

**Decentralization and
Local Human Capacity Building:
Experience of Public Units Personnel System Reform
of the Northeast and West Regions in China**

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Abstract

More recently, national and local governments in Asia and Pacific countries are implementing various strategies in alleviating the shortage of human resources. These strategies are being done within the context of decentralization. With the premise that innovations are important to economic growth, China's government plays the role of a facilitator in advancing human resources policies and human capital management by promoting decentralization. Notably, it made progress in transferring a few functions from central government to local government in recent years. Part of these public administration reforms is the changes in the local public units' personnel system that has undeniable effect in human resource development. China presents itself with a model of public administration unique by itself and special in its own right. Hence, this paper analyzes the approaches and instruments adopted by China to pursue its decentralization and reforms in public units' personnel system, and how these approaches produced good results in terms of local human capacity building.

Keywords: Decentralization, Local Human Capacity Building, Public Units Personnel System Reform, China

Introduction

In a global economy, the key to prosperity for a nation is not to raise the level of competitiveness through paying the workers less or by building cheaper, lower-quality products. Instead, national competitiveness should be anchored to the ability of its human capital to develop new products, generate new industries, and to maintain its role as the world's leader in scientific discovery and technological innovation. Innovation is essential to secure the future as characterized by long-term growth and competitiveness. In all of these, human capital is the engine of national innovation. In public policy context, the state as frontrunner in human capital development must be up to the task to face the new challenges in the coming decade.

Since the late 70s, New Public Management (NPM) theory deeply influenced administrative reform in many various countries. The principal point of the New Public Management theory is that the government should convert from regulators to suppliers of services. It also proposes that public administration should adopt private sector management technique and operating mechanisms. Jane-Erik Lane (Jane-Erik Lane, 2001) pointed out that "the New Public management theory presents new tools to manage public sectors." Ryan further expounds that the NPM is a normative theory that studies how the government should use new tools to per-

form its functions. In many developed countries, the administrative architecture, management philosophy, and service paradigms of governments have changed as a result of the NPM movement. Innovation of government management, particularly the introduction of market mechanism and enterprise management technologies in government administration, becomes a basic trend in public management development of the 21st century.

China's government administrative reform has also been influenced by the New Public Management movement. Public administrative reform in China since early 1980's has evolved through five phases with different themes. The reform in 1982 carried out major actions including integrating and reducing governmental organizations and also downsizing and improving the competence. As the consequence of that round of reform, the number of central governmental organizations was reduced from 100 to 61; ministries/commissions from 52 to 43; and the average age of ministers and vice ministers in 38 ministries/commissions went from 64 to 58, having 1/3 of its staff were cut down. The reform in 1988 carried out major actions including restructuring government and downsizing the staff. The reform set short-, mid-, and long-term goals. Short-term goals include transforming the role of government, decentralizing, reducing direct intervention, etc. As the results of this round of reform, central governmental organizations were downsized from 72 to 68 with ministries/commissions numbers reduced from 45 to 41. In total, 9,700 staff members were cut down. The reform in 1993 carried out similar actions and portrayed the same results with the central governmental organizations downsizing from 70 to 59 whereas; ministries/commissions reduced their numbers from 41 to 40 demonstrating about 20% of staff being cut down. The reform in 1998 set goal such as building sound legal system for public administration. Central governmental organizations downsized from 59 to 53 with the ministries/commissions further reducing their numbers from 40 to 29. At this time, about half of central staff, totaling 1.15 million, nationwide, was cut down.

After accession to the World Trade Organization (WTO), the reform in 2003 implemented actions to re-define roles and responsibilities of government and re-structure. Commission of State-owned Assets Supervision; Commission of Banking Supervision and Regulation; and the State Food and Drug Administration were established. The Ministry of Commerce was also established and the National Development and Planning Commission (NDPC) was renamed as National Development and Reform Commission (NDRC). Major reform initiatives in recent years include Directives on Facilitating Law-based Administration promulgated in 2004; requiring public hearings and public notification; increasing openness of administration; Civil Service Law became effective from July 1, 2006; and the coming into effect of the Law on Supervision by Standing Committees of People's Congress at Different Levels in August, 2006. In summary, one of the most important outcome of the public administrative reform in China is the reduction of the ministries/commissions and staff members as shown below. (see Figure 1 and Figure 2).

