ONE

Introduction
The Emergence of China’s Rural Enterprises

Every morning at approximately 7:30 a.m., thousands of young men and women walk through the factory gates of two firms in Zhejiang province I call “Jupiter” and “Phoenix,” ready to begin another day of hard work on the assembly line, amid the buzz of machinery and under the watchful gaze of supervisors. Outfitted in company-issued white and blue uniforms, these young workers, nearly all in their late teens or early to mid-twenties, chat excitedly about a variety of topics—what they just ate for breakfast, what they plan to do after work, even the results of the most recent soccer match—as they make their way to their assigned stations in the company workshops. Once there, the workers abruptly end their conversations and begin anew the process of transforming the various components before them into products that will be sold to consumers they will most likely never know or ever meet. Every day, such scenes are being repeated in more and more places throughout rural China, as industrialization transforms communities once more attuned to an agrarian way of life.

Jupiter and Phoenix, located in Wenzhou and Jinhua prefectures, respectively, are two amazing examples of rural enterprises that were
founded under dire circumstances but grew rapidly into highly successful, multidivisional firms. At first glance, these firms appear to have little in common. Jupiter was established in 1975 as a collective enterprise and today produces a huge assortment of products, including textiles, audio speakers, auto parts, and electrical relays; Phoenix was founded in 1984 as a private company and churns out a dizzying array of low-voltage electrical products, including transformers, switches, and control panels. In spite of the obvious differences in product lines and institutional origins, they nevertheless share some remarkable and important similarities. Jupiter and Phoenix began as township and village enterprises (TVEs), or xiangzhen qiye, a vast category of firms with diverse modes of ownership, organizational structures, and levels of success. During the 1990s, both underwent a significant transition to a shareholding model of ownership and are now considered “nongovernmental enterprises” (minying qiye)—in essence, private firms. Phoenix and Jupiter are highly profitable companies that dominate their rivals with the productivity that comes from having approximately 15,000 workers each. Both have nourished and continue to refine workplace institutions that encourage mutual understanding and trust among all employees. Both are dramatically reshaping their communities by helping local residents adjust to the unpredictable rhythms of a market-driven economy and, in the process, transforming the way residents see themselves and the larger world around them. In many ways, their reputations as leaders and role models in their respective fields are well deserved.

Yet nearly thirty years ago, when the Chinese leadership launched its program of economic reform and liberalization, the rise of such companies seemed most improbable. Seeking to modernize a stagnant economy and lay the foundations for sustained, long-term economic growth, paramount leader Deng Xiaoping attempted to dismantle key aspects of the Maoist model of development, a model whose potential to effect growth seemed utterly exhausted. This new course, which has come to be known as the “Four Modernizations,” slowly removed many previous restrictions on legitimate economic activity and underscored the Chinese leadership’s tacit hope that the revival of markets and commerce would overcome the failings of
China’s command economy, unleash its relatively untapped economic potential, and, at long last, bring prosperity to its citizens.

What initially began as an experiment eventually coalesced into a more concerted push toward marketization and privatization. The pace and extraordinary results of China’s “transition from socialism” have led many in policymaking and scholarly circles alike to begin pondering when, not if, the country will become the world’s leading economic power. Indeed, recent developments appear to support such thinking. Since China’s accession to the World Trade Organization in 2001, it has attracted the most foreign investment of any nation on the globe; it has amassed the world’s largest foreign exchange reserves, a cache that exceeded a staggering US$1 trillion at the end of 2006; and it has established itself as the world’s workshop, dominating the manufacture of many consumer and industrial goods so thoroughly that it is poised to displace the United States and Germany as the world’s largest exporter by 2010.1 American consumers have certainly noticed this change at such retailers as Wal-Mart and Home Depot. These stores and many others like them are stocked with items sporting “Made in China” tags, products whose numbers continue to grow with each passing day.

Despite the intense media attention directed toward Chinese firms like Lenovo (its acquisition of IBM’s personal computer division sent shock waves through business and government circles in 2005), how and why Chinese factories became so successful so quickly remain somewhat of a mystery. In fact, Lenovo’s rise obscures one of the most astonishing success stories in contemporary China, the emergence of enterprises throughout China’s vast countryside. Although rural factories were more famous (or infamous to some) during the early years of reform for their inexpensive and often shoddy knockoffs of better-known brand-name products, they have since undergone a dramatic metamorphosis, especially in the past decade. Whereas they once specialized in such simple items as canned drinks, snacks, embroidered sweatshirts, toys, electric fans, and sporting goods, they now produce more complex goods like high-fidelity speakers, auto parts, ball bearings, transformers, machine tools, and critical industrial components for the Chinese and increasingly, the global marketplace.
Introduction

Rural factories have undoubtedly become the new linchpins of the country’s ongoing economic expansion. From 1990 to 1996, for instance, TVEs increased the value of their production output sevenfold, from 250.4 billion yuan to 1.77 trillion yuan.* Throughout the late 1990s and the first three years of the new millennium, that value rose an average of 200 billion yuan per year, reaching 3.67 trillion yuan in 2003.² Moreover, these companies have played a vital role in providing employment for China’s vast reserves of surplus labor. In 2004, TVEs employed over 135 million workers, nearly a third of the total rural workforce and nearly 20 percent of China’s total workforce.³ Although many observers held unfavorable impressions of rural factories during the earliest stages of the post-Mao reforms, that view gradually changed. By 1987, in the midst of TVE expansion, even Deng Xiaoping himself was astonished by what rural enterprises had accomplished:

