


**FACTORS ASSOCIATED WITH COMPENSATION
STRATEGY ON RURAL WORKERS IN URBAN
AREAS: ANALYSIS OF "MINGONG" IN
CONSTRUCTION SECTOR IN CHINA**

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**Dissertation Submitted in Partial Fulfillment
for the Degree of Master of Human Capital
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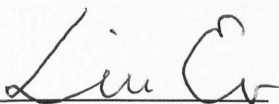
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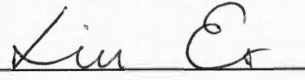
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DECLARATION

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**TITLE : FACTORS ASSOCIATED WITH COMPENSATION STRATEGY ON
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ABSTRACT

Workers' compensation is a very important issue for an organization's development. The objective of this research is to examine which factors will influence workers' compensation, and also to examine what relationship between these influence factors and workers' compensation in construction enterprises in China. The literature review provides plenty of studies about this area which have done by others researchers. The respondents were based on a sample population. The questionnaires were constructed out of extensive literature review. And the hypotheses were tested by using SPSS program of reliability analysis, descriptive analysis and multiple regressions. This research discovered that work-related risks, workers' performance, and workers' competency have a positive significant impact on workers' compensation, age and gender has a significant impact, and organization size still have an impact on employee compensation but not significant.



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ABSTRAK

Faktor-faktor Berkaitan Dengan Strategi Compensasi Untuk Pekerja Luar Bandar Yang Berkerja Di Kawasan Bandaran: Analisa "Mingong" Dalam Sector Pembinaan Di Negeri Cina

Pampasan pekerja memainkan peranan yang penting dalam pembangunan sesebuah organisasi. Objektif kajian ini adalah untuk mengkaji tentang faktor-faktor yang mempengaruhi pampasan pekerja dan mengkaji hubungan di antara faktor-faktor tersebut terhadap pampasan pekerja di syarikat-syarikat pembinaan di China. Responden untuk kajian ini dipilih daripada sample populai pekerja dalam syarikat-syarikat tersebut. Hipotesis kajian ini turut di analisa menggunakan SPSS. Hasil kajian menunjukkan bahawa 'work-related risks', prestasi pekerja dan kecekapan pekerja menunjukkan kesan yang positif terhadap pampasan pekerja. Manakala, umur dan jantina hanya menunjukkan kepentingan terhadap pampasan pekerja. Namun, saiz organisasi turut memberi kesan terhadap pampasan pekerja namun kesan itu kurang penting.



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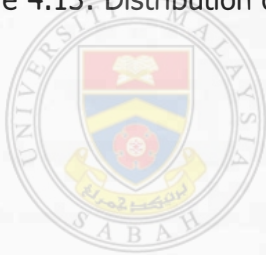
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CHAPTER 1

INTRODUCTION

1.1 Research Background

Today, perhaps more than ever before, the pressures of competition and social change are influencing not just the construction enterprises in which Chinese rural workers work, but the very nature of employment itself. Strategy has been defined as “the determination of the basic long-term goals and objectives of a company and the adoption of courses of action and the allocation of resources necessary for carrying out these goals” (Chandler, 1962). Construction enterprises and their human resource departments are continually in search of ways to motivate and reward employees in order to increase their motivation and performance. One primary HR tool that is used to affect motivation and performance is compensation (Burke & Hsieh, 2006). So compensation strategy on Chinese rural workers in construction enterprises is a vital and crucial element in HR management. Its success and failure will determine construction enterprises’ achievement of long-term goals.

1.1.1 Chinese Rural Workers – “Min gong”

1.1.1.1 Definition of “Min gong”

A new work force with distinct Chinese characteristics is emerged naturally. And, now in China, we call this new group of work force “Min gong”. In this situation, “Min” means rural population (e.g., farmers); “Gong” workers. So the meaning of “Min gong” is rural workers with Chinese characteristics.

“Min gong” refers chiefly to the labors that they take up temporary or permanent non-farm jobs in cities and their household registration are still in the countryside. And the majority of these rural workers have nothing but their labor to sell. They are mainly employed in low-end, dirty and dangerous jobs that most urbanites are unwilling to take. They are a unique social phenomenon in the process of Chinese industrialization and urbanization, and have attracted much attention from both policy circles and academics.

