



HUMAN RESOURCE CRISES IN CHINESE ENTERPRISES

Junhong Gao¹, Ruth Alas²

Estonian Business School, Lauteri 3, 10114 Tallinn, Estonia

E-mails: ¹junhong.gao@ebs.ee; ²ruth.alas@ebs.ee

Received 2 April 2010; accepted 13 July 2010

Abstract. This research paper provides a HR crisis management reference for Chinese organisations. The aims of this paper are to discover and describe HR crises and management situations in Chinese organisations. The research questions are as follows: 1) – How did the crisis happen? 2) – How did the company handle the crisis? 3) – What result came from the crisis? In this paper, exploratory and descriptive approaches were used to complete the survey. The qualitative method (interview) was used in this study since it enables one to gain a deeper knowledge and understanding of the detailed information. The interviews included both open and closed-ended questions. The method used to analyse the primary data was ordinal. The results indicate that HR crises are caused by various factors – both internal and external. The internal reasons are enterprise’s managerial systems change, employees’ dissatisfaction, managerial inappropriateness, and enterprise development. The external reasons are inner-industry HR competition, local government policy change, and accident. Due to the limited number of samples, it is necessary to expand the study and conduct more empirical research so as to draw more comprehensive conclusions. The conclusions and implications should be considered by managers in Chinese enterprises, especially HR managers and crisis managers, when detecting, distinguishing and determining a crisis.

Keywords: human resource management, crisis, Chinese enterprise, internal and external reasons.

ŽMOGIŠKŲJŲ IŠTEKLIŲ KRIZĖ KINIJS ĮMONĖSE

Junhong Gao¹, Ruth Alas²

Estijos verslo mokykla, Lauteri 3, 10114 Talinas, Estija

El. paštas: ¹junhong.gao@ebs.ee; ²ruth.alas@ebs.ee

Įteikta 2010-04-02; priimta 2010-07-13

Santrauka. Straipsnyje pateikiamos įžvalgos apie žmogiškųjų išteklių krizės valdymą Kinijos įmonėse. Straipsnio tikslas – atskleisti ir charakterizuoti žmogiškųjų išteklių krizę ir jos valdymo situacijas Kinijos organizacijose. Iškeliama šie tyrimo klausimai: 1) Kaip krizė atsirado? 2) Kaip įmonė valdė krizę? 3) Koks krizės rezultatas? Siekiant atsakyti į klausimus, taikyti tiriamasis ir aprašomasis metodai. Tyrime buvo naudojamas kokybinis metodas (interviu), leidęs gauti išsamesnių žinių. Interviu klausimyną sudarė ir atviri, ir uždari klausimai. Metodas pirminiams duomenims analizuoti įprastinis. Tyrimo rezultatai parodė, kad žmogiškųjų išteklių krizes sukelia įvairūs veiksniai – tiek vidiniai, tiek išoriniai. Vidinės priežastys yra įmonės valdymo sistemų pokyčiai, darbuotojų nepasitenkinimas, netinkamas valdymas ir verslo plėtra. Išorinės priežastys: konkurencija pramonės šakos viduje, vietos valdžios politikos pokyčiai ir kiti atvejai (nelaimingi atsitikimai). Atsižvelgiant į nustatytus veiksnius, tikslinga išplėsti tyrimą, atlikti daugiau empirinių tyrimų, kad būtų parengtos pagrįstesnės išvados. Kinijos įmonių vadovams, ypač žmogiškųjų išteklių ir krizių vadybininkams, tikslinga apsvaistyti tyrimo rezultatus, siekiant laiku pastebėti, charakterizuoti ir apibrėžti krizę.

Reikšminiai žodžiai: žmogiškųjų išteklių valdymas, krizė, Kinijos įmonė, vidinės ir išorinės priežastys.

1. Introduction

As a result of the reforms in the Chinese economic system, the Chinese economy has changed from a formerly centrally controlled, highly planned system to an open, market driven system. China's "open policy", introduced in the early 1980s, has been pushing Chinese companies into global competition. Especially since China's entry into the WTO in 2001, Chinese companies have been facing increasingly fierce competition in all fields. China, a market with huge potential and challenges, offers every company equal opportunities, as well as equal risks. An organisational crisis is one such risk that every enterprise in China has to deal with.

Organisational crises are a pervasive threat to organisational performance and sustainability (Hutchins and Wang 2008). The impact of organisational crises on the individual and organisational performance is being increasingly recognised (Wang *et al.* 2009). Therefore, Chinese companies provide good samples for studying crisis management at the organisational level.

From 2008 to 2009, empirical research on crisis management was conducted in 156 Chinese companies located in 14 provinces, 57 cities and various industries through interviews with middle and top-level managers. The primary results of the analysis indicated that human resource crises are the third most common crises among Chinese organisations, which follow economic and reputational crises.