Since the 1990s, new policy tools have been widely applied to government administration, such as in the field of government procurement system, performance

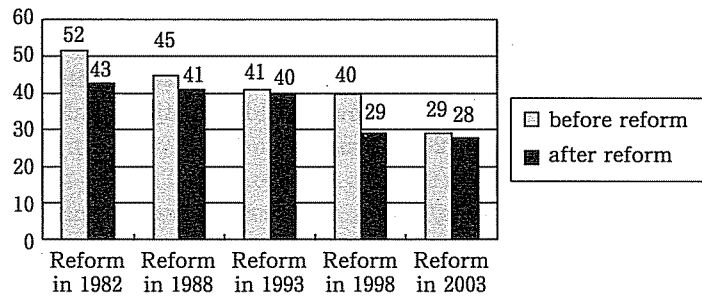


Figure 1 Evolution of Administrative Reform ministries/commissions: members cut down

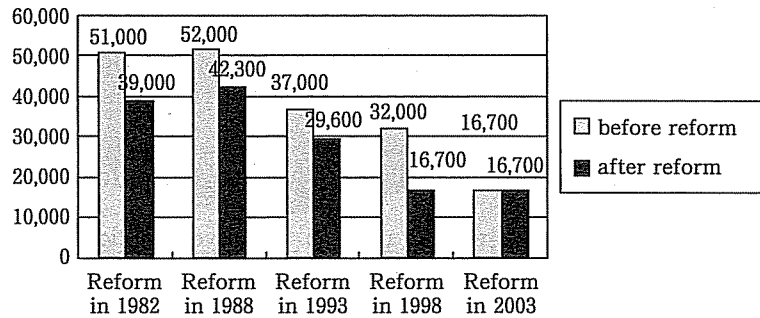


Figure 2 Evolution of Administrative Reform staff: members cut down

evaluation, and contract employment system. Following reforms in state-owned enterprises and in government agencies, changes in public service units became an important part of public administrative improvement. These changes in public personnel system, being one of the most important parts of improvement initiatives in public administration, gave autonomous powers to local institutions, resulting to a successful human resource building. To be considered as a unique model of governance and administration in Asia, the Northeast and Western regions of China adopted various approaches and policies of decentralization and reforms in its public personnel system, thus, resulting to good results in terms of local human capacity building.

Public Service Unit: Concept and Characteristics

In developed countries, there are a large number of relatively independent public bodies assuming the functions of public service providers. Most of these provide services relating to education, culture, technology, sports, public utilities, and many more other fields of service. China is without exception. In China, public service units are the main provider of public services. China's public service units are organizations possessing distinct Chinese characteristics which are unique compared

to other countries.

In the general provisions of Chinese Civil Law, public service units are distinguished into corporate agency, juridical association, and corporate enterprise. Promulgated by the State Council in 1998, the "Provisional Regulations on Registration of Public Service Units" (amendments 2004) provides:

"In this Regulation the term of Public Service Units refer to social service organizations that conducted by state authorities or other organizations with state-owned assets for social welfare purposes and carrying out activities in areas of education, science and technology, culture, health etc."

The main features of public service units are: First, public service units are social organizations for public-purpose; second, public service units deliver public goods and services; third, public service units operates using state-owned assets; and finally, public service units are conducted by state authorities or other state organizations.

Public Service Units are the Main Public Service Provider

The main function of public service units is to deliver public service to the society, which includes goods and service in the areas of education, science and technology, culture, health, etc. As the public service provider, public service units supply the public with a great diversity of service and have played an important role in China's coordinated social and economic development.

At present, there are 1.26 million public service units in China involved in economic and social development and are located in the central, provincial, municipal, county, and township areas¹. From an industrial perspective, public service units are distributed mainly over several major fields broken down as follows: 50% in education sector, 15% in health sector, 35% in other sectors. From a branch level perspective, 4% are central government-owned, 16% are in the provinces, 20% are in the cities, 30% are in the counties, and 30% are in rural areas (see Figure 3). The financial source for the operations are, 80% are funded financially while 20% are inde-

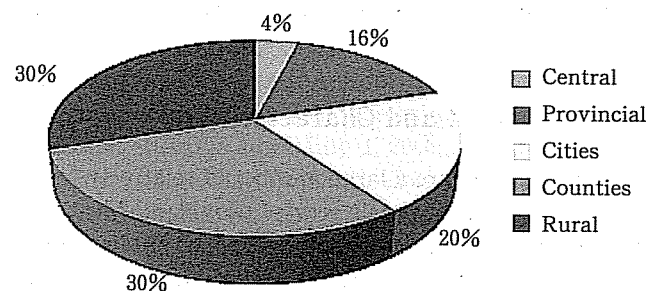


Figure 3 Distribution of Public Service Units by Branch Level

pendently financed.

