Bargaining Success of Chinese Factories*

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Many scholars have analysed bargaining between supervisory bureaucracies and Chinese large and medium-sized factories. Walder identified a web of informal, semi-bureaucratic relationships that structures negotiations over revenues, payments and subsidies.[1] Granick and Tidrick pointed out that divided bureaucratic control increases the parties to bargaining, while conflicting interests present opportunities to play supervisors off against each other.[2] Huang found collusive behaviour that occurs when local government agencies and firms rob the state treasury by increasing central subsidies and reducing central exactions in exchange for fees that go directly to local coffers.[3] Numerous authors have noted that the focus of bargaining has shifted from material to financial transfers and have used (or questioned using) Kornai's "soft budget constraint" to explain the persistence of bargaining since the onset of reform.[4]

Much is known about the origins, objectives and dynamics of bargaining, but not about the outcomes. Not all large and medium-sized factories are equally successful in coaxing supervisory bureaucracies to accept their interests. It is possible that enterprise leverage is associated with characteristics of a factory's director – age, educa-

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1. Andrew G. Walder, "The informal dimension of enterprise financial reforms," in U.S. Congress, Joint Economic Committee, *China's Economy Looks to the Year 2000* (Washington: Government Printing Office, 1986), pp. 630–645; "Factory and manager in an era of reform," *The China Quarterly*, No. 118 (June 1989), p. 254.

2. For discussion of divided property rights and multilevel supervision, see David Granick, *Chinese State Enterprises* (Chicago: University of Chicago Press, 1990), pp. 25–28, 243–44; Gene Tidrick, "Planning and supply," in Gene Tidrick and Chen Jiyuan (eds.), *China's Industrial Reforms* (New York: Oxford University Press, 1987), pp. 180–82.

3. Huang Yasheng, "Web of interests and patterns of behaviour of Chinese local economic bureaucracies and enterprises during reforms," *The China Quarterly*, No. 123 (September 1990) pp. 431–458.

4. The concept of the soft budget constraint has been used most notably to explain enterprise bargaining in socialist Hungary. See Janos Kornai, "'Hard' and 'soft' budget constraint," *Acta Oeconomica*, No. 25 (1980), pp. 231–246. It, along with the "web of factory interests," has been discussed with reference to China by Walder, "The informal dimension of enterprise financial reforms," pp. 630–645; Huang Yasheng, "Web of interests," pp. 431–458; Tidrick, "Planning and supply," pp. 198–99; Susan Shirk, "The political economy of Chinese industrial reform," in David Stark and Victor Nee (eds.), *Remaking the Economic Institutions of Socialism* (Stanford: Stanford University Press, 1989), pp. 336–38. A qualification is suggested by Granick, *Chinese State Enterprises*, pp. 152–58, who argues that firms under provincial or municipal control experience reasonably hard financial constraints because lower levels of government cannot create money and are subject to the largesse of the central bank. This implies that budget constraints soften as money supply growth increases, and harden during austerity.

tion, tenure in position – or perhaps characteristics of a factory itself – size, ownership, location, age, bureaucratic rank, export ratio.[5]

This article is based on interviews and a questionnaire answered by 25 factory directors in November 1988 and it investigates director-level and enterprise-level factors that affect the bargaining power of Chinese factories. It shows that directors of larger, higher-ranking factories feel they are more successful in preserving autonomy and gaining exemptions and concessions from their supervisory agencies on salary and bonus pools and distribution, tax rates, and cadre personnel decisions.[6] It suggests reasons why large, bureau-level factories achieve an advantageous bargaining position and reveals that many politically significant directors wish to maintain protected, dependent relationships with their supervisors and are hesitant to support radical ownership reforms that would decisively increase autonomy and might enhance efficiency.

The Factories and Their Directors

A delegation of 29 Chinese factory directors visited the United States in late 1988 for advanced management training. During their 12-week stay, a questionnaire was distributed comprising 49 forced-choice and four open-ended questions.[7] Twenty-five directors responded and approximately 40 hours of face-to-face interviews afforded opportunities to clarify ambiguities and elicit supplementary remarks.

With the exception of five deputy directors, who were second-in-command in their plants, each respondent was the operator and director (*changzhang*) of a factory primarily engaged in mechanical and electrical equipment production. The enterprises were distributed throughout China (32 per cent east, 20 per cent south, 16 per cent north, 16 per cent north-east, 8 per cent south-west, 8 per cent north-west) and fell under the administrative classifications applicable to large and medium-sized factories: ministerial bureau or provincial

5. The research design highlighted variables related to director background and factory features. Studies of single enterprises might consider micro-level variables that affect bargaining success, e.g. interpersonal skills of directors, factional networks, promotion histories, and director relations with specific leading agencies, Party organs, unions and workers.