Crisis theorists and literature treating crises seem to focus on the management itself, but ignore the core element of the crisis – the human resource. Even when discussing a HR crisis, the human resource itself is ignored. Thus, the aim of this paper is to explore HR crises in Chinese organisations. The research questions are as follows: 1) How did the crisis happen? 2) How did the company handle the crisis? 3) What result came from the crisis?

To achieve this aim, a further analysis of the interview results was conducted. The analysis is based on a complete study of all cases related to human resource crises; both the qualitative analysis and document review techniques are employed in this paper. The layout of the paper is as follows: First, a theoretical review will be presented, which will be followed by an introduction to the methodology. Subsequently, an analysis of the cases related to HR will be given, and finally, conclusions and suggestions will be offered.

2. Theoretical Background

Since the theoretical background is the foundation for research, the theory related to HR research crisis will be presented first in this paper.

2.1. Crisis and human resource crisis

Organisational crises have become more complex, far-reaching and prevalent in modern times (Hutchins 2008).

Organisational crises are a pervasive threat to organisational performance and sustainability (Hutchins and Wang 2008). The impact of organisational crises on the individual as well as organisational performance is being increasingly recognised (Wang *et al.* 2009). According to Mitroff (2005), a human resources crisis is one of the seven types of crises.

A human resources crisis happens when an organisation experiences the loss of key executives, and other personnel; a rise in absenteeism or in vandalism and accidents; workplace violence; lack of succession plans; corruption; and labour strikes, unrest, and a shortage of staff (Mitroff 2005). Sher's (2006) comments that human resources crisis includes the lack of a competent person and a key person leaving.

2.2. The cause and impact of crisis

The triggers for crises vary. Boin *et al.* (2008) found that crises are triggered by natural forces or by the deliberate acts of 'others' inside or outside the society. Coombs (2006) sorted crises into three categories according to their triggers. The first type includes attacks on organisations that can harm the reputation and financial stability, and include product tampering, workplace violence, terrorism, computer hacking and rumours. The second type includes accidental crises, such as product harm, industrial accident, transportation mishaps, challenges and the sudden loss of key personnel. The third involves management misconduct. Such crises are created by management and include known risks, improper job performance and purposeful legal or regulatory violation.

Hermann (1963) identifies a crisis as being an event that includes a surprise, a threat and a short response time. From the perspective of the results, Clark (1988) identified three elements: a threat to goals, a reduced ability to control the environment and perceived time pressure. Coombs (2006: 2) defines a crisis as an unpredictable, major threat that can have a negative effect on the organisation, industry or stakeholders if handled improperly. Milburn (1972: 262) found that a crisis may generate conflicts with others within the group or organisation. Rosenthal *et al.* (1989) suggested that a threat for some may be an opportunity for others.

2.3. Human resources (HR) and human resource management (HRM)

Graham and Bennett (1989: 3) had given a simple definition of HR – the employees of a company. However, in those private companies where the owners work in the companies, and even more, play vital roles in the companies, the owners are HR of those companies too, though they are not employees of the companies. Therefore, the authors would like to agree with Gómez-Mejía *et al.* (2001: 2) who defined

HR as the people who work in an organisation. In this definition, both employees and owners of an organisation were considered.

Craig (2009) argues that people are the most important assets of any enterprise. The HR of an organisation represents one of its largest investments (Byars and Rue 1991: 6). Dessler (1999) states that HR can impact the performance of both the employees and the organisation. Li (2000) viewed human resources as one of the most important sources of competitive advantage among enterprises in China.

Hilbert (2009) pointed out that human-capital plays a key factor in determining which businesses fail, survive or thrive, though the power of HR is inevitable (Ivancevich and Matteson 1993: 4). Beer *et al.* (1984: 39) pointed out that HR is an important stakeholder in business enterprises. Mitroff (2005) considered HR to be the most important crisis stakeholder of an organisation. The stakes of HR are economic, psychological, and political (Beer *et al.* 1984). The individual human factor cannot be underestimated in a crisis situation (Lagadec 1993).

According to Byars and Rue (1991: 6) HRM involves activities designed to provide for and coordinate the human resources of an organisation. Failing to cope and deal with HR issues will result in HR crises, such as job dissatisfaction, poor morale, reduced commitment, lower work quality, burnout, poor judgement and a host of unhealthy consequences (Ivancevich and Matteson 1993: 4). According to Zhou (2004) and Ye (2005), four results emerge from a HR crisis. First, it reduces enterprise performance; second, it stops communications between managers and employees; third, it causes irrational reactions; and fourth, it results in vindictive psychology.

2.4. Crisis management

Mitroff (2005) states crisis management is systemic. Crisis management is a set of factors used to combat crises to reduce the actual damage inflicted by crises (Coombs 2006). Crisis management is about being prepared to handle adversity, minimising the impact of the crisis effectively and facilitating the management process within an environment of chaos (Aba-Bulgu and Islam 2007).

Pearson and Clair (1998) defined organisational crisis management as a systematic attempt by organisational members with external stakeholders to avert crises or to effectively manage those that do occur.