The public service units' employment figure is pegged at 30.352 million. 29.23 million of which are permanent employees. The public service units employed personnel are distributed over five levels as follows: 1.48 million employees in the central departments, 2.88 million employees in provincial level, 4.84 million employees in city level, 12.54 million in county level, and 7.49 million in township level (see Figure 4). The data indicates that the majority of Chinese public service unit employees live in counties and townships, accounting for 68.5% of the total employment figures.

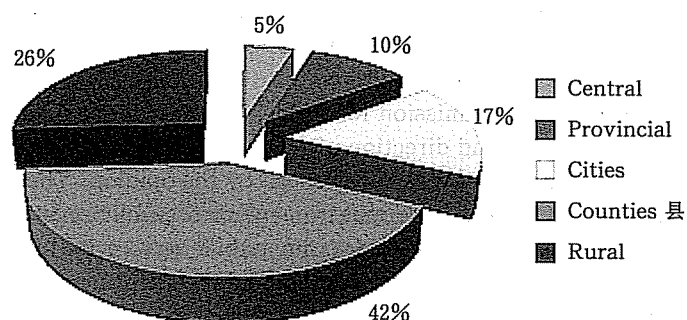


Figure 4 Distribution of Public Service Units Employment by Branch Level

A large number of well-educated professional and technical personnel work in public service units at various levels and in various capacities. The total number of professional and technical personnel is pegged at 19.84 million. This figure accounts for 66.4% of the total public service units employees. The employees engaged in education and health sectors accounted for more than half of the total employees in public service units. This is followed by employees engaged in scientific and technological research, cultural services and agricultural extension sectors.

Building Government-led Multiple Public Service System by Classification Reform

In a traditional-planned economy system, almost all of the public services are supplied by public service units held by government with state-owned assets and public funds. China's economic structure has undergone great changes in the course of turning its previous planned economy to market economy. During these changes, reforms of the public service units were confronted with difficult challenges. The main challenge is to redefine the category of public service units, which in turn also redefines the role of government in public service delivery, and the development of a government performance evaluation system to ensure efficient output of public services and to improve the quality of services.

Since the reform and its opening up, the Chinese government has formulated and implemented a number of policies to operationalize the public service units

reform, rebuild the structure of public service units, and to improve the ways to deliver public service. 1978 to 1992 was the early stages where China explored ways on how to carry its public service unit reforms. According to "The Decision of the Communist Party of China (CPC) Central Committee on Economic Restructuring,"² the Central Authorities developed a series of policies that adjusted the structure of public service units and preliminarily rationalized the management system of education, science, health, sports and other areas. The years from 1992 to 2002 considered to be the "sustainable development stages" for public service units' reform. During these years, the government stressed on exploring and establishing management system and governance system of public service units that can adapt to a socialist market economy. In 1996, the General Office of CPC Central Committee and General Office of State Council issued the "Opinions on Several Issues in Public Service Units' Reform by the State Commission for Public Sector Reform."³ This document defined the guiding ideology and direction of reform. It also proposed that reforms should be guided according to the classification set by the opinion. The Government explored the changes in the organizational framework of public service units in the late 1990s. They also drew up reform ideas on public service unit classifications exploring different organizational orientation and management models according to different types of public service units.

Public service units were classified into three categories. The first category comprised of units exercising administrative functions; the second category is for the units engaged in non-profit activities whereas the third category is comprised of the units engaged in production and business operation activities. Units exercising administrative functions were gradually integrated into administrative agencies along with government institutional restructuring. Units involved in production and business operation activities were gradually transformed to economic enterprises. Only the units engaged in non-profit activities were left untouched after this series of reforms in the public service units. Instead, a new concept of 'public service units' was born and this refers to the units engaged in non-profit activities but relates to the performance akin to the function of delivering service. Hence today, the current main organizations delivering public service in China includes: government departments, public service units, and enterprises (state-owned or private). The new setup of the government-led multiple public service system in China is further illustrated below (see Figure 5).

