better HRM outcomes that can enhance firm performance (Beer, Spector, Lawrence, Mills and Walton 1984; Fombrun, Tichy and Devanna 1984; Guest 1987; 1997; Schuler 1988; 1997). As well as suggest by Boselie et al.,(2001) and Guest (1997), increase usage of high performance HRM practices is generally associated with improved firm performance. Moreover, as McEvoy (1984) already suggested, HRM practices may be an important cause of small-firm success or failure. However, there has different view of HRM. Some argued that there is a weak link between HRM and performance (Lee and Chee 1996; MacDeffie 1995; Purchell 1995; Dunphy and Stace 1992; Wong et al. 1997). In the recent Chinese economy, what are roles of HRM may contribute to better behavioral outcomes, and thus lead to better enterprise performance? Therefore, this study addressed the following research questions:

RQ1: What are the roles of HRM in Chinese SMEs?

RQ2: Do the roles of HRM enhance employee performance? If so, which role is the most important?

RQ3: To what extent the employee performance affect the organizational performance?

RQ4: What are the challenges to HRM in Chinese SMEs?

The basic hypothesis is that the roles of HRM improve employee satisfaction. Further, positive employee satisfaction is positively correlated to employee performance. Consequently, positive employee performance is positively correlated to organizational performance. The Structural Equation Model as bellow:

Organizational performance

Employee performance

Employee satisfaction

The role of HRM

H1: The role of HRM improve employee satisfaction

H2: Positive employee satisfaction is positively correlated to employee performance

H3: Positive employee performance is positively correlated to organizational performance

1. 4 Research motivation

How to manage an organization's workforce is a fundamental aspect of each organization, irrespective of its size. Enterprises are faced with the task of recruiting and retaining a suitable workforce. This is not only a challenge for large enterprises, but also for small and medium-sized enterprises. The

increasing attention on HRM in SMEs is a comparatively recent phenomenon. HR- researchers have largely ignored the SMEs, even though smaller companies could be fruitful subjects for empirical investigation because their numbers, the growth-rates and not least diversity in the qualitative aspects of management practices.

Traditionally, HRM is not being seen as important as other departments like marketing, accounting, operation. There are two reasons for the lack of interest for the HRM in SMEs. Firstly, the managers and/or owners of the SME's, often ignored personnel, or HR issues like training and development, performance management, employee counseling etc. It seems that the managers have the view that HRM is unresponsive or not tailorised enough to their needs, and it is considered too costly and activity to carry for a small organization. The lack of appropriateness, expectation of the activities being too bureaucratic, time consuming and the lack of clarity concerning direct effects etc., has resulted in very limited attention to the approach and the techniques associated with it among management (often without any background knowledge on personnel and HR). Earlier studies indicate even traditional personnel activities are rather seldom used in SMEs.

Accordingly, with the growth of SMEs in China, and SMEs have increasingly contributed to China's economic growth, we need to pay attention to the SMEs' performance, or we can say pay attention to HRM in SMEs. As HRM issue always been ignored, especially in SMEs, the researcher attend to do this research to explore the problems regarding HRM within SMEs and the roles of HRM in SMEs as well as the challenges for HRM in Chinese SMEs.

1. 5 Scope of research

Based on regional distribution (see EXHIBIT 1-2), 68. 58 percent of SMEs are located in the east of China, 20. 14 percent in the middle of China, 11. 28 percent in the west of China. Small enterprises in the top five provinces make up 48. 4 percent of all small enterprises. These provinces are all located in the eastern area of China which is Jiangsu, Zhengjiang, Guandong, Shanghai, and Shandong with 11. 6 percent, 11 percent, 10. 4 percent, 9. 9 percent, 8. 9 percent, and 7. 6 percent of all SEs, respectively.

EXHIBIT 1-2

Distribution of registered types of small enterprises (see EXHIBIT 1-3) is as follows: domestic enterprises in mainland China make up 96. 1 percent of the total; HK-, Macao- and Taiwan-based enterprises, 2 percent; and foreign enterprises, 1. 9 percent. Meanwhile, private enterprises comprise 66. 1 percent of all SEs.

EXHIBIT 1-3

Chapter 2 Literature review

2. 1 Human Resource Management overview (æ!, å†µ)

HRM is about the management of an organization's workforce. Managing a workforce first of all requires the presence of a workforce, which calls for activities in the fields of recruitment, selection, appraisal and compensation. Next, the workforce must be organized. Tasks and responsibilities must be determined and communicated. To ensure that employees possess required knowledge and skills, training and development activities can be carried out. Such activities may influence the working climate within the organization, <https://assignbuster.com/definition-of-sme-in-china/>

and thus employee commitment and job satisfaction. Organizations may also employ activities that directly aim to improve commitment and satisfaction, either because job satisfaction is a goal in itself, or because it is believed to have a positive impact on organizational performance.

