An Insight of Rui Xiang Canvas HR Crisis (Case Study)

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Human resources are one of the most important competitive advantages of Chinese enterprises. China has over one billion labor force. The large scale of labor force provides Chinese organizations sufficient human resources. However, HR crisis was found as one of the three main crisis types in Chinese organizations. The causes of human resources crisis vary. In this paper, the authors aim to give a deeper analysis of one typical human resources crisis case occurred in China, so as to gather empirical based knowledge, to complete crisis theory, to provide suggestions and reference to organization management practice.

The theoretical part reviewed human resources and crisis management theories. The crisis case demonstrated in this paper was collected in Chinese language. The analysis focused on three key factors of crisis management process, strategy, leadership, and communication. Finally, the authors concluded that the crisis happened due to the poor communication and crisis strategy which resulted from an extreme authoritarian leadership in the organization. To change the management style and improve communications are the suggestions to the enterprise managers.

This case is a good example of the downsides of authoritarian leadership going to an extreme ending. The case can be used as a teaching material for management and business students.

Keywords: human resources, crisis, authoritarian leadership, crisis strategy, internal communication.

Introduction

In the last three decades, Chinese society changed rapidly, which attracted scholars who focus their studies on China. Some topics concerning Chinese management have been discussed, such as change management in China (Alas et al., 2009a), organization culture and corporate social responsibility (Ubías & Alas, 2009), and ethics (Alas, et al., 2010a). Chinese society’s rapid change led to increasing fierce competition in all Chinese organizations. Human resources are considered as one of the most important competitive advantages among enterprises in China (Li, 2000). By the end of 2004, China’s labor force has been over one billion (NSBC, 2005). The labor force increase has been above one percent for years to follow (Information Office, 2010). The large scale of labor force provides Chinese organizations sufficient human resources.

However, previous researches (Alas et al., 2010b; Gao & Alas, 2010a, b) have shown that HR crisis is one of the three main crisis types in Chinese organizations, preceded by economic and reputational crises. Therefore, it is important to deeply explore human resources crisis in Chinese organizations, so as to gather empirically based knowledge, to complete crisis theory, to provide suggestions and reference to organization management practice.

In this paper, the authors aim to give a deeper analysis of one typical human resources crisis case that occurred in China. The paper starts with theoretical review, which is followed by the introduction of the HR crisis case. After that, the analysis of the case, conclusions, and suggestions are presented. The HR crisis case demonstrated in this paper was collected in Chinese.

Previous researches have presented an implementation organizational change (Alas, 2008, 2004), cultural practice in enterprises (Alas & Tuulik, 2007), top managers (Tafel & Alas, 2007 & 2009; Tuulik & Alas, 2003), work related attitudes (Alas & Edwards, 2011), and manufacture strategy (Alas et al., 2009b). In this paper, the study is focused on human resource during the changing time in China.

Human resources

According to Graham and Bennett (1989), human resources are the employees of a company. Observing from the angle of private company in China, the owners normally work in their own company, and even more, they play vital roles in the company, so the owners are human resources of the company too, though they are not employed by the company. Therefore, the authors would like to agree with Gómez-Mejía (et al., 2001) who defined human resources as the people who work in an organization. In this definition, both employees and owners of an organization were considered.

Craig (2009) argues that people are the most important assets of any enterprise. The organization’s human resources represent one of its largest investments (Byars & Rue, 1991), because human resources can impact the performance of both the employees and the organization (Dessler, 1999). Hilbert (2009) pointed out that human-capital plays a key factor in determining which businesses fail, survive or thrive, though the power of human resources is inevitable (Ivancevich & Matteson, 1993). Beer (et al., 1984) pointed out that human resources are an important stakeholder in business enterprises.
According to Byars and Rue (1991), human resource management involves activities designed to provide for and coordinate the human resources of an organization. Failing to cope and deal with human resources issues will result in crises, such as job dissatisfaction, poor morale, reduced commitment, lower work quality, burnout, poor judgment and a host of unhealthy consequences (Ivancevich & Matteson, 1993).

HR Crisis and its impact on organization

Researchers have found that human resources crisis differently influences organizations. Lagadec (1993) pointed out that individual human factor cannot be underestimated in a crisis situation. Mitroff (2005) considered human resources to be the most important crisis stakeholder of an organization. The stakes of human resources are economic, psychological, and political (Beer et al., 1984).