Shrivastava (1993) proposed a “4Cs” frame for studying the crisis management process so that crisis studies can focus on four key aspects of crises: “causes,” “consequences,” “caution,” and “coping”. From the social-political view, Pearson and Clair (1998) explain the cause of a crisis as a collective breakdown in sense making and role structuring. The consequence is a meltdown of social order, follower-

ship, and commonly held values and beliefs, where extreme individualism, incivility, and violence may increase. Weick (1993) asserts that caution can be taken to prevent an organisational collapse, in the forms of improvisation, virtual role systems, the attitude of wisdom, and norms of respectful interaction.

According to Mitroff (2005), crisis management involves the process of thinking about potential crises and their causes, anticipating the system failures causing crises and planning for the actions that affect major crises as well for situations affected by crises.

3. Methodology

In this part, the research method used in the study will be discussed. The section includes research aims and questions, method, data collection and samples.

3.1. The aim and research questions

Shrivastava’s (1993) “4Cs” frame suggested that crisis studies can focus on four key aspects of crises: causes, consequences, caution, and coping. According to Shrivastava (1993), causes are the reasons triggering the crisis; consequences are the impacts of the crisis. Caution includes the measures for preventing or reducing the impact of a potential crisis (Pearson and Clair 1998), i.e. the criterion of forecasting a crisis. Coping means the process of handling a crisis.

In previous research regarding crisis management in Chinese organisations, the authors had discovered seven types of crises according to the impacts and the reasons triggering the crises. They include economic, informational, physical, human resource (HR), reputational, psychopathic acts, and natural disasters. The initial study result indicates that crises related to HR occurred in 25 organisations (16% of the sample), which is the third most frequently occurring crisis among Chinese organisations, following the economic and reputational crisis. The crisis types ranking according to frequency is in Appendix 1).

Many scholars (Zhang *et al.* 2009; Zheng and Lamond 2009; Warner 2009) have paid attention to HR management in Chinese organisations. However, there is no study about HR crisis in Chinese organisations. The two studies differ in their focus. The earlier study focuses on the HR management issues during normal operations in an organisation. The later study focuses on the crises triggered by HR issues, i. e. when the normal HR management failed to manage the issue, and it triggered a serious threat to the organisation. Thus, the aim of this paper is to focus on the causes and consequences of crises, the ability to cope with crises, and to explore HR crisis management in Chinese organisations. Therefore, the research questions are as follows: 1) How did the crisis happen? 2) How did the company handle the crisis? 3) What result came from the crisis?

3.2. Research methods

To complete the task, the authors utilised the following research methods which were considered necessary. First, the exploratory approach was used to review various literature and secondary data, and furthermore, to provide a deeper insight into HR crisis management situations in China. The descriptive study tends to serve the research aims, which are to discover the answers to the research questions.

The qualitative method used in this survey involves a formal approach – an in-depth interview. The interview is semi-structured, including both open and closed-ended questions. The interview questions were formulated in English and were subsequently translated into Chinese Mandarin to conduct the interviews in China as the interviewees were Chinese natives. The interview questions include two parts. The first part deals with information on the sample company and the position of the interviewee. The second part focuses on the crisis that occurred in the sample company. It includes the type of crisis, the time of occurrence, the reasons triggering the crisis, the handling process, the impact on the enterprise, and so on. The interview questions are listed in the Appendix II. The interviews lasted 30 to 90 minutes.

3.3. Data collection

All the interviewees were requested to describe a crisis that had occurred in their organisation. The authors defined the term “crisis” as “a low probability event with serious consequences and a short response time”. The interviewees chose a crisis that they desired to speak about.

After the interviews, an analysis of the information was conducted so as to seek answers to the research questions. The method used to analyse the data was ordinal. The primary data gathered via the interviews was categorised and ordered. A comprehensive study of the analysis of all the cases related to human resource crises in Chinese organisations was carried out.

3.4. The sample

From 2008 to 2009, interviews were conducted in 156 Chinese companies that had experienced crises. These companies were located in Beijing, Guangdong, Jiangsu, Jiangxi, Hebei, Henan, Hubei, Hunan, Inner Mongolia, Shandong, Shanghai, Sichuan, Xinjiang, Zhejiang, and so on – a total of 14 provinces and 57 cities, spread throughout China. The companies selected represent the following areas in the economy: agriculture, manufacturing and processing, construction, trading, service and entertainment, finance and real estate, education and art, transportation, medication, technology and telecommunication industries. The ages and the sizes of the sample companies vary. The general

statistical data of the age, size and industrial information of the organisations is listed in appendix III.

As this paper focuses on HR crises, the detail information of those companies encountering HR crises will be presented without releasing the names of the companies. Out of 156 Chinese organisations, 25 reported a HR crisis. The geographical locations of the organisations differ and their business activities, age, and size are dissimilar also (Table 1).