Generally speaking, our rural reforms have proceeded very fast, and farmers have been enthusiastic. What took us by surprise completely was the development of township and village enterprises. . . . This is not the achievement of our central government. Every year, township and village enterprises achieved 20 percent growth. . . . This was not something I had thought about. Nor had the other comrades. This surprised us.⁴

It should not have. Indeed, one might argue that without these firms, the Chinese countryside would not be as prosperous or as stable (illegal land confiscations and unfair government levies notwithstanding) as it is today. Still, although countless rural factories have most certainly crumbled since the reform policies were first enacted, those that survived did so because they struggled and persevered against great odds—and triumphed. Their success prompts several questions. To what extent are their achievements, for instance, due simply to the exploitation of Chinese workers? If the growth of these factories is due to more than driving workers hard, how do peasants turned workers, considered by some scholars to be ill-suited for

*The yuan, also known as the renminbi (RMB), is the official name of the Chinese currency. From 1994 to 2005, the exchange rate was 8.2 yuan to the US dollar.
industrial work, develop such impressive skills in so short a time? To what extent do the personal backgrounds, orientations, and values of employees affect the cohesion and operations of these burgeoning companies? What processes, experiences, or organizational arrangements contribute to the formation of this disciplined, industrious workforce? And how long can peasant workers sustain their efforts in the face of fiercely competitive pressures both inside and outside the workplace?

This book represents my efforts to explore and understand rural enterprise success. To be sure, success is a tricky term, a moving target of sorts that encompasses efficiency, profitability, dynamism, and staying power. To the employees of Phoenix and Jupiter, success meant all of these things and more. Although managers and workers were sometimes confused about or disagreed on what aspect should take precedence at what particular time, they almost always returned to a few common elements and themes. In this study, I adopt the definitions of my respondents and take the term to mean not only high profit margins and long-term growth but also the high levels of institutional stability that result when employees accept company policies and practices as legitimate. In studying these firms, I discovered that the resilience of these factories has as much to do with the definition and exercise of authority and the interactions of people as it does with the company’s ability to generate profits. Put another way, this is a story of how Jupiter and Phoenix successfully overcame the formidable challenge of synthesizing and synchronizing the formal responsibilities and organizational routines of the firm with the disparate interests, expectations, and behavior of their employees. Although conflict resolution and interest accommodation are central aspects of any institution-building process, what made Jupiter and Phoenix especially innovative was their utilization and adaptation of social networks in the course of establishing and transforming their factories. More specifically, the founders of these companies infused their operations, especially in the earliest years of their development, with what Robert Putnam calls “social capital,” or the trust and reciprocity derived from the kinship and social networks in which members of both enterprises were embedded.
Pushing this line of analysis further, I submit that the ability to tap, deploy, and replenish social capital at critical moments in the enterprises’ histories was central to the eventual rise and consolidation of the factory as an effective, robust institution. Hence, without high levels of mutual respect, trust, and cooperation, enterprise leaders would have found it nearly impossible to improve productivity, workplace stability, and the long-term viability of their companies. With this in mind, my analysis details the origination and transformation of rural enterprises into what Philip Selznick calls institutions or organizations “infuse[d] with value beyond the technical requirements of the task at hand,” a most unusual outcome in the often unsettled economic and political environment of post-Mao China.

This study is also an account of how people in the Chinese countryside make sense of and participate in the industrialization drive that has engulfed them over the past few decades. By examining almost literally the “nuts and bolts” of the factory, the work processes as well as the interactions between employees on and off the shop floor, I demonstrate how workplace dynamics can both enable and constrain the ability of workers and managers alike to attain the myriad aspirations they seek to satisfy each day. For many first-time workers especially, the work and regimen of factory life can be jarring. Having traveled for days from remote villages in China’s interior, and having left family and friends behind in search of a decent livelihood, they usually do not have the luxury of easing into this new way of life. They must adjust, and they must do so quickly. At the same time, each individual brings more than just her labor, skills, and knowledge to the factory; she brings expectations, orientations, and experiences that often diverge from those of her counterparts and her employer. Disagreements over such ideas as discipline, responsibility, and fairness deeply affect how employees engage one another and how much cohesion and stability can be generated in the workplace community. How employees, especially workers, respond to and navigate the alien and sometimes treacherous terrain of the industrial workshop can make or break a company. How this process unfolds is critical to understanding not only how rural factories have grown so quickly but also why they remain so vital to China’s economic development.
Approaches to Understanding Enterprise Success

How can enterprises in planned economies become dynamic and productive? At first glance, this seems like a simple and straightforward question. Conventional social science analyses suggest that the answer lies in subjecting companies, especially China’s inefficient, state-owned firms, to the demands and pressures of the market. Indeed, much of the early scholarly discourse on this topic focused on how to overcome the endemic dysfunctions of socialist economic systems, specifically state-created price distortions and allocative inefficiencies that undercut economic efficiency and growth. As the noted Hungarian economist János Kornai explains, socialist enterprises are motivated by a logic very different from that of their capitalist counterparts. Whereas capitalist companies pay close attention to the “bottom line” and profit margins, socialist firms are fixated on fulfilling output targets set by bureaucratic state planners, regardless of cost or product quality. Because financial incentives to operate efficiently do not exist and because firms know they will continue to receive state subsidies despite major financial losses, a condition of “soft budget constraints” emerges. Unfortunately, such circumstances exacerbate rather than eliminate existing distortions and perpetuate chronic shortages of vital goods and a surplus of unwanted products, well before the needs and demands of consumers are satisfied.9