6. Kornai, "'Hard' and 'soft' budget constraint," p. 243, has suggested budget constraints may be softest for the biggest companies, but argues "further empirical investigations are needed in order that the hypotheses might be considered fully proven." Passing references that associate firm size with bargaining position can be found in Dong Fureng, "Increasing the vitality of enterprises," in Tidrick and Chen Jiyuan, *China's Industrial Reforms*, pp. 54–55; Tidrick, "Planning and supply," p. 181; Jan S. Prybyla, "China's economic experiment: back from the market," *Problems of Communism*, No. 38 (January–February 1989), p. 12; Shirk, "The political economy of Chinese industrial reform," p. 334.

7. The questionnaire, in Chinese, was administered simultaneously to all delegation members and required about 45 minutes to complete. Questions for which responses required 0 to 5 ranking were explained beforehand and individual queries were addressed as they arose.

department (*siju* or *tingju*) 24 per cent; division or county-level (*chu* or *xiantuan*) 68 per cent; section or county department (*ke*) 8 per cent.[8] Twenty of the enterprises were state-owned, three were collectively-owned, and two were partially state-owned and partially owned by stock holders. None of the factories was privately-held. The newest factory was six years old and the oldest two plants were established before 1949. Enterprise size ranged from 470 to 18,000 workers, with a median of 1,800 (comparisons to the sub-population of large and medium-sized enterprises are shown in Table 1). Each plant was profitable, indeed sufficiently profitable to fund its director's overseas visit, and most were engaged in considerable (median 29 per cent) production for export. Total value of annual output ranged from 7 million *yuan* (US$2 million) to 500 million *yuan* (US$134 million).[9]

Table 1: **Size of Sample Enterprises Relative to the Sub-population (%)**

Number of employees	*Sub-population of medium and large industrial enterprises (1986)*	*Sample of 25 enterprises (1988)*
over 10,000	3.62	8
5,000–10,000	5.98	20
under 5,000	90.39	72

Note:
Data on sub-population size characteristics adapted from David Granick, *Chinese State Enterprises* (Chicago: University of Chicago Press, 1990), p. 10.

Twenty-three of the 25 directors were between 41 and 55 years old; two were younger than 41.[10] Seventy-six per cent had college or university degrees and the remainder were senior high school graduates.[11] Each director had served in his current position for at

8. On the rank equivalents of central, provincial, and county government organizations see Kenneth Lieberthal and Michel Oksenberg, *Policy Making in China* (Princeton: Princeton University Press, 1988), pp. 142–45.
9. Currency conversions are calculated at the 1988 exchange rate of 3.72 *yuan*=US$1.
10. A 1985 survey of 900 factories found the following age distribution of factory directors and deputy directors: 23% under 41; 74% between 41 and 55; 3% over 56. Yang Guansan, Lin Bin, Wang Hansheng and Wu Quhui, "Enterprise cadres and reform," in Bruce L. Reynolds (ed.), *Reform in China: Challenges and Choices* (Armonk, NY: M.E. Sharpe, 1987), pp. 74–76. These slightly younger directors appeared in a sample that included more deputy directors and more small and collective factories than mine.
11. Chinese sources report that from 80 to 90% of factory directors have university-level education. See Yang Yuanhu, "Dazhong xing qiye lingdaozhe jieshou xitong peixun" ("Large and medium-scale enterprise leaders receive systematic training"), *Liaowang* (Haiwaiban), 18 August 1988, p. 7; Heath B. Chamberlain, "Party–management relations in Chinese industries: some political dimensions of economic reform," *The China Quarterly*, No. 112 (December 1987), p. 650.

least three years, median service was five years, and none had led his factory before 1975. All of the directors were men.