Human resources crisis may be caused by both internal and external factors. The internal factors include changes in the enterprise system, handling of organizational managerial issues, and development of the enterprise. The external factors are related to competition, government policy, and accidents (Gao & Alas, 2010b).

According to Zhou (2004) and Ye (2005), there are four consequences that emerge from a human resources crisis. First, it reduces enterprise performance; second, it stops communications between managers and employees; third, it causes irrational reactions; and fourth, it results in vindictive psychology. Gao & Alas (2010b) found that human resource crisis in a Chinese organization caused a lack of labor force and a reduction in productivity.

Crisis management process

Crisis management process contents three key factors, strategy, leadership, and communication (Alas, 2007). Alas (2009) provides a process model of crisis management (Figure 1) which includes core process and support process two pars. In the model, the strategy factor is considered as the core process which includes pre, during, and post crisis stages.

The leadership and communication factors belong to a support process.

According to Alas (2009), in the pre-crisis step, the potential crisis will be detected and the corresponding organizational activies should be conducted to prevent the crisis happen. The during crisis step is focused on reduce crisis damage. The post-crisis step aims to evaluate the damage and settle down the situation. The process model indicates the pre-crisis strategy is the most important step of implementing the crisis management strategy, because it decides the following two steps.

Communication

Reilly (2008) pointed out that effective internal and external communication is needed during a crisis. The way a company handles a crisis says a lot about its communication skills (Thill & Bovee, 1991). Effective crisis communication can alleviate or eliminate crisis, and can sometimes bring the organization a more positive reputation than it had before the crisis (Fearn-Banks, 2007). Crisis management will not succeed without communication (Ishikawa & Tsujimoto, 2009). Therefore, crisis communication needs to be conducted appropriately during a crisis. Generally, crisis communication includes internal communication, i.e. the communication between organization internal persons or departments, and external communication, i.e. the organization delivers message to outside public.

The internal communication may be upward, downward, or horizontal. The upward communication is considered by Lehman (et al., 2006) as a feedback to downward communication which flows from a supervisor to employee, from policy makers to operating personal or from top to bottom on the organizational chart. However, Zaremba (1989) suggested that organization management can obtain valuable suggestions from employees through upward communication. The horizontal communication which carries message from one department to another (Thill & Bovée, 1991) in an organization is for coordinate activities within the organization (Lehman et al., 2006).

Methodology

This paper adopts the case study as the research method. The sample company was one client consulted by the first author. During our crisis research conducted in the year of 2008 and 2009, the case was chosen as a sample because it matched up with the interview questions drafted by the second author. Besides the crisis issues, this case contents several typical management issues which can represent a certain Chinese organizations management problems, therefore, it is worth giving an in-depth analysis of this case.

Case introduction

Rui Xiang Canvas Art Co. Ltd. was set up in 2005 in Beijing, the capital of China. It focus on culture and art, deals with high value-added business in design, painting or facsimile, and mount canvas productions. When the company just started, it was a small size, private owned...
company with an employee number less than 20. In three years, the company developed rapidly. Till the end of 2008, the company’s business turnover reached to 11 million RMB annually, regular employee number increased to 232. Among them, there were 80 senior designers.

The company’s structure is: CEO leads five departments, each department has one appointed manager, and others are the stuff. The Process Department has two sub-departments, Art Processing which manages the painting work according to a design, and Hand Processing manager does the additional work of painting, such as the frame the picture, polishing, and so on. One person manages the material purchase for the Process department.

![Figure 2. The organizational structure of Rui Xiang](image)

Ms. Zhen Xu, CEO of the company was very happy with the situation, “We need no more than five orders each year to get this profit. Our gross profit rate is more than 45%, because our employee salary is relatively lower than in other companies. We offer high quality products which gain even higher market demand for us. Besides, our employees are very loyal”.

The company’s name, Rui Xiang, means auspicious, lucky, and propitious in Chinese. As its name indicated, luck does a lot of favor to the company’s sales department in getting business order. In the spring of 2009, a large and urgent order was received during an art exhibition. According to the order, 4000 paintings had to be designed in 50 days. After receiving all the designs, the client will select and decide how many pictures are needed in each design. The client was a loyal client from a European country. The deal amount of this order is over three million RMB. Because the order is large and urgent, the client had already paid 50% of the deal amount as deposit.

However, the company’s human resource department was not as lucky as the sales department. Calendar was turned back to February 2nd, 2009, soon after the Chinese New Year, one senior designer, Chen Xing, sent in his jacket first. In the following two weeks, senior designers left the company one after another. Finally the number senior designers reduced to 17 persons. Right at this time, the larger order arrived.