The fundamental objective of public service unit reform, based in the foregoing discussed classification, is to maintain public interest and to improve public services. After the first wave of reform, the definition of being a "public" is controlled by the nature of the service units and the functions they perform. By these, public service units deliver services in four primary areas: science, education, culture, and health that directly affect and reflect public interests and public demand. Consequently, the government becomes a public service system "traffic coordinator" and supervisor of public service supply. It ceased from its previous role of direct producer of public service. Based on the concept of "steering" not "rowing", the government management stance changed from direct micro-operation to indirect macro-control.

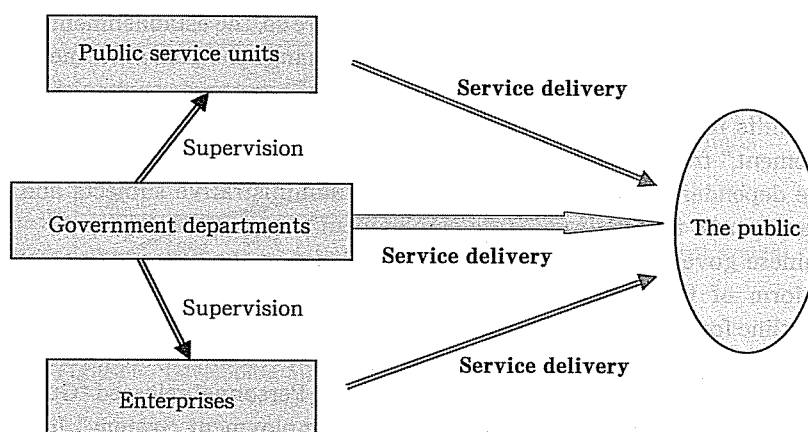


Figure 5 The Main Organizations Delivering Public Service in China

This means that it confined itself in ensuring service units are accountable to ensure effective public service supply through equitable distribution and responsible use of financial funds and public resources.

Introducing of New Policy Instruments to Improve Performance

During the reform process, new policies were introduced to realize the reform objectives. Most noted of which are the Competitive Activation Mechanism and motivation theories, used in the personnel system reform, produced a notable effect. The Competitive Activation Mechanism and the consequent implementation of a hiring system is the basic core of public service unit personnel system reform. It is built around the principle of building a healthy and energetic employment system by carrying out human resources development and accumulation in an open, fair, competitive manner, and through the use of "preferred orientation." In the "Opinions on Accelerating the Public Service Units Personnel System Reform," promulgated by Ministry of Personnel, it pointed out that the employment system should be built based on an appointment system. It further pointed out that the main way of building the employment system should include: Breaking away from life tenure of cadres; introducing Competitive Activation Mechanism; establishing and implementing the employment system; and simplify the employment system to a basic staffing system. Moreover, all public service units should be the one to determine the relationship between the unit itself and the employees by stipulating the obligations and rights of the unit and the employees through signing of employment contracts in accordance with the relevant state laws and regulations, which in turn articulate the principles of employment based on equality, volunteerism, and consensus. The establishment and implementation of the employment system is helpful in driving openness and fairness into effect in terms of recruitment and employment. It also gives more autonomy for units to recruit staff; ensure people to have full autonomy in pursuing career of their choice; and also to guard the legitimate rights

and interests of both the units and employees. More so, the establishment and implementation of the employment system helped to change the personnel mechanism of public service units. These changes affected the personnel mechanism of public service units in a way that it radically shift from “identity management” to “post management;” from “simple administration” to “legal management;” from “administrative dependence” to equality between the administrative subjects and the private parties; and finally, from “state employment” to “unit employment.”

Chinese government formulated many policies in the course of personnel system reform of the public service units. In 2000, the central committee issued “The Outline for Deepening the Cadres and Personnel System Reform Program”⁵ that clarified the orientation and overall demand of the personnel system reform of public service units. In the same year, the Ministry of Personnel released “Guidelines on Trial Implementation of Public Service Units Employment System.” In 2005, two policies were announced in accordance with the opinions of the Leaders of the State Council on developing complementary policies to the classification reform of public service units. One is the “Opinions on Accelerating the Public Service Units Personnel System Reform” in which the goals, tasks, approaches, and measures were defined. The other is the “Provisional Rules on Open Recruitment Exercise of Public Service Units” in which the employment contract model was drawn up clearly clarifying the instructions on how to draw and execute employment contracts (see Table 1).