Given these dynamics, some scholars, including Kornai himself, declared that “partial reform” of socialist economies could not succeed in the long term. Continued bureaucratic manipulation of investments, interest rates, and wage structures alongside autonomous markets would only sharpen the fundamentally antithetical features and logics of plan and market. Ultimately, the solution to these problems rests on the implementation of a more radical proposal: only privatization and the complete shift to a market-oriented institutional structure can eliminate the distortions and inefficiencies of planned economies.10 In this framework, the clear definition and enforcement of property rights are crucial to reducing “transaction costs” and generating more efficient results.11
This market-based approach is powerful because it demonstrates how the establishment of “correct” micro-level incentives can lead to desirable macro-level economic outcomes. For proponents of this approach, the open pursuit of private interest not only satisfies individual needs more efficiently and effectively but, more important, contributes to the broader public good. When the state sanctions such activity, the talents and potential of individual citizens, as well as innovation and progress, can be maximized. Although these insights are highly significant, critics have also pointed out that such conclusions are overly theorized and do not adequately account for the peculiar challenges and contexts of transitional economies like China’s. As Edward Steinfeld notes, the approach would work well if the main economic actors in China were private individuals capable of enjoying and acting on secure property rights, as they do, for example, in North America and Europe. The problem, of course, is that despite considerable progress, post-1978 China still has little in common with most advanced capitalist economies in this respect. In fact, China is still a place where nonprivate, nonindividual actors often exhibit profit-maximizing behavior similar to that of their private, individual counterparts, even in an environment in which property rights are not always clearly defined.

Moreover, the mechanism for regulating and enforcing property rights is hardly robust. Hence, those who insist on privatization as the sole means of stimulating growth appear to be wedded more to their personal normative preferences than to a grounded understanding of China’s institutional setting. In response, some China scholars have suggested that the re-examination and revision of the major tenets of traditional ownership and property rights theory are in order. Martin Weitzman and Chenggang Xu, for instance, have suggested that the informal dimensions of economic interaction—the “cooperative culture,” as they put it—may reveal why the establishment of explicit, formal rules may not be absolutely necessary in some institutional contexts.

*In March 2007, the National People’s Congress approved a new property law that officially recognizes an individual’s right to own private assets and prohibits local authorities from seizing land for unauthorized use or development.*
A competing perspective, albeit one also rooted in similar assumptions about the power and appeal of the market, stresses the benefits of gradual marketization over rapid privatization. According to advocates of this view, privatization, while preferable, need not be implemented immediately in a reforming economy like China’s so long as firms are encouraged or even pressured to respond to consumer demands during the transitional period. Under such circumstances, an enterprise’s behavior matters more than its ownership form. Here, what Victor Nee calls “hybrid firms” (collective enterprises) can be as competitive as private ones, at least in the short run, because their privileged relationships with local governments provide them with critical advantages not usually enjoyed by their rivals.\(^{15}\) In a period of market transition, local cadres can play an important supporting role by providing immediate assistance to firms desperate for scarce raw materials, bank loans, and credits and helping them adjust to new expectations and ways of conducting business. This phase can persist until market mechanisms render such practices and relationships obsolete.\(^{16}\)

Additional research on Chinese rural enterprises has confirmed a number of these assertions. Jean Oi, one of the major proponents of the local state corporatism framework, sets forth a compelling alternative understanding of local economic processes.\(^{17}\) She, too, examines the consequences of economic reform, but, in contrast to other theorists, she argues that changes in central-local government revenue-sharing arrangements spurred the rapid development of rural enterprises, especially in Shandong province. More specifically, two key changes contributed to this outcome. First, new fiscal arrangements between the central and local governments have generated new incentives for local cadres to facilitate the development of factories within their jurisdictions: they can earn higher pay and promotions for helping enterprises flourish. Second, these new policies allow local governments to keep a larger proportion of revenues for local needs. Thus, some of the profits can be retained and spent on improving local infrastructure or community welfare, which further enhances the political standing and prestige of the cadre within the local community. These policy alterations essentially produced a
de facto transfer of property rights to local actors and pushed bureaucrats to behave more like private entrepreneurs.

Extending the local state corporatism approach further, Andrew Walder likens the strategy and behavior of local governments to those of industrial firms. In his view, government officials resemble “the principal in a corporate structure and enterprise managers are analogous to division chiefs or plant heads within a corporate firm.”18 Interested in ensuring the profitability of all divisions, local cadres carefully monitor the latest market developments and then use their networks to provide factories with capital and technology or assistance in navigating complicated bureaucratic procedures on licensing, registration, and taxation.19 Although one might wonder whether cadres always exhibit optimizing rather than “satisficing” behavior∗ or whether they simply got lucky, Oi’s and Walder’s point is well taken: government officials can be just as entrepreneurial and innovative as private individuals. In showing how the interests of local governments and rural enterprises intersect, Oi and Walder also draw out critical macro-level implications for planned economies in the midst of transition. The successful partnership between cadres and firms at the local level presents the possibility that socialist institutions can be adapted to fulfill the imperatives of reform. Rather than being jettisoned, networks developed under socialism might be effectively used to assemble new institutions and support more market-oriented practices, a process David Stark and László Bruszt call “bricolage” in their analysis of the post-communist market transition in Eastern Europe.20

