

**Final Report of Enterprise Development
Consultancy Mission to China**

“Urban Employment Promotion”

by

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1. Introduction

This is a report of the work carried out under ILO/UNDP Project CPR/96/504 “Urban Employment Promotion” for the ILO ROAP by Dr. Gary B. Hansen during December 2-23, 1998.

Dr. Hansen provided technical inputs and support to the MOL and the Reemployment Leading Groups to achieve Output 2.2 “A report on the operations problems, productivity constraints, management and supervisory development needs of LSEs and urban collectives in two pilot cities (Quindao and Shenyang) and on the major constraints they face in pursuing the deepening of enterprise reform,” particularly to Activity 2.2.2: “Design of the scheme for regular collection of the information on the development needs of LSEs and urban collectives including its institutional framework, sample survey methodology, data collection and analysis instruments.”

Specifically, he:

- (1) consulted with counterpart agencies in Beijing about existing systems for monitoring LSEs and urban collectives and their plans for setting up or improving the monitoring system;
- (2) visited Shenyang and Quindao and consulted with local agencies on relevant issues;
- (3) visited some typical LSEs and urban collectives to assess their performances, problems, and management and supervisory development needs;
- (4) assisted national and local counterparts to design the regular monitoring system of the development needs of LSEs and urban collectives, including its institutional framework, sample survey methodology, data collection and analysis instruments; and
- (5) submitted a technical report on his assignment with specific recommendations and an implementation schedule for achieving Output 2.2.

The program for the China portion of the enterprise development consultancy mission of Dr. Gary B. Hansen, during the period from 6-17 December 1998, is included as Appendix C of this report.

2. Background

Since the early 1980s China has undergone substantial economic reforms during its transition to a market-based socialist system. These economic reforms have had considerable impact on urban and rural employment. During the late 1980s, national efforts focused on the redeployment and reemployment of an ever increasing number of urban workers made redundant by the economic restructuring and enterprise reform.

As part of the reform redeployment efforts, government policy has encouraged local governments to set up different types of collectives with investments coming from individuals who are members of collectives, as well as from state and local governments and state-owned enterprises (SOEs). Local Service Enterprises (LSEs), a form of urban collective, were established as subsidiaries by SOEs, or by local governments. They were accorded preference incentives, such as tax reduction or exemption, low-interest or interest-free loans from the state banking system or parent SOEs, and much more managerial autonomy in marketing, production and finance.

LSEs have increased rapidly; from 1979 to 1990 their total number reached 200,000, providing employment to 16 million workers. They have redeployed more than 8 million qualified workers to large and medium-sized enterprises or newly build large projects.

To support these efforts, the MOL proposed a Re-employment Project that has been piloted in 30 cities since 1993.

The main elements of the Re-employment Project are:

- to strengthen the operations of the various employment service and job centers;
- to organize programs to upgrade redundant workers' skills and retrain them so they can be redeployed in the same enterprise or reemployed in another enterprise;
- to provide additional incentives to state-owned enterprises to establish LSEs that emphasize the reemployment of redundant workers;
- to allow redundant workers to undertake subsistence production activities within the enterprise or at home; and
- to encourage redundant workers to become self-employed and undertake small business ventures.

Following the pilot projects in 30 cities, in April 1995 the State Council called on the MOL to implement the Re-employment Project nationwide to serve the eight million workers made redundant by enterprise reforms. To provide assistance to the Chinese government, the ILO/UNDP Urban Employment Promotion Project (CPR/96/504) allows for the testing of new systems and approaches aimed at strengthening the various components of the Re-employment Project on a pilot basis in four cities.

The ILO/UNDP Urban Employment Promotion Project has three components:

- (1) employment and labor market issues;
- (2) non-state enterprise promotion, and
- (3) strengthened training and retraining.

This report focuses on the second component – non-state enterprise promotion, including all forms of LSEs, urban collectives, private small and micro enterprises, and self-employment. The immediate objective of this component is to strengthen the capacity of the MOL and the Reemployment Leading Groups to improve the performance of LSEs and urban collectives in Quindao and Shenyang.

3. Quindao

The city of Quindao is on the coast about 600 kilometers southeast of Beijing. It covers an area of 10,554 sq. km, has seven districts, and a population of three million. One million workers are employed in 5,000 enterprises. This rapidly growing city has dozens of new skyscrapers dotting the skyline. Infrastructure projects are underway in every part of the city and beyond. Local boosters call it “the Hong Kong of the north”.

In Quindao, LSEs have developed from enterprise reform, including the sale or transfer of enterprises. For example, 100 LSEs have been transformed from SOEs. Of those 100, 52 have become limited companies, 47 have become shareholding cooperatives, and 1 has become a shareholding company.

Currently, 1,003 LSEs in Quindao employ 35,000 workers and have a fixed capital of 2.7 billion RMB. The largest LSE employs 1,000 workers, and the smallest LSE employs 5 - 10 workers. Most of the LSEs employ 100 - 300 workers. In 1997, 162 new LSEs were started and employed 8,157 workers. These new LSEs have a capital of 500 million RMB and pay an interest tax of 180 million RMB.