It should be noted that the factories examined here were probably more profitable than most large and medium-sized Chinese firms and certainly were strong exporters. This study did not consider failing enterprises or bail-outs of loss-makers, around which discussions of the "soft budget constraint" often revolve. The data concern differential bargaining power within a group of successful, export-oriented factories engaged in machinery production. The findings should only be extended to less profitable industries and domestically-oriented enterprises with care.[12]

Autonomy, Bargaining Strategies and Bargaining Power

On the one hand, the surveyed directors portrayed themselves as entrepreneurs and chief executives in an integrated nation-wide industry and played down their role as grass-roots state officials embedded in bureaucratic hierarchies. They reported that much of their performance assessment depended on increasing profits and they saw comparatively low levels of interference with most factory operations, including devising the enterprise's yearly production plan and procuring raw materials. Directors felt reasonably free to determine how to produce and when, especially regarding their above-plan output and the year-to-year increases expected by leading organs. They claimed considerable discretion over deciding whether expansion funds should be spent refurbishing old machinery or opening new production lines. They told of unprecedented latitude for simplifying and rationalizing factory administrative structure. External supervisors were said to intervene infrequently when directors reorganized particular departments (such as propaganda, security, hospital, trade union) or reallocated non-Party staff to production-related work.

According to most directors, enterprise autonomy increased markedly in the decade up to 1988. For many management concerns, director decision-making powers expanded and external interference declined or became less effective. Autonomy, when respected, reduced the need to bargain. In many areas, however, autonomy was granted but then challenged by bureaucratic actors, and this increased bargaining frequency and strengthened the hand of enterprise leaders

12. It must also be remembered that this study reports subjective assessments. Directors of small, highly profitable factories might under-report bargaining success to discourage the reallocation of funds to "backbone" enterprises. Or high-ranking directors of large factories might systematically exaggerate their influence. However, an objective assessment would involve defining occasions of bargaining success and determining how favourable outcomes arose from a mixture of bargaining success, autonomy and evasion. This would require a thorough understanding of relevant regulations and customary practice in each policy area and of the dynamic of innumerable interactions, together with a fine sense of Chinese modes of bureaucratic communication and expected outcomes. Relying on perceptions allows directors to weigh the extent to which bargaining affected outcomes.

who could point to deprivation of lawful powers. Thus although autonomy was increasing, the directors cited continued negotiation over matters on which it was incomplete or under attack. Three-fifths of the respondents reported increased bargaining in recent years and only one suggested it had declined. Frequent bargaining was noted with responsible leading organs and with assorted government bureaus such as tax, security, hygiene, environment, electricity and water authorities. Despite reforms, the directors complained of niggling controls, perpetual negotiating, and an escalating number of "mothers-in-law" (*popo*), who coveted enterprise funds and labour power.

Local bureaucratic interference was perceived to be an increasing problem by 76 per cent of the directors, with muscular municipal bureaus and proliferating local industrial companies seen to be particularly active and troublesome. In exchange for services and "co-operation," these organizations expected financial considerations and other favours. Many directors complained that managing relationships with local bureaucracies occupied more time than managing production. Bargaining was said to take place not only with responsible leading organs over essential financial flows but also with envious bureau-based supervisors and equally-ranked institutions over anything they could extract.[13]

Demands for gifts and banquets were increasingly common and many factories had a special budget for entertaining supervisors and providers of needed services. Local cadres expected factory directors to give jobs to their children or other relatives. Mandatory "donations" (*zhanzhu*) or loans were solicited by local officials for construction projects or government services (such as traffic control, road repairs, sanitation improvement) and authorities often banded together and issued joint collective demands for factory funds or personnel. Directors said they had no choice but to accede to many demands and that resistance was inevitably met with repercussions. An offended electricity or water bureau might withdraw its service completely, while a public transport bureau might terminate or reroute bus services; a land bureau might not grant land use rights to build a needed school and a leading organ might deny the enterprise the right to use its land to build one itself. Even the local hygiene department could make life miserable by enforcing regulations with particular vigour. Directors, particularly several who led smaller factories, said they often submitted to demands because they had no choice. As one director put it, "an arm can't wrestle with a thigh" (*gebo ning bu guo datui*).

13. On imposed allocations and industrial companies acting as new bureaucracies, see Dorothy J. Solinger, "Industrial reform: decentralization, differentiation, and the difficulties," *Journal of International Affairs*, No. 39 (Winter 1986), p. 115. On bribery, extortion and protection rackets, see Constance Squires Meaney, "Market reform in a Leninist system: some trends in the distribution of power, status, and money in urban China," *Studies in Comparative Communism*, No. 22 (Summer–Autumn 1989), pp. 210–13.