2. 1. 1 Roles of Human Resource Management

In the past few years, roles of HR professionals were viewed in terms of transition from operational to strategic, qualitative to quantitative, policing to partnering, short-term to long-term, administrative to consultative, functionally oriented to business oriented, internally focused to externally and customer-focused, reactive to proactive, activity-focused to solutions-focused. However, these transitions are too simplistic. In fact, the roles of HR professionals are in reality, multiple and not single. In order to create value and deliver results, HR professionals must begin not by focusing on the activities or work of HR but by defining the deliverables of that work.

Therefore, Dave, (1997) came out the framework of four key roles of HR professional (See EXHIBIT 2-1). The two axes represent the HR professional's focus and activities. Focus ranges from long-term/strategic to short-term/operational. HR professionals must learn to be both strategic and operational, focusing on the long term and short term. Activities rang from managing process (HR tools and systems) to managing people. These two axes delineate four principal HR roles which are: (1) Management of strategic human resources; (2) Management of firm infrastructure; (3) Management of the employee contribution; and (4) management of transformation and change. In other words, the roles of HR professional are strategic partner; administrative expert; employee champion and change

agent. Table 2-1 summarizes the deliverables, metaphor and activities the HR professional must perform to fulfill the role.

EXHIBIT 2-1 HR Roles in Building a Competitive Organization

Table 2-1 Definition of HR roles

Management of Strategic Human Resources

This role focuses on aligning HR strategies and practices with business strategy which requires that the HR professional works as a strategic partner, helping to ensure the success of business strategies. Translating business strategic into HR practices so that the business can adapt to change, better meet customer demands and achieve financial performance through its more effective execution of strategy.

Management of Firm Infrastructure

Management an organizational infrastructure is a traditional HR role. This role requires HR professionals design and deliver efficient HR processes for staffing, training, appraising, rewarding, promoting and managing the flow of employees. HR professionals must ensure that these organizational processes are designed and delivered efficiently.

Management of Employee Contribution

This role indicates that HR professionals involve in the day-to-day problems, concerns and needs of employees. As employee champions, HR professionals need to understand employees' needs and ensure that those needs are met, overall employee contribution goes up. Therefore, HR

professionals should be active and aggressive in developing human resource, linking employee contributions to the organization's success.

Management of Transformation and Change

The final role of HR professional is to management transformation and change. Transformation entails fundamental cultural change within the firm. Change refers to the ability of an organization to improve the design and implementation of initiatives and to reduce cycle time in all organizational activities. HR professionals help to indentify and implement processes for change.

Ulrich, in conjunction with Brockbank, reformulated the 1997 model in 2005, listing the following roles:

Employee advocate - focuses on the need of today's employees through listening understanding and empathizing.

Human capital developer - in the role of managing and developing human capital (individuals and teams), focuses on preparing employees to be successful in the future.

Functional expert - concerned with HR practices that are central to HR value, acting with insight on the basis of the body of knowledge they process. Some are delivered through administrative efficiency (such as technology or process design), and others through policies, menus and interventions.

Necessary to distinguish between the foundation HR practices - recruitment, learning and development, rewards, etc - and the emerging HR practices

such as communications, work process and organization design, and executive leadership development.

Strategic partner – consists of multiple dimensions: business expert, change agent, strategic HR planner, knowledge manager and consultant, combining them to align HR systems to help accomplish the organization's vision and mission, helping managers to get things done, and disseminating learning across the organization.

Leader – leading the HR function, collaborating with other functions and providing leadership to them, setting and enhancing the standards for strategic thinking and ensuring corporate governance.

2. 1. 2 Strategy Human Resource Management

There is a growing awareness of the importance of human resources as well as strategy HRM. An integral component of organizing and staffing is SHR, which is becoming more widely recognized as critical to developing and implementing considered responses to profit pressures (Kawalek and wastall, 2005; Lam and Schaunbroeck, 1998; Murphy and Zandvakili, 2005). As a result, . Much attention has been given to SHR in recent years (Ericksen and Dyer, 2005; Martin-Alcazar, Romero-Fernandez, and Sanchez-Gardey, 2005; Richard and Johnson, 2004).

Strategy HRM is an approach to making decisions on the intentions and plans of the organization in the shape of the policies, programmes and practices concerning the employment relationship, resourcing, learning and development, performance management, reward, and employee relations.

According to Hendary and Pettigrew (1986), strategic HRM has four meanings:

1. The use of planning;
2. A coherent approach to the design and management of personnel systems based on an employment policy and manpower strategy and often underpinned by a “ philosophy”;
3. Matching HRM activities and policies to some explicit business strategy;
4. Seeing the people of the organization as a “ strategic resource” for the achievement of ‘ competitive advantage’.