Generally, the Quindao LSEs are considered to be financially healthy. Of the 1,003 LSEs, 739 (73%) are making profits in the current fiscal year. Thirty LSEs paid taxes on profits of 5 million RMB and above, and ten LSEs paid taxes on profits of 3 million RMB and above. Thirty-five enterprises had an annual profit of 1 million RMB. But 264 (26.4%) enterprises are incurring losses.

Of the 1,003 LSEs, 240 (23.9%) are in primary industries and employ 13,000 workers; 763 (76.1%) are in tertiary industries and employ 22,000 workers. Tertiary LSEs include 260 in business enterprises, 230 in catering trades, 80 in construction, 78 in repairing, 54 in tourism, 35 in transportation, and 26 in other activities.

The employees in these LSEs have a variety of skill levels and expertise:

Professional skills	4,101
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Professional title	3,454
Junior title	2,376
Senior title	954
Supervisors	124
Managers	4,500

3.1 Different types of LSEs

There are several different types of LSEs designed to give jobs to unemployed and redundant workers. The terminology used to describe them appears to be somewhat different in each pilot location. In Quindao these descriptions include the following:

- (1) Transformed enterprises -- shareholding, cooperatives, etc.
- (2) Self-help enterprises
- (3) Community service enterprises (CSEs)
- (4) Private enterprises

(1) **Transformed Enterprises** are LSEs that have been spun off from SOEs and function as subsidiaries or as independent business enterprises. Ownership may be linked to the parent SOE through shareholding or as part of an LSE conglomerate. Or ownership may become completely separate or private as part of the transformation. Transformed enterprises (e.g., shareholding, cooperatives) are managed by managers appointed by their owners.

(2.) **Self-help Enterprises.** Self-help enterprises include:

- Self-help Production Centers (SHPCs) or units. SHPCs are the most important self-support enterprises in Quindao. They use facilities built or made available by the Local Service Companies in the municipality (LSCs), and include a variety of business or manufacturing enterprises. SHPCs have free use of the facilities to carry out their business activities. They are usually owned by the municipality and managed by managers appointed by the Labor Bureaus or the LSCs for the municipality.

Quindao has 30 SHPCs, and each one employs 30 - 50 workers. While working in the enterprise, the workers may receive skills training and sometimes business training or other help such as obtaining loans to start a business.

- Individual and private self-help enterprises. This LSC self-support reemployment program is designed to promote the development of individual or private enterprises. The LSC can provide some start-up capital and administrative and financial training, including tax procedures and business registration. However, the LSC does not provide any entrepreneurship training to the new business owners.

(3) Community Service Enterprises (CSEs). CSEs, sometimes called neighborhood service centers or reemployment service centers, organize and train teams of unemployed workers who are paid to provide a variety of business or social services to people living in the neighborhood or district, including services for the unemployed, disabled, old, and young. They also organize youth to provide other voluntary community service programs.

CSEs are usually owned by the municipality and managed by managers appointed by the Labor Bureaus or the LSC in the municipality

(4) Private Enterprises are enterprises that have been sold to an individual. Private enterprise managers are appointed by their owners.

3.2 Summary of consultant's visits to LSEs in Quindao

During his field trip to Quindao, this consultant visited one University owned LSE (the Quindao Universities Group Co.) and two Transformed LSEs (the China State Shipbuilding Corp., and the HiSense Company). In addition, he visited one CSE (the Neighborhood Service Center), and had a discussion with the district LSC director about one SHPC (the Ya May Leather Shoe Factory).

The **Quindao Universities Group Co.**, started as a computer company organized in 1984 to provide jobs for redundant teachers. Initially, the company employed 30 people and taught computer courses to help workers improve their skills. Today this LSE training center has 5,000 students. The original LSE expanded to become a group with the objectives of “creating service jobs, using waste materials, and helping students do something useful.” Because the company is linked to a university, it uses mostly faculty and students to create new businesses. The group has created 16 LSEs that employ 480 workers.

Due to a lack of good managers, the number of companies declined from 27 to 16. According to the group's president, organizers of new LSEs do not know what the role of a good manager should be and how to develop a good company culture. The group president thinks LSE managers need management training in:

- (1) strategy/planning — how to set the direction of their company
- (2) evaluating new product ideas to determine if they are commercially viable and profitable
- (3) providing leadership to the employees of their company so it is profitable and grows
- (4) managing technical people without intimidating them
- (5) taking care of administrative and financial details so the technical people can concentrate on their work.

The Quindao Universities Group company is currently a collective. However, it intends to transform itself into a shareholding company to keep its high tech staff and remain competitive. Company staff also need to learn more about quality so their products become more competitive in the marketplace.

The **China State Shipbuilding Corp.** makes coal crushing equipment, cranes, sheet-rubber making machines, forgings, and ship repair equipment. It is part of the Behai Group of 32 legal enterprises. Some of the 32 LSEs in the Behai Group are unprofitable, and a large number of them suffer from management problems. Four or five enterprises have gone bankrupt, some due to management problems. The enterprise once had 4,500 workers, but now employs 2,000 workers.