At the same time, the directors acknowledged they were not powerless when faced with bureaucratic demands. They offered animated and often eloquent accounts of strategies used to handle leading organs and other grasping bureaucrats. To win concessions or repel financial demands, they said they typically first "informed the leading organ of difficulties" and "sought its support and sympathy." They might negotiate through normal bureaucratic channels or they might invite their superiors to "visit and see what was happening." Articulating needs clearly and persistently was deemed crucial, as was willingness to use propaganda (*xuanchuan*) and public opinion (*yulun*) to gain attention. Often simply explaining unfavourable "objective conditions" could reverse an "unfair" financial demand made by a supervisory agency; deflecting illegal and semi-corrupt requests was said to be more problematic. Support of a highly-placed provincial or central official and a leading organ that outranked the extortionist were said to be useful.

When these approaches failed, the directors pointed to a host of other strategies that might protect factory revenues and autonomy. One was encouraging superiors to reclassify an enterprise to a higher rank or a preferred category. Or a director might simply request powers a privileged class of enterprises enjoyed. Inland factories sought rights granted coastal factories, coastal factories argued for privileges granted special economic zones. Factories of all kinds benefited when their directors and Party secretaries enjoyed high, bureaucratic rank in the local hierarchy and a reputation for competence and toughness.

All but two of the respondents agreed that factories subject to exactions and unfavourable policies could "frequently" (56 per cent) or "occasionally" (36 per cent) renegotiate terms or gain exemptions. In these primarily export-oriented enterprises, one director said bargaining power increased most when a factory expanded yearly exports to US$3 million and became an "export-base" (*chukou shangpin jidi*). A steady supply of foreign currency and favourable national regulations, he argued, improved a factory's position considerably when faced with financial demands and meddlesome supervisors.

Overall, however, the most reliable predictors of bargaining success were the size of an enterprise and its administrative level.[14] High output and high rank were more important than export ratio, ownership pattern, location, age or any director-level factor. In three of four policy areas examined, the large, bureau-level factories proved themselves most able to secure funds, win preferential terms, preserve autonomy and deflect requests. On profit allocation ratios, outright

14. Factory output and administrative level were highly correlated (Pearson's correlation coefficient=0.73) in the factories studied. Samples with more large, section-level factories and more medium, bureau-level factories are needed to distinguish the influence of size from that of rank.

evasion of policy guidelines may have been common and no pattern of differential bargaining success emerged.

Compensation. Delegation members reported varying levels of bargaining success over management policies (such as investment allocation, project approval) and over gaining and distributing salary and bonus increments (Table 2).[15] Although the total wage bill was managed by the centre and bonus ceilings existed, many directors could resist administrative intervention in production decisions and could influence their factory's share of the salary and bonus increases offered to a region or industry. Leading organs were particularly receptive to directors of large-output and bureau-level factories, who reported high aggregate salary and bonus increments and either relative autonomy allocating increases or successful bargaining when that autonomy was violated (Table 3). Leading organs and highly-placed individuals might temporarily resist pleas or seize powers granted to giant, influential enterprises, but ultimately these enterprises could muster sufficient bargaining power to force a compromise or to reinstate a distribution.

Table 2: **Policy Areas and Bargaining Success (%)**

	Bargaining success				
Policy area	*Low*	*Moderate*	*High*	*N*	*Mean*
Enterprise management	16	21	63	19	3.6
Salaries and bonuses	8	54	38	24	3.1
Profit distribution ratio	40	20	40	20	2.5
55% tax	61	9	30	23	1.7
Urgent directives	56	28	17	18	1.3

Note:
The question was: "In the following policy areas, how successful are you in bargaining (*taojia huanjia*)?" Low, moderate and high success were respectively responses 0–1, 2–3, and 4–5 in a range from "no bargaining success" to "extremely high success." Means were computed from the data as originally scored.

Several directors explained that leaders of large-output and bureau-level factories often bypassed lower-ranking local authorities that monitored implementation of wage and bonus plans and appealed to provincial authorities or central patrons for larger allotments. Smaller and division and section-level factories had more difficulty gaining Beijing's or the province's attention and less success persuading local authorities to increase salary and bonus pools and to respect authority over wage and bonus allocation. In this area, as much as any other, access and usurped autonomy generated bargaining power, and the

15. If conducted again, the survey would distinguish securing from distributing compensation increases to discover if these varied independently.

pleas of high-ranking directors to increase funds and restore powers were most clearly heard.

Table 3: **Effect of Factory Output and Administrative Level on Bargaining Success over Salaries and Bonuses (%)**

	Factory output		*Administrative level*	
Bargaining success	*Medium*	*Large*	*Below bureau*	*Bureau*
High	46	90	53	100
Low	54	10	47	0
N	13	10	19	5
	Fisher's p=0.04		Fisher's p=0.07	
	P of Pearson's r<0.24		P of Pearson's r<0.03	

Note:
Fisher exact probabilities in each table are for the given distribution and all less likely distributions with the same marginals. Pearson tests were run on the data as originally scored, Fisher tests on variables collapsed into two categories. The division between medium and large factories is 50 million *yuan* annual output. Low and high bargaining success are respectively responses 0–2 and 3–5 in a range from "no bargaining success" to "extremely high success."