Chinese rural population, now, is over 730 million. It is still an enormous amount for any countries in the world although the proportion of rural population in the total Chinese population (1.3 billion, according to the population census of China, 2006) is increasingly decreasing from 73% to 56% in recent 15 years. The limited land for agriculture in Chinese rural area has already been no longer sufficed for this enormous rural population. As far as Chinese Premier, Wen Jiabao, said on the presentation, “Turning Your Eyes to China”, at Harvard in Dec 10th 2003, “At the current stage, China has an abundant supply of labor in proportion to her limited natural resources and short capital.” So some of these rural population leave this narrow labor space to look for better and more work opportunities for living in cities and towns.

Since the Third Plenary Session of the Eleventh Central Committee and the implementation of economic reform and open policy in China in 1978, China's economic mushrooming development and rapid urbanization led to a huge demand for cheap labor, which directly attracts surplus laborers from rural areas. Thus a great number of people moved within the country, from rural areas to towns and cities, in

search of job opportunities. These days, the total amount of Chinese rural workers is over 200 million, and 60% of them, about 120 million, migrate to towns and cities for works and businesses for a long time. And this number of them is estimated to grow at a speed of five million every year. These rural workers, “Min gong”, have made active contributions to the Chinese social and economic improvement. They increase income for the country, create great wealth for city, instill new vitality for rural-urban development, and boost the competition of labor market. Facts have shown that “Ming gong” is a new indispensable work force in Chinese labor market. The following table 1.1 shows the number of total population, rural population, and Chinese rural labor force in cities and towns in China from 1978 to 2006.

Table 1.1: Total Population, Rural Population, and Rural Labor Force in China (in million)

Year	Total Population	Rural population	Percentage of Rural Population	Rural Labor Force in Cities and Towns
1978	961	790	82	28
1991	1158	846	73	96
1996	1223	851	71	135
2001	1276	796	62	151
2006	1314	737	56	200

Source: National Bureau of Statistics of China (2007)

1.1.1.2 Rural Workers in Other Countries

a) In India (a developing country)

In 2001, India had a population of over 1 billion. Of these, 67.2 per cent lived in rural areas. And between 1951 and 2001, people in urban areas as a percentage of the total population increased gradually from 17.3 per cent to 32.8 per cent. In rural areas, 58 per cent remained dependent on agriculture. Regional disparities have grown, especially since the mid-1980s, with the ratio between the highest and lowest per capita incomes per state rising to 3.5 between 1997 and 2000. Migration from rural areas to urban areas in India is low. 27.4 per cent of total population was considered as migrants which are a considerable decline from 30.6 per cent in 1971, and 31.2 per

cent in 1981(Srivastava, 2005).

b) In United States (a developed country)

From the 1920s to the 1960s, people left rural America in substantial numbers, but rural counties still grew slowly due to natural increase. In the 1970s a dramatic and surprising shift occurred when more people moved to rural areas than left. By the late 1970s, growth in rural America was lagging and this slowdown became more pronounced in the 1980s. Between 1980 and 1990, the number of rural counties gaining population sharply declined and overall rural population gains slowed. After out migration and slow growth in the 1980s, renewed migration gains fueled greater rural growth in the 1990's (Johnson, 2006). As of 2000, American rural areas boasted a population of 56.1 million—about one in five Americans—and 5.2 million more than in 1990. Rural areas continued to gain population after 2000, but the pace of growth slowed considerably from that of the 1990s.

1.1.2 Chinese Construction Industry

1.1.2.1 Definition of Chinese Construction Industry

Construction enterprises should, according to the Construction Law, include all the economic entities that carry out construction and the relevant activities, such as site and/or ground investigation, design, construction, installation, and material and equipment supply organizations. In China, however, it is commonly accepted that construction enterprises refer to the businesses that undertake works of building and civil engineering construction, installation of building services, machinery and equipment (Lu & Fox, 2001).

Construction has been perceived as a pillar industry in China's economic revitalization (Sun & Ofori, 2001). Policies and programs have been implemented by the central and local governments to promote the development of the national and local construction industries, in the hope of driving the growth of the economy. The contribution of construction to the economy in China is validated by the statistical data.

Table 1.2 shows that construction sector increased its share of GDP from 3.8% in 1978 to 6.6% in 1999.