The shipbuilding unit has six branch LSEs that employ 360 workers. The company appears to have forward-looking management and has made tremendous efforts to become more competitive. The company uses a form of “open-book” management, and makes its costs known to its workers and relates workers’ salaries to the costs. Company philosophy contains five elements:

- (1) “no good job, no pay”
- (2) “inner competition” to provide incentives to earn production bonuses. If workers fail to meet quality and time standards, they lose money. Workers with three months of poor performance are asked to leave their post and take lesser assignments at 40 percent of salary. If they have 30 days of poor performance in their new assignment, they are fired.
- (3) commercial good
- (4) quality
- (5) service — “the customer is always right”

This shipbuilding company provides regular training for its managers by inviting a professor or other specialist to teach courses and sending managers to specialized courses and other companies to gain experience. Each year, every manager receives once-a-week training over a three-month period. The workers receive training through videos and classes to certify their skills so they can bid on higher posts. The management and workers are proud of having met the ISO 9002 quality standards.

Although the graduates who had managed commercial businesses before coming to the HiSense Company. Their objective is to build the HiSense LSE Company into the largest commercial group in the province within five years. The Company has two objectives: (1) reemployment linked to economic efficiency, and (2) company growth.

From its beginning, the HiSense Company has had a responsibility to provide jobs for redundant workers. It started with 300 workers who had been unemployed or laid-off. Today the HiSense Company has 14 subsidiary LSEs and employs 1,548 employees in retail sales, hotel, transportation, and taxi businesses; 493 of the workers had been unemployed and 532 had been laid-off. In 1995, the company had a sales volume of 100 million RMB. Today it expects sales of 600 million RMB. Eventually it expects sales of 2 billion RMB and to employ 5,000 workers.

The general manager attributes the success of the company to its ownership structure and emphasis on training. The company is a limited liability company with shareholding. The workers are also shareholders. A yearly bonus system for managers and linking workers’ wages to sales volume provide a good incentive or motivation system.

At first they had difficulty with poor staff effectiveness because they were wedded to the old system. Now, with LSC help, they give potential workers three months of pre-employment

training followed by a test they must pass. Supervisors go through this training plus additional training. Existing employees receive scheduled training. Managers receive training from the HiSense Group at the HiSense College. Middle level managers receive training organized by their Human Resource Department. However, the general manager of the HiSense Company thinks that many of the LSEs' managers urgently need instruction on new management concepts and better manager training programs.

The **Ya May Leather Shoe Factory**, a SHPC, was set up in 1988 and its objective is to reemploy laid-off and unemployed workers. It is one of 12 SHPCs in Quindao and produces safety shoes. The company is owned by the LSC and the community appoints the manager.

Because the Ya May company is an LSE with a special mission, workers are given two to three year contracts to receive training and experience. After that time, the workers can stay, be sent to other businesses or leave. Over the past ten years the Ya May company has employed 680 workers, but many of them have moved on to other employment. Today, the firm employs 230 workers.

More than 70 workers have been sent to other shoe manufacturers. Some workers have formed shoe-making cooperatives, and others have started their own business. When workers decide to start a business, the SHPC provides them with some entrepreneurship training and officials help them write a business plan.

In 1998 the enterprise generated 1.08 million RMB in profit and tax compared with 100,000 RMB in 1988. Their products are internationally market-oriented and exported to other countries. The company is forward looking and during the past three years has developed several new products, including anti-static shoes and insulated shoes. It has hired two full-time Japanese specialists who help the SHPC improve product quality and help managers and workers learn Japanese manufacturing technology. Their presence has allowed the firm to export its products to Japan.

The LSC director indicated that the SHPC managers in Quindao need additional training to become more effective. Some training is available from the LSC Institute, but the content and quality of the training needs to be strengthened. Some of the SHPC managers come from the LSC and others come from outside it.

The **Quindao Neighborhood Service Center** covers an area of 4.84 sq. km. and serves a neighborhood of about 40,000 people. The Center is housed in a building in the middle of a housing complex and has an employment service office, an old peoples' assisted living center, and facilities to provide a variety of services. It has a staff of six full-time employees who provide work and service opportunities for the unemployed, including the disabled, elderly, children, and other people in the community.

The Neighborhood Service Center director said there are six manufacturing LSEs in the neighborhood. Four of them are profitable, one is breaking even, and one is losing money, primarily because its product is outdated and of low quality and its managers operate under the old planned economy philosophy and resist new techniques. The Neighborhood Service Center director said the most successful LSEs have good managers and modern management techniques.

The Neighborhood Service Center has an agreement with neighborhood employers to seek workers from the center. Work opportunities at the center for the unemployed include providing food for school children and the elderly, day care for preschool children, and assisted living care for the elderly. The CSE also provides unemployed workers with employment and service activities in 156 different types of community service and business activities, including clothing, catering, household repair and maintenance, appliance repair, household help, newspaper selling.