Profit retention. Variation in bargaining success also appeared in distribution of retained profits (Table 2), that is the relative size of welfare and bonus payments and the division of revenues between reinvestment and consumption. Regional and industry regulations specified ratios for reinvestment, bonuses and welfare expenses (such as day care and education expenses, holiday food supplements, movie tickets). These were typically 5:3:2 (67 per cent), but also 6:2:2 (12 per cent), 3:3:4 (8 per cent), and others (13 per cent). Two-thirds of the surveyed directors expressed dissatisfaction with their factory's prescribed ratio. Most wished to reduce reinvestment, to maintain welfare expenditures and to increase bonuses (Table 4). Only one self-described "patriotic" director argued for greater savings and less consumption.

Table 4: **Desired Change on Profit Ratio Components (%)**

		Desired change		
Components	*Less*	*Same*	*More*	*N*
Reinvestment	53	37	11	19
Welfare	16	68	16	19
Bonuses	11	37	53	19

Note:
This table was derived from the following questions: (1) According to regulations, enterprises in different areas distribute their retained profits according to different ratios. In your enterprise what is the required ratio for distributing reinvestment, welfare and bonuses? (2) Do you feel that your required ratio is appropriate? (3) If you feel this ratio is not appropriate, what ratio do you feel would be better?

Nearly half the directors acknowledged that they did not distribute profits according to the prescribed ratio. These data, and conversations that confirmed uneven surveillance by supervisory bureaucracies, suggested that non-compliance resulted from negotiation with local officials and, more importantly, indiscriminate, unapproved pay-outs. Some directors did not distribute profits according to regulation and either ignored bonus limits or persuaded authorities to accept a ratio that approximated their own preference – typically increasing bonuses and reducing reinvestment. To increase worker motivation, their own popularity and factory morale, directors preferred distributing funds under their control to workers, and making up investment shortfalls from higher authorities, loans or other sources.[16]

Factory size or administrative level did not demonstrably affect bargaining power over profit retention ratios. A fair number of directors of larger and bureau-level factories professed low or moderate success in persuading superiors to allow increased consumption. Further research is needed to explain this somewhat surprising finding. One explanation might be that directors of large and bureau-level factories disproportionately ignored prescribed profit retention ratios and substituted evasion for bargaining.

Tax reductions. Tax payments were an area of alternately great or negligible bargaining power (Table 2). Since 1983, nearly all state-owned factories have been subject to a 55 per cent tax on profits – a rate all but two of the directors regarded to be overly high.[17] These payments were by statute mandatory and unchanging, and 57 per cent of the respondents professed no influence over their size or timing. Three directors claimed low to moderate levels of negotiated flexibility; many directors of large-output or bureau-level factories, however, rated tax payments an area where they were extremely successful winning concessions (Table 5).

Presumably, as with compensation, the ability to bypass local collecting authorities (the tax bureaus) and communicate directly with ministry officials and other influential individuals, such as mayors

16. Many have argued that a primary objective of Chinese managers is to increase benefits and security of employees in the form of bonuses, housing, and employment for children. See William Byrd and Gene Tidrick, "Factor allocation and enterprise incentives," in Tidrick and Chen Jiyuan, *China's Industrial Reforms*, pp. 61–62; Huang Yasheng, "Web of interests," pp. 444–46; Walder, "Factory and manager in an era of reform," pp. 249–253. On bargaining over bonus levels and evasion of bonus ceilings, see Andrew G. Walder, "Wage reform and the web of factory interests," *The China Quarterly*, No. 109 (March 1987), pp. 36–38.

17. On the early stages of implementing "tax for profits" (*li gai shui*), see David Bachman, "Implementing Chinese tax policy," in David M. Lampton (ed.), *Policy Implementation in Post-Mao China* (Berkeley: University of California, 1987), pp. 119–156; Barry Naughton, "False starts and second wind: financial reforms in China's industrial system," in Elizabeth J. Perry and Christine Wong (eds.), *The Political Economy of Reform in Post-Mao China* (Cambridge: Harvard University Press, 1985), pp. 223–252.