SHR is concerned with the contributions HR strategies make to organizational effectiveness, and how these contributions are accomplished (Ericksen and Dyer, 2005) and involves designing and implementing a set of internally consistent policies and practices to ensure that an organization’s human capital contributes to overall business objectives (Baird and Heshoulam, 1988; Huselid, Jackson, and Schuler, 1997; Jackson and Schuler, 1995; Richard and Johnson, 2004; Schuler and Jackson, 1987).

The idea that HR management systems can play a significant role in creating success for organizations is not new. Porter (1985), for example, argued that HR management practices can help organizations gain competitive advantage by lowering costs, increasing sources of product and service differentiation, or some combination of the two.

2. 1. 3 Strategy Human resource vs Traditional Human Resource

Strategic HR differs from traditional HR in a number of ways:

1. In a traditional approach to HR, the main responsibility for people management programs rests with staff specialists in the corporate HR division. A strategic approach places the responsibility for managing people with the individuals most in contact with them, their respective line managers.
2. Traditional HR focuses its activities on employee relations, ensuring that employees are motivated and productive and that the organization is in compliance with all necessary employment laws. Strategic HR focus to partnerships with internal and external.
- 3.

Transitioning From HR to SHR

Although HR has made great strides in becoming more strategic, it has yet to fully achieve an established role as a strategic business partner. SHR expands the traditional role of HR from bureaucratic to strategic (Leonard, 2002). Due to the tremendous differences between traditional HR perspectives and SHR, it is not shocking that few organizations are successful in transitioning to SHR (Fisher, Schoenfeldt, and Shaw, 2003). For HR to become a strategic business partner, a complete change in mind-set is needed. Table 1 provides a discussion of the key issues or aspects of HR

management and examines differences between what is required for traditional and strategic HR.

Fundamental Mind-set

Lepak and Snell (1998) report that a survey of 1, 050 companies indicated that HR professionals devote less than one-third of their time to SHR activities. Instead, their time is spent on traditional activities. (Fisher, Schoenfeldt, and Shaw, 2003; Creen, 2002). In short, the basic mind-set of traditional HR is very transactional in nature-strict focus on these basic activities does not bode well for perceiving HR as strategic. The most frequently cited barriers limiting HR departments to more effectively contribute to their organization's bottom line were HR's strong focus on administration and the inability to directly measure HR's impact on the bottom line (Fegiey, 2006). This may contribute to a perception that HR merely plays an operational role and is not an important strategic partner. Therefore, SHR requires a different mind-set, one that focuses on organizational transformations, as well as transactions. SHR can play a more consultative role in organizations in which HR professionals help organizations achieve goals within the larger organization's HR system (Creen, 2002). Additionally, SHR can be more involved in transformations using change management techniques instead of strictly focusing on the transactional

activities. SHR can fulfill an important role in change management by helping upper management understand the fear of change and the negative reactions to it, as well as ameliorate anxiety and prepare the work force for

change. It appears that some HR professionals recognize this need (cf., Harvey and Dentón, 1999), but it is uncertain if HR is currently prepared to take on such roles.

View of Organization

Some contend that HR professionals suffer from a “lack of vision” when it comes to the big picture of the organization (Leonard, 1998). HR management tends to hold a micro view of the organization and HR managers are viewed as somewhat insular, focusing solely on their HR departments and on day-to-day operations. In fact, many HR professionals see the HR function as a separate entity and are not involved in finding business solutions (Caudron, 2002). For example, HR planning often takes place separately from the overall strategic planning process and only at set intervals (e. g., annually). Additionally, HR planning is often used as a means of convincing top management to allocate sufficient resources for HR rather than to enhance the organizational performance process (Lam and Schaubroeck, 1998). Although HR planning is important in its own right, even the most sophisticated HR planning processes are ineffective unless done in concert with the organization’s overall planning process (David, 2005; Lam and Schaubroeck, 1998).

HR should develop a broad and far-reaching vision and understanding of where the organization is headed and how it can help steer the organization in that direction (Leonard, 1998). The importance of the need for a “fit” between HR strategy and the overall business strategy cannot be overemphasized. HR needs to focus on recruitment alignment, selection,

compensation, discipline, training, reward and recognition processes, and leadership development with the strategy and goals of the overall organization. HR must understand the business and make a business case for its decisions, programs, and practices to receive full acceptance at the planning table.