The Center director stated that in his capacity as an LSC official he plays a facilitating role in creating new LSEs. But the Center and the other LSCs are not equipped to provide new LSEs with any technical assistance or training. But the Center director sits down with LSE managers on a monthly basis and goes over their plans and strategies. Like other LSCs, they provide new LSE managers with help with licensing and facilities procedures but can no longer provide guarantees for bank loans. The Center director said he studied law so he is not very knowledgeable about business.

The Center director stated that LSE managers and staff need regular training. None of the LSEs in the neighborhood belong to the LSE Association. (See 3.4 Role of the Quindao LSE Association below.) They receive some information from the Association, but otherwise have little or no contact with it.

3.3 Incentives and preferences provided to LSEs

LSEs that employ at least 60 percent of the redundant or unemployed workers at the time of hire enjoy certain tax breaks. They are exempt from paying taxes for the first three years and receive a 50 percent tax exemption for the next two years. In 1996, Quindao issued a new policy of a cycle of 60 percent tax savings when the firm continues to employ 60 percent of the redundant or unemployed workers beyond the five-year period.

Other local government support for Quindao LSEs include free utilities, short-term loans, and paid insurance and medical benefits for LSE employees

3.4 Role of the Quindao LSE Association

Some of the LSEs in Quindao have organized an LSE Association. This Association provides training and other services to LSEs. However, only 92 of the 1,003 LSEs are members of the Quindao LSE Association. Membership in the LSE Association is voluntary, but the association is very selective about who can join. Membership costs 500 RMB per year for an ordinary member. Council members pay 800 RMB per year, and Standing members pay 1,000 RMB per year. In addition to providing or arranging training—which is made available to all LSEs—the Association organizes study tours, invites speakers to address topics of interest to members, assists in trade negotiations and conducts research studies. Although the LSE Association has a training department and member LSEs provide some staff to deliver training courses, it has no permanent staff or capacity to deliver training or provide other business support services.

3.5 Role of the Labor Service Company

In Quindao, the Labor Service Company (LSC) also functions as the local office of the MOL/ES. One of its responsibilities is to support the development of LSEs. Though the LSC provides policy support to new LSEs, it does not initiate the process of LSE creation. The LSC officials indicate that they lack the capacity to do much LSE promotion because their staff has little training and their office has little technical or business development expertise. They would like to be able to do more.

3.6 Role of the Leading Project Group

In Quindao, the Leading Project Group (LPG) is comprised of the heads of different government agencies. The LPG has a secretariat in the LSC building that is drawn from the LSC regular staff. The LSC director general is the LPG secretary. The LPG meets once a quarter. The group leader is responsible to the mayor of the city.

In Quindao, the purpose of the LPG is to formulate policies concerning LSEs, including preferential policies to facilitate the reemployment of redundant workers. The LPG provides guidance to reemployment work such as the setting of yearly targets. The LPG also strives to obtain the necessary reemployment funds to guarantee living standards and living allowances to workers. Although the LPG participates in planning the special tax preferences for LSEs, the LPG does not get involved in setting quotas for LSE creation.

3.7 Creating New LSEs

The Quindao LSC staff said they provide policy support, but do not initiate the process of LSE creation or provide any technical assistance to facilitate the incubation of new LSEs. The creation of new LSEs is primarily directed by the decisions of the SOEs and existing LSEs. Though the LSC contacts the SOEs and provides encouragement, there is no systematic process or plan to stimulate or facilitate the LSE incubation process. However, after discussions with the seven districts, a quota or development plan is set each year, and the LSC promotes LSE creation among the SOEs in its district.

A different perspective about the role of the Neighborhood CSE in Quindao in creating new LSEs is described above in 3.2. The CSE director interviewed appears to play a much more active role in creating new LSEs in his neighborhood.

4. Shenyang

Shenyang, a large industrial city in the northeastern province of Lian Ning, has a population of 6.7 million. The province of Lian Ning has a population of about 50 million. Shenyang has a diverse number of industries, many are state-owned. At present many SOEs are in the process of modernization and rationalization. To meet the Government's policies of economic and social

reform, a large number of SOEs have had to lay off workers. While some state-owned enterprises have gone bankrupt, a number have shown remarkable adaptability and ingenuity.

Shenyang has 15,000 enterprises that employ a total of 1,173,000 workers. Of these enterprises, 4,100 are state-owned and employ 973,300 workers. The remaining industries are privately owned or share ownership, including an increasing number of industries that have attracted foreign investment. At least 224 state-owned enterprises have recently shifted into private hands.

Because of the transition to market socialism, more and more state-owned enterprises are laying off workers. In 1997 230,000 urban employees were laid-off, and in 1998 100,000 urban employees were laid off, for a total of 330,000 workers. Fifty-three per cent of the laid-off workers are women.

It is the Labor Bureau's (the name of the LSC in Shenyang) task to find employment for laid-off workers. However, many of them lack the skills to be reemployed immediately. The majority have only rudimentary skills, such as machine operator or assembly line operative, and have no desire to learn new skills unless they can earn more money than the unemployment allowance.