These approaches have contributed greatly to our understanding of the importance of financial incentives, property rights, and new contractual arrangements between central and local governments to the success of local industries. This study, however, argues that the politics that take place within rural enterprises are equally crucial to that success. Ultimately, whether property rights are clearly defined or not, enterprise employees must still engage in the hard work of

∗The term was made famous by Herbert Simon; see Administrative Behavior, esp. 38–41. He argues that actors are not always able to select the best available option; instead, they are more likely to adopt the one that is simply good enough.
manufacturing products for the market. How managers and employees come together to complete this task is just as important, if not more so, than external factors in determining long-term economic success. The problem is that perspectives focusing on exogenous factors provide only a rather static view of the enterprises themselves. By blackboxing the firm, they assume that enterprise stability exists but do not explain how it is created and sustained. Consequently, companies often appear, in Paul Pierson’s words, “frozen” or “locked in” and more inert than they actually are. Factories become closed systems impervious to outside influence, when in reality they are “open” and as deeply affected by internal forces as they are by external ones. Although these studies often do note how firms were founded, they seldom explain how and when authority structures evolve and why some management practices remain robust in the face of change whereas others become outmoded. In other words, they offer a limited sense of how companies change over time. Perhaps most important, they shed little light on how members of the enterprises themselves understand and respond to the strains of an industrial regimen and how they determine who will be the winners and who the losers in the debates and struggles taking place behind the factory gate.

Revisiting the Factory: Outlines of a Micro-level Approach

Examinining enterprises from the inside out may recall for some the classic, “old institutionalist” accounts of organizational development as well as a number of recent pathbreaking studies of Chinese labor. Certainly, my work draws considerable inspiration from these two bodies of literature and shares their view that a systematic analysis of relationships and interactions within the firm helps overcome the tired image of factories as engines of production that can be turned on or off at will. Indeed, they are so much more: they are as much sites where managers make vital decisions about a company’s future as they are places where people wrestle with historical legacies they cannot ignore and myriad constraints they seek and even feel compelled to overcome. This, in part, is what makes
them locations of heated contestation, places where new identities are shaped and allegiances forged and tested. In the transitional context of post-Mao China, they are also where kinship networks, native-place identities, and informal norms have re-emerged as potent social forces that often collide against the harsh logic of rationalization and impersonalism. If the formation and success of enterprises and China’s economic competitiveness depend on how these forces are reconciled, it is worth exploring more carefully how and why specific management practices were created and institutionalized inside factory walls.

This book adopts an ethnographic approach to understanding the nature and trajectory of China’s industrial transformation and its impact on the multitude of workers who toil on the shop floor. It builds on some recent, pioneering works on Chinese labor, which have been especially illuminating in regard to the sometimes murky world of factory work. Ching Kwan Lee’s *Gender and the South China Miracle*, for example, highlights how “diverse patterns of production politics emerge as conjunctural outcomes of the state, the labor market, and differentiated deployment of gender power.” Her findings reveal that even as global economic forces and state objectives have dramatically reshaped work opportunities in southern China, native-place ties, age, and gender have all played a profound role in determining the control strategies managers deploy and the broader conditions of work in the two electronics plants she studied. Her ethnographic study also uncovers and explores how the personal concerns and the family commitments of the *dagongmei*, or female migrant workers, who anchor the factory workforce, at times make them more vulnerable to the machinations of their largely male superiors and how in other instances their emerging identities inspire them to defy managerial directives. By building on the testimony and experiences of her coworkers, Lee successfully uses micro-level data to demonstrate that production politics comprises a more complex, sometimes hidden set of negotiations and processes on both the individual and collective levels.

My study attempts to illuminate the complex organizational dynamics that engendered a sometimes bewildering mix of formal requirements and informal practices. To do so, I adopt the analytical
approach pioneered by Ken Jowitt as a general frame for understanding the transformation of the rural enterprises on which my analysis is based. In the field of communist studies, Jowitt’s work is well known for offering some of the most theoretically compelling insights into the birth, development, and death of what he terms the “Leninist phenomenon.” His approach, with its focus on “elite-designated core tasks and stages of development,” provides an especially powerful means of identifying not only the most essential and novel features of Leninist parties but also the dilemmas they face in attempting to transform their members, their organizations, and the external environment over a protracted period of time.

What Jowitt identified as the signature attributes and objectives of Leninism constitute an elegant distillation of the central themes in organization theory and institutional development. In many ways, those insights can fruitfully be applied to understanding China’s rural enterprises. Like the leaders of Leninist parties in particular and heads of organizations in general, company founders sought to achieve key objectives through specifically tailored strategies in often turbulent environments. Through a developmental stages approach, we gain a clearer view of the complex interconnections among organizational goals, actions, and outcomes, as well as how contradictions among the three produce organizational change.

In each of the three stages—survival, expansion, and reintegration—that I lay out in Chapters 3, 4, and 5, I begin with a look at the enterprise’s formal goals and structure. I examine the objectives set by company leaders and explain how these imperatives shaped production and authority. Production and authority can be studied and better understood through their more concrete manifestations: the chain of command, job descriptions and formal responsibilities, work rules and sanctions for noncompliance, and company wage scales and financial incentives. Outlining the objectives guiding the firm and the methods employed to achieve them helps us to understand why some managers seek to establish “hegemonic regimes” with near absolute authority over employees and why others reject this approach. We also see why, as was the case with the firms in Mark Frazier’s fascinating study, management practices are seldom as uniform and well integrated as outside observers often imagine them.
to be. Instead, they are layered on one another, even though this frequently results in major contradictions and confusion. This is less the result of incompetence (although there is ample evidence of such) and more a reflection of the conflicting interests of diverse actors throughout the firm as well as the numerous clashes they have engaged in over time.