Education and Training

Another area where HR needs enhancement to become more strategic is in its formal education and training (Meilich, 2005). First, many HR practitioners do not have formal training or education in HR management. Recently, the Society for Human Resource Management surveyed members concerning the strategic nature of HR. Surprisingly, only 35 percent of the respondents indicated that their highest level of education completed involved a concentration in HR (Fegley, 2006). Additionally, many HR professionals do not have business degrees, often reflecting inadequate knowledge of business principles and practices. The survey revealed that only 20 percent of the respondents indicated that their highest degree completed was a B. B. A. or MBA (Fegley, 2006). Consequently, many HR professionals may not have adequate understanding of business concepts that are critical for acceptance as a strategic partner. HR has the potential to positively affect numerous important business activities but HR professionals need to strengthen their knowledge of HR practices and regulations as well as financial knowledge, especially in the areas of business finance, financial planning, and accounting, to do so. While a change concerning HR education and training is needed, traditional HR education should not be abandoned.

Rather, it's important to develop business-related capabilities to complement the technical HR capabilities that HR professionals already possess.

Critical Skills

Another potential barrier to strategic HR management is the basic skill set or competencies that traditional HR professionals possess. Like lawyers, HR professionals are trained to be orderly, keep accurate employment records, complete documentation, and protect organizations from litigation (Green, 2002). Although such skills are necessary, many HR professionals mistakenly see this as their only job. Senior managers need HR professionals to serve as problem solvers, conflict managers, coaches, and liaisons with considerable organizational savvy (Green, 2002). HR practitioners must re-examine their existing skills and competencies to meet these new challenges. HR professionals may look to develop additional skill sets such as critical thinking, strategic planning, project management, organizational analysis, consulting, and change management (Hayton, Cohen, Hume, Kaufman, and Taylor, 2005). This is quite a shift from what is traditionally expected, but it is essential for HR professionals who are working to become strategic partners.

View of Employees

Traditionally, HR views employees as heads or costs to the organization. With traditional HR serving mostly an administrative function, this attitude is somewhat understandable. However, this view is certainly not strategic in nature, and surely will become even more problematic as the United States experiences the labor shortages that are forecasted. The tight labor market

of the present and future will make recruiting and retention top priorities in most organizations (Leonard, 1998). Under these conditions, the margin for error is small and the costs associated with selecting the wrong employees or losing the right ones is exacerbated. Therefore, it is critical to view employees as extremely valuable sources of productivity and innovation.

Timeframe

As previously discussed, traditional HR professionals focus more closely on the transactional aspects of their jobs. Most of these transactional functions fulfill immediate needs of the organization and have a near-term deadline. As a result, most traditional HR practitioners are somewhat short-term in their focus. In contrast, SHR requires a long-term focus encompassing both the immediate and future needs of the organization. SHR must anticipate where the company is going to be in five to six years and help organizations understand the impact of changing demographics and expectations of the work force (Leonard, 1998).

Process/Outcome Orientation

when it comes to the bottom line, many believe HR has generally been “out to lunch” (Leonard, 1998). Some HR professionals seem more concerned with processes than with results. While issues concerning processes (e. g., employee participation, fairness, due process) are important, HR must place more emphasis on results and work to understand how internal decisions and actions affect the bottom line. To accomplish this effectively, HR needs to measure the effects of its systems and processes, and demonstrate their impact on the bottom line to gain equal status in the strategic planning

process. Currently, fewer than half of HR departments have an established method to measure the effectiveness of their strategies (Fegley, 2006).

Through measurement, HR can help demonstrate its value to the organization while tracking how well the organization is implementing various policies, systems, and initiatives, and ensuring that the desired behaviors and processes support the organization's strategic goals (Pfeffer, 1995).

Risk

HR professionals are typically risk averse, tending to err on the side of caution as they comply with the myriad laws and regulations. HR is often seen as the entity that stops companies from doing the right things (Caudron, 1997) rather than helping companies achieve their goals and objectives. One can argue that extreme caution may be appropriate in some circumstances; however, traditional HR can generalize this approach across its functions. More risk taking is required in today's business environment. Organizations must now respond to change faster and with greater risk while operating in an unpredictable internal and external environment (Briggs and Keogh, 1999). HR practitioners should display a willingness to try new things to meet the challenges of today's global marketplace (Leonard, 2002).

Response to Change

HR should accept some blame for the stumbling blocks experienced in working to achieve equal status as a strategic business partner. Chief among these problems is the HR profession's resistance to change (Leonard, 2002). As a group, HR practitioners have been slow to respond to changes in their

jobs and in the business environment. Perhaps the most critical or damaging instance is the slow acceptance of technology. Originally, numerous HR professionals viewed technology as something that would eliminate many of their jobs, rather than enhance their roles and responsibilities. Furthermore, some were reluctant to give up their paper-based processes (Leonard, 2002). This reluctance to accept technology damages the profession's image and makes HR slower to react to workplace changes, To become more strategic, HR must accept and respond to changes in the business environment. In addition to ensuring their own viability, HR professionals should show more responsiveness to change in the future. HR Systems and Practices Perhaps to simplify and standardize their policies and practices, traditional HR often prefers a " one-size fits-a