LSE development in Shenyang is larger and more extensive than LSE developments in other cities. The first LSE in Shenyang was created in 1979. In 1997, 2,533 new LSEs were established and employed 121,400 workers. During 1998, the pace of LSE establishment was quite rapid. Shenyang now has 5,700 LSEs that employ 247,000 workers.

By June 1997 the number of shareholding LSEs in Shenyang was more than 300, and the number of LSE groups (LSE conglomerates with substantial numbers of subsidiary LSEs) was more than 20. Some 1,100 enterprises were transformed, and 900 of these LSEs realized a changed system. The types of changes occurring and LSE structures being used include shareholding, consortium, sold to managers, and transformed ownership. Sometimes the change breaks the enterprise's relationship with its parent SOE. Shenyang currently has 182 SHPCs.

The CSEs in Shenyang form an extensive service network within the blocks and neighborhoods in the district. There are 1,184 branch CSEs in the City and its nine districts and 439 Reemployment Service Agencies.. The larger centers are called Reemployment Service Centers (RSCs) and the smaller units are called Reemployment Service Agencies. There is at least one RSC and numerous RSAs in each district. Forty-six of the RSCs provide community and household services, and 182 are reemployment sites that have helped 47,000 unemployed workers to find jobs.

4.1 Summary of consultant's visits to LSEs in Shenyang

During his field trip to Shenyang, this consultant visited two Transformed LSEs (the Shenyang Airplane Company and the Ya Group), and one CSE (a Reemployment Service Center) in one of the city's urban districts.

The **Shenyang Airplane Company** is the largest LSE in the city and is currently a collective. The company has 330,000 sq. km. of space and 130,000 sq. meters of production facilities. The company has a construction unit and also manufactures window frames, auto parts, seats, water

purification equipment, library shelving, file cabinets, and map cabinets for sale in the domestic and international markets. Some of its 100 subsidiary enterprises are shareholding and some are consortiums. However, they are changing the system and some of the enterprises will be leased out to others. In economic terms, the LSE is basically independent. If it wants help from its parent SOE, it has to pay for it.

This airplane company has a workforce of 7,300 employees. It employs 422 technologists, 532 managers, 532 senior skilled engineers, and 200 medium level workers. The company provides some training to workers through its training school but most training is on-the-job.

The company needs to improve its competitiveness. Although it has sent some people on study tours, it would like to send more. The managers have received some training, but not enough. They need production training to serve new markets, international marketing training, quality and productivity improvement training, and training in new product development.

The **Ya Group** is privately-owned LSE that owns a shopping center and 19 other enterprises. The Group directly manages the 20 enterprises. In addition to the shopping center, the Group has created supermarkets, clothing stores, shoe stores, restaurants, and flower shops. It also has a plan to systematically create new enterprises and is raising money to complete the project. The mayor of Shenyang has given them 20,000 sq. meters of space in which to expand.

The Group has been operating as an LSE for four years. It has 2,500 workers, 1,000 are laid off workers, 1000 are former workers of the group, and 500 are new hires. It also has one retail location with 800 workers. The group is profitable with sales of 0.2 billion RMB and 20 million RMB profit and tax. It expects to employ 3,000 more workers in the coming years.

The group has a training department staffed by four people. All employees receive two-months of training before starting work. The group also has 15 managers. Though the managers receive some training they need more. The manager came to his job after experience in Macao and Hong Kong and is putting his management experience to good use.

The **Shenyang Reemployment Service Center** is located in an industrial neighborhood. The district has a population of 700,000 and many laid-off workers. The objective of this Reemployment Service Center (RSC) is to widen the reemployment channel for unemployed workers, particularly laid-off women. In 1998 the center ran six training sessions in a variety of skills for 200 women.

The RSC has a training center that prepares women for household service. It has a homecooking teacher, kindergarten teachers and provides courses in home nursing care and civil law. The training is provided free as part of the government vocational training services.

In 1998, the Center employed 1,879 laid off workers to provide neighborhood services such as cleaning, selling newspapers, decoration, electrical repair, shoe repair, household services, and marketing. The RSC has 13 teams of workers that provided 2,800 person services. Some of the employment developed through the Center requires changes in attitudes in the unemployed. For example, at first the women were reluctant to sell newspapers so the RSC director personally took them out and, by example, taught them how to do it. Through her persistence and personal commitment she was able to help them overcome their reluctance and

find satisfaction and pride in their newfound employment. The RSC's newspaper retailing team is the first in the City and employs 169 people. Average earnings for the employees on this team amount to 1,000 RMB per month.

The Center wants to provide new kinds of occupational training and business activity for laid-off workers. They would like to obtain better facilities and more funds to provide more skill training, such as TV repair, and services such as a hospice or center for the older people but have no money.

The Labor Bureau provides some training for the RSCs and RSAs staffs, but the director believes they could benefit from more management training. They also need other types of training directly related to their work of setting up and operating successful business teams to provide jobs for unemployed workers (training in such areas as marketing, sales, and new business development). They also need to introduce entrepreneurship training courses to help teach the unemployed how to start and run their own businesses.