More is needed though. An analysis of how the informal structure, the unwritten rules and norms that can deeply influence employee behavior, either enhances or undercuts the ability of the company to attain its goals is crucial to developing a more nuanced portrait of these firms as institutions. To do this, I do not focus exclusively on one specific group within the enterprise; rather, I seek to present a more comprehensive account of factory employees, from top executives and plant managers to lower-level staff, assembly line workers, and even support staff such as members of the company canteen and custodial crew. More specifically, I show how the personal concerns and aspirations of factory personnel vary significantly by their rank within the enterprise. These differences are crucial in determining not only how workers relate to one another but also the degree to which they accept the orders of their superiors and the formal demands of the organization. I also assess the resonance of values and mindsets embodied in re-emerging group-oriented patterns of association, namely, kinship ties and native-place identities, upon a worker’s willingness to comply with the rules that regulate factory activity.

By studying rural enterprises with these variables in mind, a substantially different view emerges to complement our current understanding of this institution. Juxtaposing the formal demands of the workplace with the informal expectations of employees allows us to see more clearly not only the rational intentions behind organizational design but also the points where conflict, resistance, and change may arise. The enterprise thus becomes a kind of laboratory where individuals participate in the process of defining and resolving issues of individual opportunity, collective welfare, and higher purpose. These debates on fairness and propriety are continuous and dynamic, with answers fluctuating in response to the changing conditions and imperatives confronting these firms.
How much we learn about firm dynamics with this approach hinges critically on the assumptions undergirding this study. First, I see historical legacies—ecological, social, and political—as central determinants of an enterprise’s and, indeed, a community’s developmental pace and trajectory. Although legacies are most typically seen as constraints, I assume that they can enable economic and social activity as well. More precisely, I see collectively oriented social norms and “traditional” values and perspectives as potential facilitators of cooperation rather than permanent obstacles to it. Certainly, how such values are used depends on the actors themselves, but legacies should not be seen only as barriers to progress. Second, I assume that the ability of actors to achieve their objectives varies with the resources at their disposal and the authority of their offices as well as the choices they make. A poor decision, for example, can easily thwart success, even if, say, the company president deploys all available resources toward the attainment of a specific goal. Finally, decisions and actions can precipitate unintended but consequential effects. Their impact on interactions in the workplace, positive and negative, highlights the centrality of contingency and process in organizational dynamics.

My objective in this book, then, is to reveal and explain how these various forces and concerns are articulated and balanced against the backdrop of a broader, marketizing environment. More specifically, I evaluate how the processes of role definition and institution-building in the firm lead to the critical levels of labor stability necessary for production to proceed. As important as strong market structures and linkages to local governments are, I submit that what ultimately determines the enterprise’s ability to generate profits is the degree to which members of the workplace understand and willingly fulfill the duties and responsibilities they are assigned. Without this acceptance or even begrudging tolerance to bolster the factory authority structure, the enterprise will crumble, no matter how attractive the financial incentives might be. The leaders of successful rural enterprises understand this predicament and are able to negotiate a course of action that avoids debilitating confrontation and instead promotes cooperation. As a result, they are able to transform peasants into workers.
Perhaps what is most astonishing is their unconventional approach to establishing stability within their firms. Rural enterprises thrived because the charismatic leaders of the firm successfully fused a collectively oriented, trust-based, and reciprocal social ethos with an individually oriented, profit-driven, industrial production regimen. This particular amalgamation drew on the few resources these communities possessed and created a new “historical substitute” for the patterns of industrial development that first emerged in Western Europe.\textsuperscript{29} I further hypothesize that discontent and instability within the firm—disregard for work rules, disputes with superiors, absenteeism, and high turnover rates—reflect a profound disappointment over the divergence of formal demands from widely accepted social norms of behavior.\textsuperscript{30} In other words, I argue that the formal structure and demands of the firm, the personal background of the individual employee, and group-oriented social norms combine to generate differing levels of labor stability within the factory.\textsuperscript{31} The more these factors are in sync, the more likely that stability will result. Conversely, the less they are in accord, the less likely stability will follow. Balancing these often contradictory forces and concerns has been central to the lasting success of the two firms that anchor this study. Moreover, their continuing struggle to bring the formal goals of production and the informal norms of proper behavior into a workable equilibrium marks the three developmental stages I see as defining the enterprise’s developmental course: survival, expansion, and reintegration. Figure 1 summarizes the approximate duration of these stages for Jupiter and Phoenix.

In the incipient stage of development, the overriding concern and the central organizational imperative for the firm’s founders was the enterprise’s survival. Working within an unstable institutional environment, firm leaders sought out employees who would be wholly committed to building the enterprise and willing to do anything necessary to keep the factory’s operations running smoothly. Those who fit this profile were the people they knew best and trusted most, their closest relatives and fellow locals. With this core group, the enterprise’s “heroic cadres,” the need for complicated work rules and careful monitoring of work performance was low. The
simple organizational structure that emerged facilitated the completion of tasks and allowed the forging of even closer personal bonds through self-sacrifice and heightened mutual commitment. Moreover, a strong sense of personal involvement by the founders and a “rough egalitarianism” pervaded the scene in this stage, cushioning members against the backbreaking burdens of factory work and assuring a crucial level of labor stability that allowed members to adjust gradually to the difficult demands of industrial production.