Table 1. Industries, Ages, and Sizes of Companies that Encountered HR Crises (drafted by the authors)

Industries	Manufacture & Processing	8	32%
	Education & Art	4	16%
	Trading	1	4%
	Construction	1	4%
	Entertainment & Service	5	20%
	Finance & Real estate	3	12%
	Transport	1	4%
	Technology & Telecommunication	2	8%
	Ages	Before 1990	6
1991–1997		4	16%
1998–2004		13	52%
after 2004		2	8%
Sizes	< 100	13	52%
	101–500	9	36%
	501–1000	2	8%
	> 5001	1	4%

4. Analysis – The Causes and Coping Approaches

The interviewees were asked what had caused the crises (interview question 3). The answers are summarized in Table 2. The causes of HR crises include both internal and external factors. The internal factors focus on changes in the enterprise system, handling of HR issues, and development of the enterprise. The external reasons are related to competition, government policy, and accidents.

Four companies reported crises related to changes in the enterprise's systems. Cases 13, 21 and 81 have quite similar reasons for experiencing a crisis. The company ownership changed from state or public ownership to operating under a private contract. The change led to a series of internal system changes, such as connecting everyone's salary and welfare to the enterprise's profits, implementing work disciplinary procedures, and establishing a reward and punishment policy. These changes required every employee to work efficiently so as to achieve maximum profit for the enterprise. However, “under the old state or public ownership system, employees had been used to getting the same salary

regardless of profit and work discipline. In the enterprise operating under a private contract, this was not accepted by the private managers”, explained the manager in case 21. “To ensure the company can keep on running, the salary system must be changed”, explained the manager in case 13. Faced with the new company system, the employees, especially old employees, were afraid that they could not achieve the new goals or reach the new standard, so many of the employees left the company.

Table 2. The Causes of HR Crises and the Coping Approaches

	Causes of HR Crises	Case No.	Coping Approaches
Internal	Managerial system change (Against system change)	13, 21, 81, 123	Manipulation, coercion, education, and communication
	Dissatisfied with old system (Require system change)	7, 27, 45, 86	Negotiation and change system, key employees involved
	Inappropriate handling of HR issues	4, 20, 120, 139	Negotiation and manipulation
	Enterprise development	59, 101, 155	Communication and motivation
External	Competition	34, 96, 97, 140	Communication and change system
	Government policy change	102, 104, 107	Appeal to government
	Accidents	8, 68, 151	Support and find new staff

Case 123 occurred in a company that had already built up a modern enterprise system. The company implemented a new post salary system resulting in a number of the staff being dissatisfied because the new salary system did not allow them to increase their salary. They used strikes and resignations to react against the new system. To handle crises like these, such companies used manipulation, coercion, education and communication.

The second factor related to the enterprise’s system involved employees being dissatisfied with the old salary and welfare system causing them to demand a system change. Four sample companies reported similar situations. Employees left the company because they could see neither an opportunity for promotion nor a possibility for salary increase through the old policy. For example, “some people worked very hard and created more profit for the company

than the others, but they got the same salary as the other people who exerted less effort. Of course, they felt this was unfair, so they left the company”, explained one HR manager (case 7). Some employees had asked the company to increase their salary or even asked the company to change the salary system, but the company reacted too slowly. “I had promised them (meaning the employees who had left) that I would think about that (increasing their salary or changing the salary and promotion policy), but I did not do it quickly. Before the company started to implement the new (salary) policy, some competent staff had already left the company”, explained one general manager (case 27).

In case 45, the company asked why the employees had left. The answers were “our company does not encourage us to work hard because there is no difference between working more or less”, “we do not have any motivation at work”. Case 86 reported that employees “could not see their future in the company because we did not have a motivation and promotion system at that time, but some companies already had one”. Those companies could solve the situation through negotiating with key employees or employee representatives and changing the system.

The third reason involved the inappropriate handling of HR issues. An employee in one company received a serious injury (case 139). The company did not offer any compensation to the injured person. As a result of this event, 27 employees left the company in three days, and the remaining staff refused to do any work related to the accident. On the one hand, the employees were afraid they would also get injured. On the other hand, they observed the result of this injury and how the company had handled the whole event. However, the company’s reaction, which was motivated by a desire to stay within the law while considering profits for the company’s owners, ignored the injured person’s rights and the feelings of the other employees, and it seriously damaged all employees psychologically.

Work discipline procedures are important in enterprises. Implemented correctly, they may help maintain discipline and increase efficiency and organisational performance. Case 20 and 120 are examples where inadequately implemented disciplinary procedures caused HR crises. In both companies, employees broke disciplinary guidelines, and for instance, left their post during the work time, were late for work or left work early. These two companies and the way they handled these problems are like inverse examples. In case 20, the company simply fired those employees who broke the guidelines. From the employee’s point of view, the action was too extreme and unreasonable. “Most employees felt that the company was unkind and the punishment was very harsh. Actually, these people did not cause any damage, but the general manager ordered them to be fired; we could just do that”, explained the HR manager. As a result, employees started leaving the company one by one.