4.2 Incentives and preferences provided to LSEs

The same preferences and tax incentives are provided to LSEs in Shenyang as in Quindao.

4.3 Role of the Labor Bureau

The Labor Bureau (LB) officials in Shenyang see their role as providing LSEs with information on policies, tax preferences and instructions and keeping their relationship with the LSEs from breaking down. They offer help with regulations, getting tax breaks, and improving workers' skills through their (LB) vocational training center facilities, but are not in a position to provide business support services or any management assistance. Though the LB has helped to build support and obtain tax benefits for the LSEs, they have no special training or assignment to work specifically with LSEs or to help start new ones. Some of the LSE managers said that the LBs do not have the professional staff or business expertise to work with LSEs or to provide them with business support services..

4.4 Role of the LSE Association

The LSE Association in Shenyang was organized in 1992 and is seen as a coordinating link between the government and the LSEs. It has met about six times and has developed 108 documents. In addition to making awards to LSEs that perform well or show special initiative, the LSE Association has organized training classes and trained 382 managers. Some of the managers have received awards in the LSE system. However, the Association has provided basic training for only a small part of the managers and they need higher-level training. The LSE Association has no staff and uses trainers from member LSEs or other agencies.

The association uses conferences and exchanges of information and ideas to help the LSEs help each other. When asked if more is needed, the LSE managers said they need to learn foreign management concepts and techniques and be exposed to outside training. LSEs have

access to very few business support services because the LSE Association lacks the funds and staff to provide them.

The LSE managers would like to see the Association become more active in advocating their needs and concerns. The Ya Group wants the Association to provide training courses in selling and marketing. They also would like seminars and discussions on planning and business strategy.

4.5 Role of the Leading Project Group.

The Shenyang LSE managers see the LPG as another link with the government. The LPG has been helpful by providing information about employment and arranging for employment, but little else.

4.6 Creating new LSEs

The Labor Bureau in Shenyang appears to have only a modest role in the creation of new LSEs. The initiative for starting new LSEs comes from the SOEs and existing LSE groups. In Shenyang the LB appears to perform the same function as the LSC in Quindao -- encouraging SOEs and other LSEs to create new LSEs, facilitating the resolution of administrative issues and helping to arrange for tax waivers. As noted in 4.3, the Shenyang LB does not have the staff or expertise to actively incubate LSEs or provide substantive business support services.

5. Problems and difficulties facing LSEs

Among the most important problems and difficulties facing LSEs in Quindao and Shenyang are:

1. The need for more favorable government policies for LSE development. The 3-2 tax policy helps only the younger enterprises. After five years, LSEs can use the 60 percent tax benefit only when they make a profit. Consequently, older LSEs have a greater need for help to improve their operations so they can make profits. The help they need is not currently available.
2. Limited access to capital. To take advantage of market opportunities and for the reasons specified in No. 11 below, LSEs must have greater access to capital if they are to grow and provide more jobs for redundant workers. Because LSEs have no official channel to help them borrow money from banks they must obtain money from other sources. Labor Bureaus and LSCs can provide only very small loans to LSEs.
3. Problems of ownership. Many LSEs are linked to or controlled by SOEs that have not applied new and better ways of doing business. Consequently, it is tough for LSEs to obtain the support and flexibility to become more productive and successful.

4. Unproductive attitudes of managers and workers. Most LSE workers come from SOEs and are imbued with the “iron rice bowl” way of thinking. Consequently, their efficiency and discipline are often poor. The mindsets of the managers and their management skills may also be obsolete. Both managers and workers must be helped to change their thinking and work systems to make their enterprises more productive and profitable.

5. Poorly or inadequately trained management and workers. Most LSEs have low-quality management and staff. Some parent SOEs send their poorer staff to the LSEs, but some SOEs pick very competent staff for the LSEs. However, there appears to be a high turnover of management and technical staff. Although some training is provided for LSE staff, much of it is inappropriate, of poor quality, or inadequate.

Typically, LSE managers receive three to five days of formal training per year. In many cases the LSE Association provides this training, either by obtaining trainers from among its members or by bringing in outside trainers or speakers to meetings. The LSE Association also organizes study tours and provides other services. However, it appears that there is a dearth of substantive and systematic management training to meet the needs of managers who must function in the competitive market economy environment. Few enterprises have the training capacity or skilled trainers to provide suitable training for supervisors.

LBs and LSCs lack resources and expertise to provide management training. Universities and professional bodies are not perceived to be good sources of management training or technical assistance because they lack capacity, or more seriously, the training they provide is not up-to-date, and they cannot provide training which emphasizes the latest management concepts and techniques used internationally.

Although training for workers is supposed to be covered by a 1.5 percent tax of total payroll, many of the poorer enterprises do not do this. With the exception of a few LSEs who have good training departments, it appears that worker training is quite limited and needs considerable improvement.

6. LB and LSCs lack resources and staff to effectively incubate LSEs or to facilitate their development. The LSCs and LBs lack the resources and trained staff to effectively promote and incubate new LSEs or to provide technical assistance or training to weaker LSEs. They can only help LSEs resolve administrative and tax issues.