As the danger of firm failure diminished, the guiding motive of the next developmental stage was enterprise expansion. That is, in an attempt to enhance the company's competitiveness and preserve its earlier success, enterprise leaders rationalized and standardized their operations along the lines of multidivisional firms like General Motors and DuPont. In order to achieve this end, technical specialists were hired; new, uniform work routines were instituted; and a more complex division of labor was created for the factory. Even as this precipitated massive jumps in output and efficiency, social tensions and conflict increased as well. The new division of labor resulted in a steeper hierarchy of authority and status over the workforce, undermining the egalitarian spirit that had permeated the previous stage of enterprise survival. Although the new technical and managerial staff improved the overall welfare of the enterprise community, their presence created new fault lines within the workforce as well. Members of the technical staff were often nonlocals who received lucrative compensation packages and high-ranking positions within the company bureaucracy in exchange for providing specialized skills.
For the enterprise members who had been crucial during the stage of enterprise survival but lacked such expertise, this development betrayed the norms of fairness and propriety central to the kinship networks that had shaped their previous efforts. Increasingly, these changes became a source of friction within the firm.

Recognizing that profitability could not be earned at the cost of workplace peace, enterprise leaders are now in the midst of a new phase, enterprise **reintegration**. In this ongoing stage of development, they are trying to restore the camaraderie that was a central feature of the firm’s earlier struggle to survive while preserving and deepening the benefits of expansion. As a result, leaders have softened many of the harshest aspects of their expanded and rationalized structure and moved toward a more flexible and decentralized managerial approach focused more on ameliorating social tensions and social distinctions in the workplace. These efforts have sparked meaningful changes in other areas as well. First, new paternalistic practices have been adopted, extending collective benefits to all members. These benefits often take the form of “red envelopes” (*hongbao*) handed out during *chunjie* (Chinese New Year), cases of soft drinks distributed during the sweltering summer months, gift items like tea sets, raincoats, and umbrellas emblazoned with the company logo, as well as more substantial retirement and severance packages and, most recently, expanded medical care. Moreover, they have moved to redefine membership in the enterprise community. So long as individual members contribute to the well-being of the enterprise, they are considered part of the enterprise “family,” regardless of their background or connection with high-ranking company officials. Interestingly, this identity is being reconstructed with the help of the Communist Party, yet along different lines than those of the Maoist era. Today, the party is playing a supporting, not a leading, role in the operations and affairs of China’s rural enterprises. Through *karaoke* contests, sporting events, and other public rituals, party members are helping company leaders reshape the symbolic terrain of the factory in hopes of resolving the numerous organizational and social challenges that have recently emerged on the shop floor. The local political and economic elites have once
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**Survival**
- Core task: Ensure financial viability
- Authority relations: Personal and simple, based on norms of reciprocity and trust, rough sense of egalitarianism
- Workforce composition: Almost exclusively local
- Level of labor stability: High—disagreements were few and resolved amicably

**Expansion**
- Core task: Rationalize production and increase scale of operations
- Authority relations: Formal and hierarchical, greater specialization, increased reliance on impersonal rules
- Workforce composition: Somewhat mixed; locals dominate executive positions, more non-locals in technical and line production positions
- Level of labor stability: Low—turnover rates soared as work disputes became more confrontational

**Reintegration**
- Core task: Maintain profitability and re-capture social solidarity
- Authority relations: Bureaucratic, decentralized, paternalistic orientation mediated by party-led organizations
- Workforce composition: Increasingly mixed, especially in technical and administrative positions; production positions dominated by nonlocals
- Level of labor stability: Mixed—turnover rates have stabilized but employees still frustrated by uneven enterprise policies

**Fig. 2**  Key attributes in the developmental trajectories of Jupiter and Phoenix

again joined forces in an attempt to ensure lasting prosperity for their local communities. Whether they ultimately succeed will depend largely on how they manage the sometimes contradictory economic and social forces that first brought them together and still occasionally threaten to tear their enterprises apart. Figure 2 highlights the critical aspects and outcomes of each stage in the developmental trajectory of Jupiter and Phoenix.
Sources and Methods

In order to learn firsthand about the internal dynamics of rural enterprises, I tried to gain direct access to such firms to interview people who worked in the factories. In the summer of 1996, I made a preliminary trip to the southern province of Guangdong, one of the fastest growing regions in China, to inquire about the possibility of doing research there. I reasoned that the enormous success of enterprises in Guangdong would encourage enterprise employees and managers to speak candidly about their accomplishments as well as the challenges they eventually overcame. By casting my examination as a serious attempt to understand their recipes for economic success, I also hoped to reduce official suspicions about the “true intentions” of my research. Although local officials accompanied me to a large enterprise in Shunde county, outside the city of Guangzhou, I was given only a short tour and brief introduction to the firm’s operations and history. When I broached the issue of doing fieldwork and conducting interviews at the company, my host smiled and then summarily dismissed the possibility. “It would be too disruptive,” he said, “to have someone who doesn’t work here wandering around and asking questions.” Anyway, as the manager of a smaller firm stated, “What is there to research? It’s all very simple. If your work is good, you get paid. If your work is bad, you get fired.”