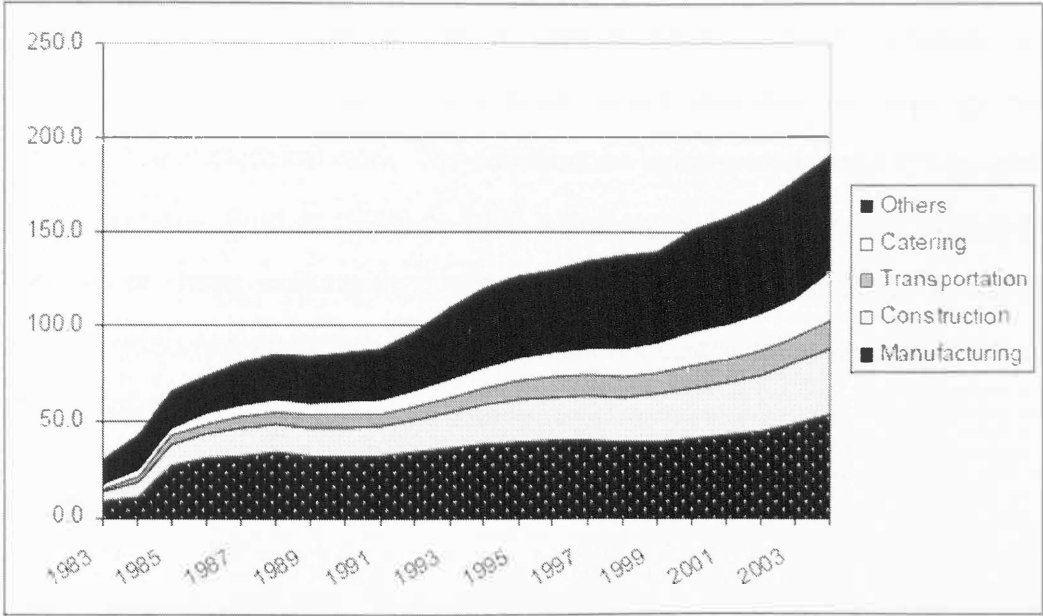
Table 1.2: Percentage Contribution of Major Sectors to GDP, 1978-1999

Year	GDP (%)	Agriculture (%)	Mining, Manufacture, Power, Gas, Water (%)	Construction (%)	Transportation, Post and Telecommunications (%)	Commerce (%)
1978	100	28.1	44.3	3.8	4.8	7.3
1983	100	33.0	40.0	4.6	4.5	3.9
1988	100	25.7	38.7	5.4	4.4	10.8
1993	100	19.9	40.8	6.6	6.1	8.9
1999	100	17.7	42.7	6.6	5.4	8.4

Source: State Statistics Bureau, China Statistical Yearbook 2000, China Statistics Press, Beijing, 2000

Moreover for Chinese construction industry, it is extraordinarily significant that the demands of labor market provide a great deal of job opportunities for these rural workers. And because of Chinese construction industry's inherent characteristics, these rural workers are also quite suitable for working in the construction industry. Nowadays, over a third of all rural workers work in the construction industry, and over 90% of Chinese construction workers are rural workers. The figure 1.1 illustrates the proportion on Chinese rural workers in the employment of construction industry and other industries.

Figure 1.1: Employment of Rural Laborers (in million)



Source: Ministry of Agriculture, PRC, 2005, China Agriculture Development Report, 2005

1.1.2.2 Construction Industry in Other Countries

a) In India (a developing country).

In India, the construction industry is the second largest industry of the country after agriculture. It makes a significant contribution to the national economy and provides employment to large number of people. In India construction has accounted for around 40 per cent of the development investment during the past 50 years. It is estimated that around 16 per cent of the working population in India depends on construction activity for a livelihood. The Indian construction industry employs over 30million people and creates assets worth over \$ 4.5 billion. It contributes more than 5 per cent to the nation's GDP and 78 per cent to the gross capital formation (ILO, 2001).

b) In United States (a developed country).

The U.S. Bureau of Labor Statistics (BLS) identifies three primary sectors in the construction industry: construction of buildings contractors, heavy and civil engineering construction contractors, and specialty trade contractors. Construction of buildings contractors build residential, industrial, and commercial buildings. Heavy and

civil engineering construction contractors are involved in building sewers, roads, highways, bridges, tunnels, and other types of heavy-construction projects. Specialty trade contractors are engaged in specialized activities such as carpentry, painting, plumbing, and electrical work. The construction industry generated 4.4 percent of the Gross Domestic Product (GDP) or \$480 billion in 2003. This industry also employs 28 percent of those working in goods-producing industries, including manufacturing, natural resources, and mining; the construction industry employs about 5.2 percent of the national workforce.