Table 5: **Effect of Factory Output and Administrative Level on Bargaining Success over 55% Tax Payments (%)**

Bargaining success	*Factory output* Medium	*Factory output* Large	*Administrative level* Below bureau	*Administrative level* Bureau
High	17	60	26	75
Low	83	40	74	25
N	12	10	19	4
	Fisher's $p=0.05$		Fisher's $p=0.10$	
	P of Pearson's $r<0.03$		P of Pearson's $r<0.03$	

and governors, gave directors of larger, bureau-level factories a decisive advantage over leaders of smaller and lower-ranked factories. Large enterprises are crucial to national economic development, and though extracting maximum revenues is desirable, a measure of flexibility may be wise to discourage directors from building hidden reserves, maintaining slack capacity and keeping two sets of books. Tax concessions may also be offered to large enterprises whose underperformance reflects on central officials, and for high-profile ventures undertaking projects deemed important by Beijing.[18]

Even without central prodding, a factory's leading organ and local, non-tax authorities may encourage reducing the 55 per cent rate (or reducing taxable income subject to the 55 per cent rate)[19] for a firm that is a large employer and revenue source, and often the sole local supplier of an important product. Authority to grant tax relief rests as low as county-level and concerted pressure from a giant factory and its central and local supporters can be overwhelming. Many allies will help a tax bureau explain to central tax officials why a reduction is necessary and there may be little to gain and much to lose for a local tax bureau that insists on overly strict enforcement.

Personnel decisions. The observed pattern of bargaining success also appeared, albeit more selectively, in areas where external controls remained very strong and where directors had to consult (and bargain with) figures within the enterprise as well as superiors.

On the contentious issue of disciplining and firing workers, seven-eighths of directors indicated a willingness to suspend or dismiss unco-operative workers, and five-sixths had discharged between one and

18. On negotiating tax levels and investment support, see Walder, "Factory and manager in an era of reform," pp. 254–260; Walder, "The informal dimension of enterprise financial reforms," pp. 633–35. On failure to collect central taxes in exchange for local fees, see Huang Yasheng, "Web of interests," pp. 452–53.

19. The survey did not force directors to distinguish success reducing tax rates from success reducing the amount of income subject to the rate. Some may have focused on the fixed, nominal rate and neglected to report bargaining success shaving payments. Yet there is no convicing explanation why large, bureau-level directors would disproportionately focus on negotiating payments, while the others would focus on negotiating the rate.

30 workers. These dismissals were many fewer, however, than directors had requested and would have preferred if given "complete freedom." The 22 delegation members willing to release workers would have liked to lay off an average of 18 per cent of their labour force. Reasons they had not done so included difficulty gaining administrative approval, fear of disrupting factory harmony, and problems reaching a consensus with other managers and the factory Party committee over who to let go. Opposition to large redundancies existed both within factories (particularly in Party committees and trade union offices) and within supervisory bureaucracies.

Director explanations of their circumscribed authority and limited persuasiveness noted China's lack of unemployment compensation and concerns that workers "would have no means to survive." One director pointed to deleterious effects on social stability and a second argued his primary constraint was "the kinds of relationships a worker has." One-third of directors acknowledged that it was likely that supervisors would put pressure on a director to reinstate a fired worker and four-ninths indicated it was probable that a worker would quarrel with or refuse to leave the house of a manager who attempted to fire him. Fears of physical violence were also prominently mentioned. Half the directors said threats to their property, person or family were likely. Bicycle tyres might be deflated, rocks thrown through windows, a director's children harassed or beaten up. One director, particularly gloomy about labour relations, said a manager who sacked a worker "possibly would be killed" (*keneng ming bao bu zhu*) – as was one well-known director in Liaoning.

It is clear that although regulations granted directors considerable autonomy over labour management, it was not easily exercised, and a director's ability to convince superiors to acquiesce to terminations was also weak. Workers with few employment options and strong social, moral and "backstage" (*houtai*) political support, could make it a courageous act for a manager to exercise authority over personnel. Directors had both limited autonomy *and* limited bargaining power on decisions concerning managing their labour force, and the data did not reveal any significant advantages for leaders of large, high-ranking enterprises. Factory size and rank lost their importance when enterprise interests splintered and most of the bargaining occurred with near-equals within a factory.

Variations did appear, however, in selecting and reassigning professional staff. The directors explained that for lower-level positions, they appointed workshop supervisors (*chejian zhuren*), who were then reviewed by the factory Party secretary and approved by the Party committee. Party secretaries, especially senior ones, often provided supplements to the director's list, or vetoed nominees. For factory-level cadres such as the deputy directors, the leading organ often suggested candidates and typically retained final power of approval. Factory Party secretaries and their deputies were also appointed and approved by the leading organ's Party committee.