7. LSE Associations provide only limited business support services. The LSE associations provide only a modest level of training and other services to their members. Membership is limited to the larger, stronger LSEs, and the resources available through the membership fees are inadequate to provide the quality and range of business services the LSEs need. It appears that few SHPCs and CSEs belong to the LSE Associations and they receive little assistance from them.

8. Focus on just one objective. Some LSEs emphasize only the reemployment of laid off workers and fail to recognize the importance of making the enterprise more competitive and

profitable. The managers of the most successful LSEs focus on both reemployment and strengthening the enterprise.

9. Lack of LSE business incubation and technical assistance capacity. As noted in Nos. 6 and 7 above, the lack of any capacity within the LSE system (LSCs, LBs, LPGs, and LSE Associations) for systematic business start-ups, substantive technical assistance and business services, and suitable criteria to evaluate proposals for new LSEs contributes to some LSE failures and substantial numbers of weak LSEs.
10. Broken relationships with the LSC. Some privatized LSEs see no value in maintaining their link with the LSCs. Therefore, there is no effective way to communicate with them, provide additional assistance to them, or encourage them to continue to hire unemployed workers. However, if the LSCs could provide them with some needed or useful services and reestablish linkages, reemployment objectives could be advanced.
11. Weak LSEs are unable to respond to market needs. Because of management deficiencies or resource constraints, some LSEs are unable to adapt to the changing market. In many LSEs new product development is spotty and product improvement lags. These deficiencies must be addressed if the LSEs are to be competitive and accomplish the government's reemployment objectives.
12. Technical production personnel may lack necessary skills and the advanced technology and production methods to be competitive. Many of the LSEs use outdated equipment and production processes. Additional training in advanced production processes and productivity improvement techniques could enable all LSEs to upgrade their production processes and reduce costs. Easier access to capital to obtain new equipment and technology is also necessary to complete this process.
13. LSEs should be concerned about the unemployed, but private owners are only concerned about profits. Balancing these two objectives in a positive and constructive way poses a real challenge for the LSE system. How can incentives, support services and linkages be developed and maintained to achieve both the public and private objectives?
14. Use of human resource management practices. With few exceptions, it appears that most LSEs use outdated methods of human resource management. If the enterprises are to increase their productivity and quality to compete in national and international markets, they need to apply more effective human resource motivation, cooperation, and high performance techniques.
15. SHPCs and CSEs lack a systematic approach to facilitate the incubation of new businesses by workers who want to strike out on their own. Little or no systematic entrepreneurship training is made available to workers in SHPCs and CSEs. Yet, their stated objectives include the encouragement of workers to seek self-employment or start their own enterprises.

6. Recommendations

The following recommendations to strengthen the LSE system (including SHPCs and CSEs) are based on the problems and needs identified during my field visits in Quindao and Shenyang:

1. **Management training.** The most urgent need of the LSEs (and SHPCs and CSEs) is to strengthen the management skills of their managers and supervisors. It is recommended that this be done by:
 - (1) implementing general management training in the form of executive MBA programs;
 - (2) developing and providing specialized management training courses (through LSE associations, LPGs or other suitable intermediaries) in:
 - (a) managing in a socialist market economy,
 - (b) productivity and quality improvement,
 - (c) production,
 - (d) strategy and planning,
 - (e) marketing,
 - (f) business planning for new product development
 - (g) human resources management, and
 - (h) leadership;
 - (3) implementing a basic supervisory training program; and
 - (4) implementing a SYIB-type program to provide entrepreneurial background and understanding to all managers.

1. **Providing entrepreneurship training in CSEs and SHPCs.** As one of the objectives of the CSEs and SHPCs is to encourage and facilitate the transition of their employees to other employment, including starting their own businesses, it would be desirable for the CSEs and SHPCs to provide or make available a structured course such as the ILO's SYB program to all of their employees—especially those who are considering starting a business. (The SYIB program developed and implemented in Bulgaria might be a useful model for this purpose.)

2. **Strengthening the profitability of LSEs.** Government policies in support of LSEs are primarily financial, -- tax waivers and reduced taxes on profits. Consequently, it is important to provide LSEs with the types of support that will help them become more profitable. Two essential elements needed to accomplish this objective are: (1) improving and expanding the training of managers, supervisors and workers as outlined in 1 above, and (2) establishing formal productivity and quality improvement programs in all LSEs. These two elements should be the primary focus of efforts to strengthen the LSEs.