Table 1 Policies on Public Service Units Employment System

Serial Number	Policies	Year of Publication
1	The Outline for Deepening the Cadres and Personnel System Reform Program	2000
2	Guidelines on trial implementation of public service units employment system	2002
3	Opinions on accelerating the public service units personnel system reform	2005
4	provisional rules on open recruitment exercise of public service units	2005

Furthermore, two measures were carried out to invigorate the employment system. One is to campaign for a “promotion employment system”. At the end of September 2006, the nationwide scale of public service units that has implemented employment system accounted for 51% of the total units. The number of employees who have signed employment contracts accounted for 59% of the total number of employees (see Figure 6). The reform contributed both to the employing units’ development and social development by gradually diluting the identity of permanent employee and by transforming the mechanism and increasing vitality of the various units. As these changes occurs, employment mechanism of public service units itself gradually changes and improves.

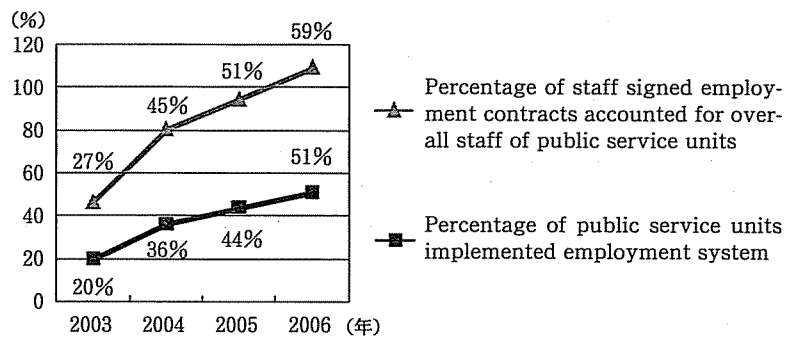


Figure 6 Developing Situation of Public Service Units Employment System (2003-2006)

The second measure that was introduced to invigorate the employment system is the carrying out of an open recruitment exercise. Open recruitment system is an important approach in establishing and improving an open, equal, and competitive, Preferred Recruitment and Personnel Mechanism. As an important part of the public service units' personnel system reform, Open Recruitment System is an essential element to make personnel management more scientific, institutional, and standardized. After Provisional Rules on Open Recruitment Exercise of Public Service Units was issued in November 2005, there were twenty-eight provinces (districts, counties) that launched the open recruitment exercise. Since 2006, there were 3.058 million people who took part in an open recruitment exercises. The recruitment exercise of public service units has been gradually standardized. In practice, the employment system becomes sensitive with the demands of a socialist market economy. Thus, the comprehensive implementation of employment system achieves good economic effect and social benefit.

Competitive Activation Mechanism: to Make Disposition of Income More Scientific and Standardized

According to a theory in human resources development, a person's role and achievements both depend on the person's ability and motivational factors.⁶ Efficient motivation can fully motivate people's potential and develops a multiplier effect. Also, an effective incentive system must consist of two basic aspects: material incentive and spiritual incentive. The income distribution system reform that requires technological, managerial, and other expertise demanded by service production will encourage talents to work hard and drive innovations. Also, the reform made on training, selection, promotion, honor awards, eligibility, and benefits system will encourage talents to do their best to advance in their present career level. The current salary system is the commonly used as a motivational tool in China's human resources management. Chinese government gradually realized the incentive function of income distribution and took the wage reform as an important policy of government reform. Since 1949, China carried out three wage system reforms.

In 1956, a national unified wage system was established. In 1985, enterprise wage system was separated from wage system of authorities and public service units. In 1993, wage system of public service units was separated from wage system of authorities, and a new framework comprising the three wage systems was created. In China, the three wage systems are the Wage System of Authorities, Wage System of Public Service Units, and the Enterprise Wage System.

The "Opinions on Accelerating the Public Service Units Personnel System Reform", issued by the Ministry of Personnel, indicated that a multitudinous and flexible incentive allocation mechanism should be established. The primary objective of public service units personnel wage system reform is to change the wage system of public service units currently in effect and establish a new income distribution system which correlates with the characteristics of public service units and encourage

Table 2 Main Features of Income Distribution System Reform of Public Service Units