At the other extreme, a company (case 120) did not exact any discipline at all, although guidelines existed. In the beginning, only some employees broke the rules occasionally, and the company did nothing about it. Finally, an entire shift of employees disappeared during the work time. The company felt "it was very hard to control the situation because we missed the initial chance to apply a disciplinary response", one manager explained. If the company had punished those employees who had not followed the rules in the beginning, it would have been a warning for other employees as well. Because the company did not handle the initial problems, other employees might have considered that this was allowed. When more people followed the bad behaviour, the company could not control the situation by applying punishment because that would not have been fair. Negotiation and manipulation were the approaches these companies used to handle these crises.

The fourth example was due to the enterprise developing too quickly, and a lack of the relevant competence arose in the areas of technology (case 109, 155), management (case 4), or production (case 59). With a population of 1.3 billion (NBSC, 2008), China is a country rich in human resources. Two main reasons exist for enterprises experiencing lack staff as they develop. Firstly, the enterprise cannot forecast its development trend and speed, and therefore, cannot estimate its HR demand accordingly. Secondly, the enterprise does not have the relevant HR support, which may provide HR flexibility for the enterprise. Communicating and motivating the desired competences by explaining the future of the company and letting staff know how the company can benefit them so as to attract good staff were the coping approaches used in these enterprises.

The fifth cause of crises was industrial competition. Four companies reported that HR crises occurred because they suffered setbacks in competition with other players in their industry. Dramatic industrial competition not only relates to technology and quality, but also to managerial factors. HR, as one of the most important managerial factors, became the focus of competition among Chinese enterprises. All the sample companies experienced competitors headhunting key staff by offering them better conditions. Those key members of staff had been dealing with core functions such as technology, sales or management. When they suddenly left the company, they took with them techniques, clients, and the management team which the enterprise had built up. Thus, HR crises also occurred in companies that lost key personnel.

These cases reflect several issues in HR management. First, the enterprises' internal management did not have a competitive HR motivation system or an efficient HR maintenance system. Second, the enterprises lacked an awareness of the competitive value of HR. They did not pay attention to their competitor's HR policy or actions, so they could not adjust their own HR system in time. Furthermore, these companies did not have a HR early warning system. When

competitors offered their people better conditions, they were unaware of the fact until it was all over. Some companies "had thought it just happened occasionally, when the crisis was just beginning (case 97)". They recognised that when "members of the management team starting leaving the company one by one; however, it was already too late (Case 140)". Third, it reflects the faults in the enterprise's ethical framework. On the one hand, every enterprise needs a HR support system as it develops. Attracting competitive staff via a beneficial and supportive policy is also sensible, although it seems like stealing when enterprises compete by headhunting key staff from competitors. On the other hand, strengthening the company's ethical framework and using the corporate culture are good ways to encourage and maintain employee loyalty. Increasing communication with employees, especially key employees, and setting up a motivational system are good approaches for these companies.

The sixth cause of crises involved changes to government policy. In recent years, some cities have shifted up the minimum wage rankings. These changes have caused companies in nearby cities to experience a shortage of labour force. To lower the cost of their products and raise profit margins, companies, and especially labour intensive enterprises, usually start paying their workers the minimum wage according to the local government regulation. If some cities increase the minimum wage, workers in neighbouring cities are likely to leave their original work place and swarm to the cities with a higher minimum wage. This loss of workers caused a HR crisis in many companies since the lack of a short-term labour force compelled them to stop production. These cities usually handle this kind of crisis by also increasing their minimum wage.

The final cause of crises involved accidents that resulted in the loss of a key employee. For example, in case 151, the company's sales manager, who had been dealing with all the main clients died in a car accident. The sudden loss of this person resulted in the company being less competitive, which in turn impacted the company's daily operations. These companies tried to motivate other staff to work harder to cover the shortfall, or they sought new staff.

5. Conclusions and Implications

Through the information analysis in the previous part, it became possible to draw conclusions and describe HR crisis management situations in Chinese organisations. It can be concluded that HR crises in Chinese organizations occurred due to both internal and external factors. The authors summarise these causes as follows.

5.1. Conclusions

First, changes to the enterprise's internal managerial systems triggered crises. The crises could be seen as the em-

ployees' resistance to the change. These kinds of crises were usually handled via manipulation, coercion, education and communication. The crises did not influence the company for a long time. All the reported companies finally handled such crises successfully.

Second, employees were dissatisfied with the old system or policy, and required that it be changed. These crises show that Chinese enterprise reform is necessary. Not only are changes needed in state institutions, but changes are also needed in human, psychological and ideological aspects. Enterprises handled these crises via negotiating with their employees and finally formulating new policies. The impact of the crises resulted in enterprise reform, especially enterprise internal systems reform, which went deeply and rapidly. From this perspective, these crises were opportunities for the enterprises rather than threat.

The two causes of crises stemming from the enterprise's internal system indicated that changes in internal systems and policy setting are closely related to HR. However, the two factors that triggered HR crises were exactly opposite to each other. One factor triggering a crisis was the desire of the employees to retain the old systems – they were against change. Another factor triggering a crisis was the desire of the employees to introduce a new system, and they actually appealed for this change.