1.2 Problem Statement

Every business, including construction enterprises, faces an ever more competitive market environment. Many companies, both locally and globally, today are attempting to identify compensation strategies that are directly linked to improving organizational performance. Long-term development and high performance is the common goal for construction enterprises and their managers. According to Gomez-Mejia (1987), the change of compensation strategy must be based on the change of circumstances, especially the change of enterprises' strategy. That is to say that compensation strategy must match effectively enterprises' strategy. Moreover a lot of scholars and economists began to make an intensive study of the matching issues between enterprise's compensation strategy and management strategy. Milkovich (1988) thought that enterprises should constantly adjust compensation strategy to adapt enterprises' management strategy, and consequently enterprises would obtain high organizational performance. And Edilberto (1996) pointed out that enterprises should design their compensation system from a strategic view. Andrew (2001) also identified that with the increasingly fierce competition between enterprises and with the never ceased annexation and reorganization of enterprises, compensation must adapt to the change of circumstances.

However, construction enterprises are different from other type of businesses, e.g. I.T. enterprises, educational institute, manufacturing enterprises and so on. Further,

because Chinese economy, politics, culture all is under a background of socialist system, Chinese construction enterprises are also different from construction enterprises in the other countries. So when talking about the matching issues between compensation strategy and construction enterprises' strategy, compensation strategy should be recognized clearly in Chinese construction enterprises it also boast its own characteristics which are different from other nations' construction enterprises. Furthermore, the definition of rural workers in China is also different from the definition in other countries. That's the reason Chinese rural workers are called "Min gong". There are numerous studies which have been carried out on the compensation status of rural workers in China (Xia, 2004; Wei, 2007; Sun & Ofori, 2001; Zhu, 2002; Huang & Zhan, 2005; Seeborg, Jin & Zhu, 2000). As the research target group, rural workers in Chinese construction enterprises are mostly studied together with workers from other industries and seldom treated as an individual group. Nevertheless, there are a lot of good reasons to study the factors affecting compensation on rural workers in Chinese construction industry separated from other industries. First, the construction industry is particularly important to the Chinese economy. It has been growing steadily for more than 25 years, and the number of people employed in construction shows long term growth. As mentioned above, about one third of all rural workers in cities work in construction enterprise, and it forms a growing share in the employment market. Second, it is an industry dominated by Chinese rural workers, which comprise over 90 percent of construction workers. Finally, Chinese rural workers in the construction industry are different from workers in other industries. So, the focus of the study is to investigation of what extend the influence factors of compensation strategy on "Min gong" in construction enterprise in urban China.

1.3 Research Objectives

The purposes of this study are:

1. To identify the factors which influence compensation strategy on "Min gong" in construction enterprises in urban China;

2. To identify the relationship between influence factors and compensation strategy on “Min gong” in construction enterprises in urban China;
3. To identify the role of compensation strategy on “Min gong” in construction industry in urban China;
4. To examine the problems and challenges faced by Chinese construction enterprises to implement compensation strategy on “Min gong”;

1.4 Research Questions

To achieve the objectives of this study, the research questions are:

1. What are the factors which influence compensation strategy on “Min gong” in Chinese construction enterprises?
2. What relationship is there between each influence factor and compensation strategy on “Min gong” in construction enterprises in urban China?

1.5 Significance of the Study

In order to promote its own sustained development, the construction enterprises must turn their rural workers to advantage. Compensation as a Human Resource tool has played a particularly important role in the HR management and rural workers' motivation. So it is hoped that the result of the study would be useful for construction enterprises managers and academic researchers to better understanding the role of compensation on Chinese rural workers in today's HR management. This study also contributes to show the factors affecting compensation strategy on Chinese rural workers which should be concerned by construction enterprises managers. The finding will benefit the Chinese construction managers to develop and improve their compensation strategy that can motivate “Min gong” to arouse the initiative and create high performance.