3. Providing LSE employees with training in market economy principles. A major issue raised by all LSE managers is workers (and managers and supervisors) with obsolete mindsets. Therefore, it is recommended that a training program emphasizing the essential elements of a (socialist) market economy and what is expected and required of workers and managers to succeed in it be developed and made available to all LSEs for use in their training programs.
4. Strengthening LSE Associations. First, the role and functions of LSE Associations should be reviewed and deficiencies identified. Second, a determination should be made about what services would be most helpful and could be most effectively provided by the Association in order to strengthen the LSEs. Third, a blueprint should be developed that outlines: (a) the types of services that would be most helpful to LSEs, (b) a suitable structure, (c) the proposed method of operations, and (d) the means of obtaining financial support. It is clear that LSE Associations need to be strengthened to provide a broader range of business support services to LSEs and that more management training and study tours are needed. Some LSEs have indicated that they would like the associations to provide them with more information about marketing and trade events and to become a forceful advocate for them. A third issue which needs to be addressed is how to involve the weaker LSEs in the LSE Association. They desperately need help, but they are currently not members and appear to not use even the existing services available from the associations.
5. Strengthening the LPGs. The Leading Project Group in each city is perceived as being a coordinating and policymaking group. The group only meets periodically (quarterly) and has no secretariat or staff other than that provided by the LSC or Labor Bureau. The LPGs are not perceived by LSEs as being operational groups that should be directly involved in providing business support services to LSEs. Therefore, there is some question about expanding the LPG capacity to include providing SOEs with management and technical support in establishing LSEs or in providing technical assistance to LSEs and urban collectives that are having business difficulty. A better alternative might be to strengthen the LSE Associations (as outlined in number 5 above) and by increasing the capacity of the LSCs and LBs to perform certain business support functions (as recommended in number 7 below).
6. Strengthening the LSCs and LBs to provide Business Support Services. It is recommended that each LSC and LB should establish a small unit that would function as an SOE and LSE business support unit. The individuals who would constitute the staff of this unit should be identified and undergo specialized training to broaden their knowledge and skills in dealing with existing SOEs and LSEs, and to facilitate the incubation of new LSEs. The training course for the members of the unit should include modules such as: entrepreneurial approaches to local economic development, identifying and evaluating new business ideas, business planning for LSE creation, product development and innovation, development and delivery of business services, and management skills for successful LSE operations

7. Strengthening the linkages and coordination between LSEs, LSCs, LBs and LPGs. Everyone agrees that more information and data need to be shared between the LSEs, LSCs, LBs and the government. It is recommended that representatives of LSE Associations, LSCs, LBs and LPGs assess the effectiveness of their current data collection and information sharing and decide what, if any, additional linkages and procedures are needed so the government can quickly know the needs and concerns of the LSEs and how they can be addressed most expeditiously and effectively.
8. Strengthening the linkages between LSE system and existing national and local training institutions. Existing institutions such as business schools, technical institutes, training units of ministries, CEDA/China Enterprise Managers' Association (CEMA), etc., should be mobilized to help strengthen LSEs. It is recommended that the LPG in each municipality identify national and local institutions that can provide high quality training courses and other support services needed by LSEs. Linkages should be established between the LSE Associations and LSC business support units and these institutions so that their training resources and business expertise can be used to strengthen LSEs as part of the Urban Employment Promotion program. .
9. Strengthening the CSEs. Although CSEs have accomplished much with very few resources, they urgently need additional staff training, more resources and better facilities. Specifically, it is recommended that CSE managers be provided special courses or modules in basic management and leadership skills, establishing and operating business teams and LSEs, and developing new CSE operations. It is recommended that the organization and operation of CSE service programs be strengthened. Workers on the various service teams need additional skill training to be more successful in delivering quality services to the public or to special groups in the community. It is also recommended that entrepreneurship training courses should be provided as part of the training available within all CSEs, and as part of the training given to all laid off workers employed on service teams.

7. Status of draft LSE survey instrument

In the course of my mission to China, a draft of an LSE survey instrument was prepared and submitted to the MOL on 16 December, the day before the departure of the consultant. At that time a brief statement outlining the next steps needed to implement the LSE survey was delivered orally to Mr. Wang, the MOL's Division Chief in charge of the project. This statement is included as Appendix B.

Unfortunately, because of the severe time constraints and the urgency expressed by Mr. Wang in conducting the survey, the final version of the survey instrument could not be completed. A translated version of the 2st draft of the survey questions was provided to the MOL survey team at a meeting on the morning of 16 December 1998. This meeting convened at 9:00AM and lasted three hours. The national consultants' input was received during this meeting, held under the

direction of the Division Chief at the MOL. After briefly reviewing the questions, the suggestions and recommendations of the three local consultants (Mr. Ming, Mr. Chen, and Mr. Liu) were received by the international consultant. Later in the day these suggestions were incorporated into the draft survey instrument. At 8PM that evening a 3rd draft copy and computer file containing the revised survey questions incorporating the changes suggested by Mr. Ming, Mr. Chen and Mr. Liu was delivered to Mr. Liu. He translated it and subsequently delivered this version to Mr. Wang at the MOL on or after 17 December. Copies of the 3rd draft of the survey document and next steps outline document are included as an Appendix A and B to this report.

At the 16 December meeting, Mr. Wang stated that the MOL had already selected the field interviewers and that the questionnaire would be field tested on them the following week as part of their training. He further stated that the actual interviewing would start within two weeks.

I told Mr. Wang that if the Chinese MOL would like additional help from this consultant in conducting the survey, analyzing the data collected, or in writing the final report containing the survey findings, this could be provided by the ILO under the project auspices.