Third, the enterprise managers handled HR issues inappropriately. Therefore, the originally normal HR issues evolved into serious HR crises, which threatened the organisations as a whole. HR issues are very sensitive issues for employees. Thus, they require HR professionals to handle them appropriately so as to obtain every employee's trust, carry out enterprise policy smoothly and strengthen organisational performance. To successfully handle these crises, the enterprises adopted negotiation and manipulation techniques. Although the crisis was dealt with, its negative impact on the management of the enterprise remained for a certain time.

Fourth, crises occurred when the speed of the development of the enterprise exceeded the development of its HR. Enterprise development requires sufficient human resource support. When the business develops too fast or HR develops too slowly, this leads to an HR crisis. Such crises cause development to slow, service or product quality to decline and organisational performance to fall. To overcome this kind of crisis, enterprises increased communication with staff and improved motivation.

Fifth, external competition, especially industrial competition, also leads to HR crises. Today, competition between enterprises not only relate to products and services, but also relate to HR. Enterprises use all kinds of approaches to obtain the competence they desire, even crossing basic ethical and legal parameters, such as headhunting staff directly from competitors. Companies that encountered these crises

suffered not only from the loss of employees, but also a decline in sales, the loss of customers and so on. They had to increase communication with employees and change the system for attracting new people and retaining staff.

Sixth, changes in local government policy led to some companies experiencing a lack of labour force. Some local government policies, such as setting a minimum wage, can be enforced locally. However, this may mean that workers from neighbouring cities swarm to that city if its minimum wage is higher. As a result, companies in the neighbouring cities may lose valuable staff. After the neighbouring cities adjusted their minimum wage, the crisis was resolved.

Seventh, a key person in the enterprise died in accident. Each enterprise has one or several key staff members. If these people are suddenly lost, it will cause a crisis for the enterprise causing a hiatus in operations, a break in the sales chain, the loss of major clients and so on. The enterprises that encountered this kind of crisis did not have any practical reaction to the ensuing crisis. They only tried to support the existing team and seek a replacement staff member. This kind of crisis happens suddenly, but the impact can be long-lasting.

5.2. Implications

Based on the study results, the authors found the following implications for Chinese enterprises managers, especially HR professionals and crisis managers.

First of all, changes in the enterprise's internal system should involve the employees. Before and during changes in the enterprise's internal system, enterprise managers should communicate with their employees and listen to their suggestions and comments, and even their requirements. Managers should also inform staff about the company's difficulties so that they understand why the change is necessary. As Cafolla (2009) has pointed out, awareness of the company's difficulties can bring out the best in staff, making them rise to the occasion and embrace training and development with more gusto, as they reassess both the company's needs and their own future.

Second, the enterprise's internal policies should be adjusted in time so as to synchronize institutional changes and local government policy changes. The HR policy should motivate employees to work hard as well as maintain employee loyalty in accordance with contemporary social and economic circumstances.

Third, enterprise managers, especially HR professionals, need to keep a very watchful eye on the behaviour of their staff in the event that an employee is considering leaving company. In practice, caring, communicating and supporting staff may prevent staff from leaving the company or may help to convince staff to change their minds and stay.

Fourth, organisations should have well prepared crisis response plans, succession planning and crisis communica-

tion plans. These plans may help reduce the impact of a crisis on the enterprise when accidents happen suddenly.

Fifth, the organisation manager “needs to become a constant gatherer of information: from the internal environment and the external environment” (Schuler 1996). Information is one of the key elements of enterprise competition. Accurate and timely information will provide enterprises expensive time to prepare for the oncoming challenge, handle the crisis at the very beginning, prevent it from happening, or reduce the impact to a minimum level.

Sixth, HR professionals should suggest that enterprise managers pay attention to corporate ethics and culture. Corporate ethics and culture should help the enterprise maintain employee loyalty and motivation, and increase organisational performance. A successful corporate culture and ethics framework should enable the employees to distinguish enterprise behaviour and make the right decision, thus avoiding the unprincipled headhunting of staff.

5.3. Limitation and further research

This paper is based on the study of cases related to HR crises in Chinese companies. However, due to the limited samples, it is necessary to expand the study and conduct more empirical research so as to draw more comprehensive conclusions.