1.6 Scope of the Study

This study will look into what factors influence compensation on Chinese rural workers in the construction enterprises in urban China, and what the problems and challenges they faced. The subjects identified for this study focus on rural workers - "Min gong" in Chinese construction enterprises.

1.7 Definition of Terms

1.7.1 Chinese characteristics

"Chinese characteristics" is a unique concept under socialist circumstance. It is simply developed many of the terms and concepts of Marxist theory to accommodate its new economic system.

1.7.2 Chinese economic reform and open policy

The Chinese economic reform and open policy refers to the program of economic changes called "Socialism with Chinese characteristics" in the People's Republic of China (PRC) that were started in 1978 by pragmatists within the Communist Party of China (CPC) led by Deng Xiaoping and are ongoing as of the early 21st century. The goal of Chinese economic reform and open policy was to generate sufficient surplus value to finance the modernization of the mainland Chinese economy. Neither the socialist command economy, favored by CPC conservatives, nor the Maoist attempt at a Great Leap Forward from socialism to communism in China's agriculture (with the commune system) had generated sufficient surplus value for these purposes. The initial challenge of economic reform was to solve the problems of motivating workers and farmers to produce a larger surplus and to eliminate economic imbalances that were common in command economies. Economic reforms started since 1978 has helped lift millions of people out of poverty, bringing the poverty rate down from 53% of the population in 1981 to 8% by 2001.

1.7.3 Compensation Strategy

Organizations that develop compensation strategy recognize the important role that compensation can play in achieving business objectives. Compensation strategy looks at using pay to motivate employee behavior towards the achievement of employer goals, and bases salary levels and salary increases on the value employees bring to their work. (Gomez-Mejia & Balkin, 1992)

1.8 Summary

This section as an introduction presents background in the research. And it injected a new concept – “Min gong” into this study to analyze the factors which influence compensation on rural workers in Chinese construction.



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CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

In the chapter one, this research had already introduced its research background and research objectives. Focusing on “Min gong” – Chinese rural workers regarded this research group in Chinese construction enterprises.

This chapter focused on a key literature reviewed that is researched about the factors which influence compensation on rural workers in Chinese construction enterprises.

2.2 Compensation Strategy in Human Resource Management

2.2.1 Definition of Compensation

For the last several decades, the growing integration of the world economy into a single and huge marketplace has increased the intensity of competition in the world market to cut costs and increase profits in a wide range (Hill & Jones, 2004). Only the most efficient and best-managed organizations can survive. Money, benefits, and many different forms of compensation have been used to attract, retain, and motivate employees and achieve organizational goals (Milkovich & Newman, 2005). Lots of researchers have already defined and classified compensation in different forms.

Milkovich & Newman (2005) pointed out that compensation refers to all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship. Total compensation includes pay received directly as cash (e.g., base, merit, incentives, cost-of-living adjustments) and indirectly as benefits

(e.g., pensions, medical insurance, programs to help balance work and life demands, brightly colored uniforms).

Compensation is a systematic approach to providing monetary value to employees in exchange for work performed. Armstrong & Murlis (1994) thought that compensation can be classified into two parts: Financial compensation and nonfinancial compensation. Financial compensation includes direct pay (e.g., salary, commission, and bonus) and indirect pay (e.g., insurance, allowance, and leave); Nonfinancial compensation includes improvement of working environment, optimization of working hours, achievement, and promotion.

Dessler (1997) indicated that compensation is any types of recompense or reward because of employees' performance. It includes two types: direct financial payment (e.g., wage, salary, incentive reward or bonus) that means all monetary forms and indirect payments (e.g., paid leave, insurance paid by employer) that involve all welfare in financial forms.

Although researchers hold different definition and perspective, they all focus on the influence and incentive of impact compensation for employees (Noe, 2003; Milkovich & Newman; 2005, Armstrong & Murlis 1994; Dessler, 1997). Organization uses financial and nonfinancial compensation to lead employees to a right direction that organization anticipates. Organization, in the process of design of compensation, must consider internal and external influence factors on the basis of compensation theories to achieve incentive purposes.

2.2.2 The Role of Compensation Strategy in Human Resource Management

The purpose of human resource management is to dispose of the employment relationship between employer and employee, and all the policies, decisions and practices associated with the relationship (Dulebohn & Werling, 2007).

From a HR management perspective, the success of major human resource activities is related to and is dependent on compensation strategy and its practice. The