Since reforms began, the number of full-time Party cadres has been reduced and in some factories Party structure has been simplified, but opposition has appeared and interference remained high. Neither autonomy nor bargaining success on personnel management approached that found on strictly economic issues. Only directors in large-output and bureau-level factories reported consistently lower levels of resistance when reassigning Party cadres to new positions (Table 6).

Table 6: **Effect of Factory Output and Administrative Level on Bargaining Success over Party Cadre Transfers (%)**

Bargaining success	*Factory output*		*Administrative level*	
	Medium	*Large*	*Below bureau*	*Bureau*
High	9	73	28	80
Low	91	27	72	20
N	11	11	18	5
	Fisher's p=0.003		Fisher's p=0.07	
	P of Pearson's r<0.0002		P of Pearson's r<0.09	

As in other areas, the size of the factory and the administrative rank of its director probably enabled large and high-ranking factories to persuade or bypass the local supervisory or factory-level authorities usually entitled to make or approve cadre personnel decisions. A number of directors also noted that it was difficult for Party cadres in a large, visible factory to flout an announced national policy or to mobilize allies outside the enterprise in an area as important as cadre management.

The existing pattern of controls, autonomy, and bargaining clearly does not place all large and medium-sized industrial enterprises on an equal footing. Why do high-output, bureau-level firms enjoy above-average bargaining power? This study suggests several possible explanations. First, these firms are most important to the regional and national economy and are most likely to have patrons who will step in to ensure their profitability, smooth operation and growth. The output of large, high-ranking firms is often critical to local or ministry production plans and their performance reflects most strongly on bureaucratic supervisors and sponsors. This is true not only for loss-makers, which might be compared to banks that are "too big to fail," but also for profitable factories, which suggest high-profile university sports teams that must win. In both cases, supervisors are willing to provide extraordinary resources and to leave considerable revenues and authority in enterprise hands, and enterprise interests must be respected. Bargaining power in these circumstances is a product of the visibility of selected enterprises and the disproportionate dependence of bureaucratic supervisors on them. To minimize embarrassing failures and maximize significant successes, directors in large and bureau-level enterprises receive more documents, are told more, and often personally know the provincial or ministerial policy-makers. Economic indispensability, social and professional ties and a promotion ladder that often leads from factory to supervisory bureaucracy all enhance bargaining position.

Secondly, increasing statutory autonomy and ambiguous authority relations may favour large and bureau-level factories. Although issues surrounding multiple supervisors and factory and director bureaucratic rank are exceedingly complex and deserve more attention than is possible here, it appears that high-ranking directors in large, high-ranking factories can at times ignore or negotiate demands and pressures generated by local, supervisory bureaucracies. Local organizations (and their leaders) may have formal authority in a given domain such as personnel or taxes, but may lack the rank and power to enforce a decision or exaction. Bargaining opportunities increase when there are multiple chains of horizontal and vertical authority, and overlapping Party and state hierarchies. Directors whose factories dwarf local agencies and who are responsible directly to ministries or provincial departments are well-placed to achieve bargaining success when they confront local supervisory bureaus.

Some Consequences

Bargaining success and efficiency. Successful bargaining by large-output and bureau-level factories may serve the interests of these factories and their directors, but its consequences for national productivity and efficiency are indeterminate. Negotiated outcomes produced in a part-market, part-planned environment need not be more rational than command decisions. Directors who bargain well may act according to economic principles or they may ignore or distort imperfect market signals to engage in "short term behaviour" (*duanqi xingwei*) that benefits their factory but deprives government authorities and other enterprises of needed funds and inputs. A co-operative industrial bureau can help a giant factory procure above-plan inputs cheaply and it can convince a local government to provide investment support by reducing another, perhaps more efficient, enterprise's reserves or line of credit. Outcomes produced by haggling over quotas and financial measures and adjusting profit distribution ratios and tax levels may undermine incentive schemes and misdirect investment, leading decision-makers to punish well-run, smaller plants in order to subsidize larger and highly-visible enterprises.[20]

20. Arguments that link enterprise bargaining with inefficiency can be found in Walder, "The informal dimension of enterprise financial reforms," pp. 631, 634–36, 641; Shirk, "The political economy of Chinese industrial reform," p. 335; Tidrick, "Planning and supply," pp. 198–99; Prybyla, "China's economic experiment," p. 11; Michael D. Swaine, "China faces the 1990s: a system in crisis," *Problems of Communism*, No. 39 (May–June 1990), p. 26.