Appendix I – Crisis Types in Chinese Enterprises

Table 1. Crisis Types in Chinese Enterprises

Economic	Informational	Physical	HR	Reputational	Psychopathic acts	Natural disasters
80	21	23	25	29	8	17
51.3%	13.5%	14.7%	16.0%	18.6%	5.1%	10.9%

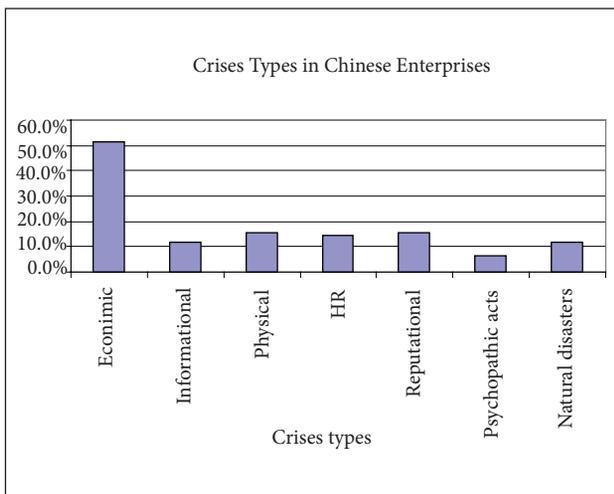


Fig. 1. Crisis Types in Chinese Enterprises (drafted by authors)

Appendix II – Interview Questions

Company name:

1. Number of employees:
2. Industry:
3. Year of establishment:
4. Your position:

Please describe one concrete crisis in your company, how it happened and how you solved this crisis. Describe the crisis. What happened, and what were the results of this crisis?

5. Which type of crisis was it? Is it (mark with “+”):

Economic	Informational	Physical	HR	Reputational	Psychopathic acts	Natural disasters

6. How did this crisis start? Did it happen suddenly (an abrupt crisis) or was it the result of accumulated stressors that eventually erupted (cumulative crisis).

7. What was the scope of the crisis, and did it influence the whole company or only some department?

8. Who was impacted by the crisis? Who could feel the consequences of crisis? Who were the stakeholders, whose interests did the organization have to consider? Had the organisation determined the stakeholders already before the crisis or only afterwards?

9. Please indicate which stakeholders were considered the most important, the second most important and the third most important.

10. How was the company prepared for the crisis? Did the company determine principles that should be followed while solving the crisis before the crisis started?

11. Had the company formed any documents for solving crises before the crisis? Describe these documents. When were these documents written?

12. Were areas determined where crises could happen before the crisis hit? Was the potential of the crisis analysed? Did they form a crisis centre before the crisis? Did they have a crisis plan? Have they been trained how to behave during a crisis?

13. How did the company react when the crisis happened? Please describe in detail.

14. How was the process managed? Who led the process? How were decisions made? How were tasks determined?

15. How would you describe the management style in crisis situations in your company? Which characteristics did the leader need?

16. Describe crisis communication: who was leading the communication? Which messages were sent out? Which channels were used? How were decisions made?

17. What was done to maintain the reputation of the company?

18. What did you learn from implementing these changes? What would you do differently in the future?

19. What would you suggest to others? What were the most important success factors?

Appendix III – Industries, Ages, and Sizes of Sample Organizations

Table 2. Industries, Ages, and Sizes of Sample Organizations (drafted by authors)

Industries	Telecommunication	2*	1.5%**
	Construction	2	1.5%
	Education and Culture	3	2.2%
	Transport	4	2.9%
	Curative	5	3.7%
	Retail	5	3.7%
	Entertainment	6	4.4%
	IT	6	4.4%
	Real Estate	7	5.1%
	Agriculture	8	5.9%
	Public Department	10	7.4%
	Service	14	10.3%
	Trade	19	14.0%
	Production	59	43.4%
Ages	Before 1990	60	38.5%
	1991–1997	40	25.6%
	1998–2003	31	19.9%
	After 2004	25	16.0%
Sizes	1–100	56	35.9%
	101–500	40	25.6%
	501–1000	29	18.6%
	1001–5000	16	10.3%
	Over 5001	15	9.6%

Note: * column indicates the company’s number; ** column indicates the percentages.

Research was supported by ETF grant 7537.

References

Aba-Bulgu, M.; Islam, S. M. N. 2007. *Corporate Crisis and Risk Management: Modelling, Strategies and SME Application*. Amsterdam: Elsevier, Ltd.

Beer, M.; Spector, B.; Lawrence, P. R.; Mills, D. Q.; Walton, R. E. 1984. *Managing Human Assets*. New York: The Free Press.

Byars, L. L.; Rue, L. W. 1991. *Human Resource Management*. 3rd ed. Boston: Richard D. Irwin, Inc.

Boin, A.; McConnell, A.; Hart, P. ’t. 2008. Governing after crisis, in Boin, A.; McConnell, A.; Hart, P. ’t (Ed), *Governing after Crisis, The Politics of Investigation, Accountability and Learning*. Cambridge: Cambridge Press, 3–30. doi:10.1017/CBO9780511756122.001

Cafolla, L. 2009. HR in shining armour, *China Staff* 15(3): 2–4.

Clark, T. 1988. The concept of marketing crisis, *Journal of the Academy of Marketing Science* 16(2): 43–48. doi:10.1007/BF02723315

Coombs, W. T. 2006. *Code Red in the Boardroom: Crisis Management as Organizational DNA*. Praeger.

Craig, K. 2009. Use ‘HARM’ to keep employees, *Contractor* 56(4): 40.

Dessler, G. 1999. *Human Resource Management*. 8th ed. Upper Saddle River: Prentice Hall.