Disappointed that my original plans had fallen through, I searched for other options. Fortunately, I met scholars affiliated with the Zhejiang Institute of Asia-Pacific Studies headquartered in Hangzhou, the provincial capital of Zhejiang. Through my discussions with them, I discovered that one of the institute’s major research topics was the impact of the reform policies on Zhejiang’s economy. In fact, some of the issues I wanted to explore in regard to factory development overlapped with their interests. It was my great fortune to develop a strong partnership with them. Before I began conducting field research, I consulted with friends at the institute about the types of firms I hoped to visit and the kind of research I wanted to undertake. I specifically mentioned that I wanted to study one private firm and one collective enterprise so as to compare their responses to the challenges of organization and production. Through
intensive case studies, I hoped to observe and record the manner in which the leaders of such firms tried to shape the enterprise community and how other members of the firms responded to ever-shifting demands. In my mind, the only way I could find answers to these questions would be to talk, live, and work with factory employees. Hence, I emphasized to my friends that what I needed most was the opportunity to interview as many employees as possible and observe the workings of the shop floor.

With the help of the institute, I was finally granted permission to visit Phoenix Enterprises in southeastern Zhejiang and Jupiter Enterprises in central Zhejiang. In total, I spent nine months researching these firms: June through September 1997 at Phoenix and April through August 1998 at Jupiter. I also made brief follow-up visits to Phoenix in April 1998 and July 2004. The first few weeks at each site posed difficulties as company representatives labored to keep up with their own workloads and took on the additional burden of introducing me to the company’s history and ongoing operations. When staff members were unavailable to arrange introductions and initial visits to the plants, I was allowed to examine “declassified” company documents, although I was forbidden to photocopy these materials for my own research files. These memorandums, reports, and directives provided me with significant information on the firms’ history and authority structures as well as the formal regulations and procedures guiding their operations. The documents also supplied some background information on the workforce, including age, gender, education, and native-place breakdowns. Unfortunately, this information was often out of date and incomplete: employees came and went so quickly that managers barely knew the general characteristics of their workforce. Nevertheless, the information that they were able to collect provided basic profiles of each company. These profiles sharpened my focus and helped me formulate more precise questions, which I then directed to my respondents.

Both companies allowed me to shadow key managerial staff throughout their workday, labor alongside production workers on the assembly line, and eventually to conduct multiple interviews with various personnel. My extended stays provided numerous opportunities to ask key questions about the genesis and implementation of
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company policies as well as the sources of resistance to them and their eventual evolution. More important, the data I collected prompted me to revise my initial hypotheses regarding the necessity of clearly defined property rights for ensuring enterprise profitability and efficiency. None of this could have been accomplished without the generous help of a great number of people I have come to know so well. Every one of them patiently answered my seemingly pointless queries, and each one of them helped deepen my understanding of the world in which they live. I was privileged to share countless conversations with them, most often in their offices or on the shop floor, but also over dinner, over tea, and even on pedicab rides through both townships. For the purposes of this book, however, I rely chiefly on the information provided by 135 respondents, 105 from Phoenix and 30 from Jupiter. I also benefited from discussions with a handful of scholars and local officials as well. Their insights added considerably to my understanding of the broader regional dynamics—economic and political—in which Phoenix and Jupiter were enmeshed.

The obvious disparity in the number of respondents at the two firms reflects the unavoidable challenges of field research. At Phoenix, I was fortunate enough to live in the employees’ dormitory complex, where a mix of workers, technical specialists, and managers resided. Just below my room, on the first and second floors of the building, were the company canteens, one for production line workers and the other for managerial and technical staff. Both canteens provided opportunities to interact with employees from different offices and factories and find out firsthand about the day’s events. More important, Phoenix’s executives graciously granted me nearly unlimited access. Although the company’s 43 plants were scattered throughout the far reaches of the township (making many virtually inaccessible), I was able to visit and study twelve of the longest-running factories, all of which were clustered around the company’s headquarters. I was given complete freedom to roam the shop floor and investigate any aspect of the operation I wanted. Managerial and technical staff were cooperative and supportive and even allowed me to work on the production line. I assembled on-off switches and an assortment of indicator lights, almost none of which
passed quality control, much to the amusement of my fellow workers. I also wrapped and packaged relays and transformers, a much simpler task, at least until I was asked to switch to stacking them neatly on pallets and help move them to the warehouse. Although I turned out to be a rather unproductive worker, my direct experiences on the line in several plants over many weeks gave me a new perspective on how the demands and pace of work affected the views and behavior of factory employees.