The bargaining success of large and bureau-level factories can also undermine efficiency if directors give in to workers' demands, overspend on bonuses and distribute incentive funds without sufficient regard for worker performance. Productivity will not increase if the best bargainers starve investment to feed consumption. The directors reported that limits on bonuses could often be evaded or negotiated and limits on payment in kind were largely ineffective. Several directors confessed that awarding workers colour televisions, washing machines and refrigerators was a common practice and that they had few incentives to limit awards to outstanding staff members or to cut current consumption for future expansion. As one manager of a large factory put it: "Why should I offend my workers in my term? Everyone wants glory, not blame." Or a second head of a bureau-level enterprise: "Workers' living standards should under no conditions decrease. Funds for expanding production should come from government loans." Even unqualified or frequently absent workers were said to apply pressure on a director, often through the Party committee, and criticism of a "dictatorial work style" could interfere with factory development and operations, as well as the director's next promotion. Good bargainers are expert at fending off external exactions and negotiating vertical relationships; further research is needed to determine how well directors of large and bureau-level factories resist internal pressures to put an excessive portion of the funds they retain and secure towards consumption.

Bargaining success and support for reform. The best bargainers also appear least committed to further, more radical reform. In 1988, joint-stock and private ownership proposals were under discussion in social science research institutes and occupied a prominent place on reform agendas. Although a substantial majority of directors agreed with the statement that enterprise reform hinged on ownership reform, the few who disagreed tended to be long-term directors ($p<0.03$)[21] of large-output factories ($p<0.01$), who were accustomed to state ownership and were adept at bargaining with government authorities. Even those directors of large and bureau-level firms who favoured ownership reform were hesitant to urge speedy implementation (Table 7).

Directors of large, important factories of course fare quite well in the partially reformed economy. They receive valuable patronage and adapt to a wide range of environments: when reforms proceed, they strive to compete with smaller and lower-level competitors by expanding interaction with other enterprises and taking advantage of a network of far-flung contacts.[22] When retrenchment occurs, they fall

21. Ps are probabilities that Pearson's r is 0 under the null hypothesis.

22. Directors of large-output ($p<0.06$) and bureau-level ($p<0.05$) plants were quickest to expand lateral relationships and to increase interaction with plants in other regions, most often suppliers or customers. Linked factories tendered regional and industry-wide complaints, and often coaxed local or central decision-makers to reconsider adverse decisions or excessive demands.

Table 7: **Effect of Factory Output and Administrative Level on Urgency of Ownership Reform (%)**

Urgency	*Factory output* *Medium*	*Large*	*Administrative level* *Below bureau*	*Bureau*
High	50	9	42	0
Low	50	91	58	100
N	12	11	19	5
	Fisher's p=0.05		Fisher's p=0.10	
	P of Pearson's r<0.03		P of Pearson's r<0.38	

Note:
The question was: "Do you think ownership reform is...?" High and low urgency were respectively responses 1–2 and 3–4 in a range from "extremely urgent" to "something we sould not worry about for some time." No directors answered "something that should never be carried out."

back on administrative ties and survive or even prosper under macro-controls that others see to be bureaucratic interference. To directors of large and bureau-level factories, administrative involvement often brings favoured treatment. Taxes are reduced, attempts at extortion are rebuffed, salary and bonus pools are increased, authority over salary and bonus distribution is protected, cadre reassignments are approved. Directors of these factories have considerable leverage in any political or economic environment, at any stage of decentralization or recentralization. Under partial reform, they are subject to softer constraints than would obtain under full market discipline and private ownership. It should be no surprise that although directors of such factories valued enhanced autonomy and sought fewer financial demands, they were hesitant to promote privatization and to sacrifice their bureaucratic protection and assistance.[23]

Chinese factory directors want dependence when dependence helps them. The best bargainers are protected by administrators and are less devoted to radical reforms because they do not wish to lose their privileged position (and bargaining advantages) and to be forced to compete with other firms on open, equal terms. Factory directors value autonomy when it benefits their factory; they prefer negotiating concessions and preferential treatment when they have the necessary connections, bargaining power and access.

23. Huang Yasheng, "Web of interests," p. 457, also argues that enterprise directors have doubts about decentralization and autonomy because they fear losing bureaucratic protection and support. On similar attitudes in socialist Hungary, see T. Laky, "Enterprises in bargaining position," *Acta Oeconomica*, No. 22 (1979), p. 244.