Gómez-Mejía, L. R.; Balkin, D. B.; Robert, L. 2001. *Managing Human Resources*. 3rd ed. Upper Saddle River: Prentice Hall.

Graham, H. T.; Bennett, R. 1989. *Human Resource Management*. 6th ed. London: Longman Group UK Ltd.

Hilbert, D. 2009. The newest analytical technologies make the future for HR, *Employment Relations Today* 36(1): 1. doi:10.1002/ert.20231

Hermann, C. F. 1963. Some consequences of crisis which limit the viability of organizations, *Administrative Science Quarterly* 8: 61–82. doi:10.2307/2390887

Hutchins, H. 2008. What does HRD know about organizational crisis management? Not enough! *Advances in Developing Human Resources* 10(3): 299. doi:10.1177/1523422308316181

Hutchins, H.; Wang, J. 2008. Organizational crisis management and human resource development: a review of the literature and implications to HRD research and practice, *Advances in Developing Human Resources* 10(3): 310. doi:10.1177/1523422308316183

Ivancevich, J. M.; Matteson, M. T. 1993. *Organizational Behavior and Management*. 3rd ed. Illinois: IRWIN. 4 p.

Lagadec, P. 1993. *Preventing Chaos in a Crisis: Strategies for Prevention, Control and Damage Limitation*, Translated by Jocelyn M. Phelps (Original name in French *La Gestion des Crises*). London: McGraw-Hill International (UK) Limited.

Li, L. X. 2000. An analysis of sources of competitiveness and performance of Chinese manufacturers, *International Journal of Operations and Production Management* 20(3): 289–315. doi:10.1108/01443570010294307

Milburn, T. 1972. The management of crisis, in Hermann, C. F. (Ed.). *International Crises: Insights from Behavioural Research*, New York: The Free Press. 259–277.

Mitroff, I. I. 2005. *Why Some Companies Emerge Stronger and Better from a Crisis, 7 Essential Lessons for Surviving Disaster*. New York: Amacom.

NBSC [online] [cited 9 February, 2010]. Available from Internet: <http://www.stats.gov.cn/tjgb/ndtjgb/qgndtjgb/t20090226_402540710.htm>.

Pearson, M.; Clair, J. A. 1998. Reframing crisis management, *Academy of Management, The Academy of Management Review* 23(1): 59–76. doi:10.2307/259099

Rosenthal, U.; Charles, M. T., and Hart, P. ’t (Ed.). 1989. *Coping with Crisis, The Management of Disaster, Riots and Terrorism*. Springfield: Charles C. Thomas Publisher.

Schuler, R. S. 1996. Bringing HR into the business, in Schuler, R. S. and Buller, P. F. (Ed.). *Cases in Management, Organizational Behavior and Human Resource Management*. 5th ed. St. Paul: West Publishing Co., 259–262.

- Shrivastava, P. 1993. Crisis theory/practice: Towards a sustainable future, *Industrial and Environmental Crisis Quarterly* 7: 23–42.
- Wang, J.; Hutchins, H.; Garavan, T. 2009. Exploring the strategic role of human resource development in organizational crisis management, *Human Resource Development Review* 8(1): 22. doi:10.1177/1534484308330018
- Warner, M. 2009. 'Making sense' of HRM in China: setting the scene, *The International Journal of Human Resource Management* 20(11): 2169. doi:10.1080/09585190903239559
- Weick, K. E. 1993. The collapse of sense making in organizations: The Mann Gulch disaster, *Administrative Science Quarterly* 38: 628–652. doi:10.2307/2393339
- Ye, S. 2005. *Enterprise Sole, Enterprise Culture Management Handbook*. Beijing: China Machine Press.
- Zhang, Y.; Dolan, S.; Lingham, T.; Altman, Y. 2009. International strategic human resource management: a comparative case analysis of Spanish firms in China, *Management and Organization Review* 5(2): 195–222. doi:10.1111/j.1740-8784.2008.00131.x
- Zheng, C.; Lamond, D. 2009. A critical review of human resource management studies (1978–2007) in the People's Republic of China, *The International Journal of Human Resource Management* 20(11): 2194. doi:10.1080/09585190903239609
- Zhou, X. 2004. Joint venture enterprise culture conflict and management strategy [online] [cited 17 July 2009]. Available from Internet: < http://app2.learning.sohu.com/education/html/article-7313.html >.

Junhong GAO. A PhD candidate at Estonian Business School. Her research interest is mainly crisis management in Chinese organizations.

Ruth ALAS. Prof., the Vice-Rector for Scientific Affairs and Head of the Management Department at Estonian Business School. She has written twenty-three management textbooks and more than 100 articles. Her research focuses on employee attitudes, learning abilities, organizational culture, leadership, crisis management, business ethics and corporate social responsibility. Ruth Alas has given lectures about change management in Estonia, China and the Republic of South Africa. Ruth Alas has organized several international conferences in Estonia, and is Chair of the EIASM workshop series "Organizational development and change".