Policies	Actions
Enhancing the Degree of Autonomy in Internal Distribution	The public service units that transformed to enterprises must implement the enterprise distribution system; the public service units relying mainly on financial allocations should revise its internal distribution according to the guidance of national policy; the public service units dependent in national funding must gradually reduce its dependence and enhance their degree of autonomy in terms of managing its internal distribution.
Establishing wage system based on post-performance	Establishing wage system based on post-performance and contribution; allowing departments and local governments to select pilot public service units to explore the approaches on how the factors of production affects the distribution; allowing public service units to draw proportionate earnings from the commercialization of research findings to reward staffs who fulfill the project or contributed to the industrialization.
Improving a Mechanism for Regular Pay Increases	Gradually increasing wages of public service unit's staff in order to make the wage growth proportional to the GDP growth and to bring the Mechanism for Regular Pay Increases more in line with the market mechanism so wages can change flexibly based on the existing labor market dynamics, thus making it attractive, able to retain, and motivate talents.
Improving the Incentive Mechanism for Tip-top* Talents	Giving full play to the initiative and creativity of tip-top talents; Allowing public service units to employ tip-top with a high salary on the premise of official approval; in accordance with relevant rules rewarding the talents who made scientific and technological inventions or made outstanding contributions.
Improving Policies on Income distribution Control	Controlling the income distribution of public service units and further rationalizing the relational dynamics of income distribution; through governmental macro-control, guide the service direction of public service units in order to continually improve the capacity and level of public service while avoiding the situation of blindly pursuing economic returns and neglecting social returns.

* Refer to high-level talents who are brightest and outstanding in a certain field.

performance and management according to classification. The main approaches of income distribution system reform of public service units are further explained in Table 2.

Conclusions

The orientation of China's public service units' reform has been well defined from the beginning in gradual manner. The reform aims to clarify government's functions and to build effective public service system. After the Classification Reform, Public Service Units are now known as non-profit organizations independent of the government and engaged in social welfare activities. Its' basic features includes being a non-governmental, non-corporate, and non-profit entity. It is mandated to adhere to the public service nature of performing a pure function of service delivery.

The implementation of China's public service units' reform demonstrated that classifying public service units in accordance with its functions is a basic requirement in making the public service units reform sensible and workable. Classification in terms of functions, as China's reform experience shows, must be scientific, systematic, and must fit the needs and reality of the times. This approach proves to be beneficial in revealing the elemental contradictions within the nature of public service units and clear define their non-profit nature.

China introduced a number of new policy instruments, as advocated by the New Public Management Theory, in its' public service units reform process. These policies mainly focus in making the employment system as holistically as possible. It also implemented an incentive income distribution in a bid to form a new personnel mechanism in the public service units, centered on encouraging initiative and creativity among employees and promote public service and social progress.

Furthermore, strengthening public service units should focus more in the implementation of performance management and performance assessment. Governments and public service units entering into legal agreements or performance contract relative to the performance of task and budget allocation through equal negotiation. With these approaches, a more accountable relationship based on statute is established between governments and public service units. It is necessary to build a national public service performance assessment standard system for specialized agencies or auditors to assess public service units. Moreover, as third party, social evaluation institutions can carry out public opinion surveys public goods and public services supplied by public service units, vis-à-vis degree of public satisfaction. These measures play a positive role of social supervision and contribute to the improvement of the efficiency of public service unit and quality of public products.

China's public service units' reform was based on the practical needs and conditions of the country, and was largely shaped by the ongoing process of economic globalization. It is a road that advocates progressive advancement and it is also a road that advocates innovation. It is more pleasing to observe that, from their current conditions, more and more governments of various countries are moving

forward towards reforming their public service system based on their own local needs along with the global requirements. Studying the successful experiences from other countries' public service systems reforms will benefit China further in its quest to pursuing the public service unit reforms in the future.

China has the resources and ability to solve the challenges and obstacles confronting it in the course of economic globalization. It transforms itself to become a government that is responsible to the Chinese people, and a government that is promoting world peace and development. As a responsible member of global governance, China hoped that the model it created in pursuit of public service unit reform will also provide constructive experience to other countries in their own quest of public service reform.

Notes

- 1 Data resources: Ministry of Human Resources and Social Security of the People's Republic of China, 2006
- 2 See the official document 'The Decision of the Communist Party of China (CPC) Central Committee on Economic Restructuring', 1984
- 3 See the official document 'Opinions on Several Issues in Public Service Units' Reform by the State Commission for Public Sector Reform', 1996
- 4 See the official document of 'Opinions on Accelerating the Public Service Units Personnel System Reform', 2000
- 5 See the official document 'The Outline for Deepening the Cadres and Personnel System Reform Program', 2000
- 6 Refer to Fredrick Herzberg, Motivator-Hygiene Theory

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