In contrast, the situation at Jupiter was more restrictive. First, my base was a local hotel, not company dormitories. Most of the dorm complexes (I knew of at least five) were dispersed throughout the township and located much farther away from the plants I studied, distances that were considerably farther than those I faced during my stay at Phoenix. The hotel was closer to the places I needed to be and served as a better base for extended interactions with enterprise members. Second, three months prior to my visit, Jupiter had experienced a case of industrial espionage. A foreign spy posing as a graduate student stole a set of closely guarded blueprints from one of the company’s plants. In response, the company tightened security considerably, limiting full access to a select group of high-ranking company officials. Despite these restrictions, I nevertheless received clearance to study five of the company’s major divisions. At one of the plants, I was able to engage in participant observation and make arrangements to talk with respondents more intensively after work hours. Occasionally, I stayed for overtime shifts in the workshops as well. I was also given the opportunity to attend other company events, including a meeting of the company’s Communist Party members, as part of my research. So although the situation at Jupiter was, in some ways, more restrictive than that at Phoenix, I still came away with a thorough overview of the company’s operations. I tried as much as possible to adapt to the situation at hand, juggling my schedule and quickly taking advantage of opportunities to engage employees in conversation as they unexpectedly arose. In many ways, my experience at Jupiter reflected the successful application of what Thomas Gold has called “guerrilla interviewing” techniques.32

The methodology I employ in this study is qualitative in nature. That is to say, I aim to provide as “thick” a description of the
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enterprise and its members as I can and locate them within their specific historical and institutional contexts. Yet unlike more traditional ethnographies and case studies, I attempt to use a “holistic approach” to explain how a number of factors together, not in isolation, lead to labor stability within the firm. This process of discovery is predicated on the view that multiple conjunctural causation provides a stronger basis for evaluating and understanding social phenomena. It also suggests that data drawn from the micro-level of the firm can contribute to our understanding of macro-level issues of rural development in China as well as China’s political economy.

Still, questions about the conclusiveness of this kind of study are not easily dispelled. Scholars may justifiably question the representativeness and reliability of my respondents’ testimony. To be sure, my respondents may not constitute an ideal sample of enterprise employees, but the number of people I interviewed and their varied backgrounds and positions within the firms lend important insights into the formation and conduct of company operations. Many of them had intimate knowledge of work routines and the evolution of managerial practices and provided this information to me in a series of long discussions. My interviews were semi-structured yet open-ended so as to allow me to explore interesting leads and unanticipated topics. Even so, I was aware that respondents might embellish their stories or provide self-serving testimony. I tried to minimize this by separating specific events and processes from their understandings and assessments of them. As much as possible, I also attempted to corroborate events and actions with the testimony of other respondents and my own observations. In addition, I hoped my refusal to pay for the testimony and my insistence on keeping their identities confidential further reduced incentives to provide false information. Although I cannot guarantee the absolute veracity of all their statements, I do believe I have a strong collection of truthful responses on which to base a study of rural firms in China.

Others might wonder whether the two firms I analyze here can be seen as representative of China’s myriad rural enterprises. The large size of both firms and their location in a relatively advanced coastal province, some would say, disqualify them as subjects from which we
can draw more far-reaching conclusions.* Although such points are well taken, they also miss some crucial aspects of the Chinese situation. Both firms began as small-scale enterprises and grew in size only after years of continuous struggle and operation. Furthermore, their location in remote and resource-poor areas of Zhejiang decreased the possibility of their benefiting from significant governmental investment and assistance in comparison to rural enterprises in other provinces. As a result, enterprise leaders relied largely on their own networks and resources in organizing and maintaining a competitive work organization.

Although the two cases that anchor this study are not typical in a conventional sense, both firms confronted and overcame common organizational challenges facing all enterprises in highly turbulent environments. More specifically, their lack of resources and relative isolation parallel the situation in which the vast majority of factories in the Chinese countryside find themselves today. Consequently, firms in interior regions of China seeking to escape their own difficult circumstances may learn a great deal about the process of building an enterprise from the rich histories and experiences of Jupiter and Phoenix. In this sense, I hope this book provides an empirical foundation for a broader theory of rural enterprise development and deeper insights into how individual Chinese fare once they step inside the factory gate.

Overview of the Study

The following chapters take up specific aspects of the developmental course taken by rural enterprises and show the linkages among the various parts of my argument. Chapter 2 examines the specific historical legacies of southeastern and central Zhejiang. In looking at these features, I try to show how broader ecological, economic, political, and social constraints influenced the strategies enterprise leaders eventually adopted.

*I readily acknowledge that a study of failed enterprises would offer an important contrast and enhance the findings of my study. Of course, the problem was that once such firms went bankrupt and shuttered their operations, there was no way to interview their personnel or investigate their organizational dynamics.
Chapters 3 through 5 concentrate on the processes and experiences of the industrial workplace, describing in finer detail the main processes that defined each of the developmental stages the enterprises underwent. Chapter 3 explains the institutional origins of Jupiter and Phoenix and highlights the strategies employed by enterprise leaders that allowed the firms to endure. I point out especially how the personal charisma and commitment of firm founders and the informal norms of trust and reciprocity enhanced accountability and a sense of common purpose, which, in turn stabilized shop floor dynamics. Chapter 4 focuses on the leadership’s plans to expand and rationalize enterprise operations and how the growing divide between formal objectives and informal expectations created new conflicts and a new identity crisis among the workforce. I break down the varied backgrounds and concerns of enterprise members and show how resentment over new, rationalized work procedures and growing status distinctions among the workforce eroded labor stability in the factory. In Chapter 5, I evaluate enterprise efforts to deal with the newly emerging conflicts and fissures that emerged during enterprise expansion and the impact of growing bureaucratization on both firms. Specifically, I appraise enterprise strategies to restore earlier levels of labor stability through an expansion of paternalistic practices and the adoption of a more inclusive, “enterprise family” orientation, efforts supported by the Communist Party, which was surprisingly called back into the enterprise to assist in overcoming internal dissension. In the final chapter, I discuss the implications of the experiences of rural enterprises and evaluate not only their future prospects but, just as important, their legacy for a dramatically altered Chinese countryside.