At first, the company’s CEO, Ms. Zhen Xu, planed to motivate all the current designers to work hard so as to fulfill the design task. On Tuesday morning, February 17th, 2009, she picked up the phone, called the head of design department, manger Zhao, “There will be an all designers meeting at 3:00pm this afternoon.” “Ok, I inform all of them (designers) to come then.” answered as usual the design manager. Having hung off the phone, Xu calculated the total load of each designer by using the total volume of the work (4000 pieces design) divided by the designers number (17 designers), and then divided by the delivery time (40 days minus the holidays). To guarantee the work finished in time, she rounded up all the decimals. Finally, she got a number seven (7) – seven designs by a designer per a working day!

In the afternoon, a general company motivation meeting was held, she addressed to the Design Department. She gave an order to the head of the Design Department that every designer was to finish 7 designs every day, so as to perform the contract. The designers work result was to be checked every day. Neither the head nor any of the stuff in the Design Department said they could not do that or it was impossible. Only silence as the feedback as any previous meeting. “It is normal that they keep silence in the meeting, especially when I give orders, because I am the CEO. They have to listen to me”. Usually the silence means they agree. That is the tradition of the Design Department, because the design manager is quite a shy person, he does not like to talk, but he does an excellent design.” However, this time, the silence did not mean the same. During the following 3 days, nobody followed her motivation, nor anybody had submitted enough design as she required, though everybody had tried best.

“I was very happy to get this order signed that day – it is the biggest order so far. But, I could only be happy for three days till I got to know it is not possible to finish the order by 17 designers.” “I had already known that many designers left the company, but I had thought it was normal as each previous year the designers used to change. We had to use this way to get some new design concepts.” “In Beijing, it is very easy to find designers. They always change the serving company, so, when they say good-bye to us (means the company), we need only say good-bye to them as well. We do not need to ask them the reason at all. We knew and understand them very well already – they feed up for one place.” Ms. Xu explained why she did not pay attention to the employees leaving. “This time, Zhao did not tell me that they could not finish the task at all. It was me who asked, otherwise … When I asked him, he was very shy. I knew he felt lost because he could not finish the task. Actually, he knew that they cannot make it when I gave the order. But, he was afraid to hurt me, so he did not tell me.” Xu understood her design manager in this way.

Facing to this situation, Xu started to recognize that it is impossible to finish the design work in time depending only on the current 17 designers. She started to contact the client to seek any possibility to prolong the delivery time. The client told her that the designs were planned for Christmas sales. The client had already sent offers to different dealers and had put a large amount of money to promote the sales. Furthermore, several dealers had accepted the offer. The client and the clients are awaiting the designs only. Rui Xiang was highly expected to perform the contract accordingly.

Ms. Xu understood that to cancel or delay the order, the company has to pay back the deposit and the same amount for penalty. Besides, cancel or delay of the order could damage the long term business relationship between the client and Rui Xiang which was built up during the previous years of friendly and smooth cooperation. In other
words, it was not possible to cancel or delay the order at all. The company had no more choice than to perform the contract accordingly. Thus, senior designers were in a large and urgent demand. Only one way could help the company at that time – to find more designers.

Hence, Ms. Xu issued a firm order to human resource department on February 26th, 2009 in order to find at least 20 suitable designers in one week. Trying all the best, in the following three days, the head of human resource department, manager Mr. Zhaomin Gong, first found one designer (Miss Lili Sun) through a hunter company. The date was March 2nd, 2009, exactly one month after the first designer left. Once the employment contract was drawn up, he called the designer. Miss Sun, nevertheless, told him that she could not leave the company (Dongfang Art) she worked for currently because the company would raise her salary by 50%, as she is one of the excellent designers in that company who planned to leave.

Feeling hopeless to fulfill the task, Mr. Gong reported the situation to Xu. Ms. Xu received this information and started thinking of the reasons of employee leaving. She noticed that a large number of designers leaving was due to the uncompetitive salary. Through a simple discussion with her HR manager, Mr. Gong, Xu decided immediately that Rui Xiang must increase all the designers’ salary to a competitive level. As the company needed designers urgently, Rui Xiang should hold the current designers, and meanwhile, attract newcomers. Besides, Gong suggested Xu to pay extra money for each extra design achievement, so as to more encourage all the designer work. The suggestion was adopted by Xu immediately. They drafted up a temporary awards policy which was based on the designed load and aims to peruse more design results.

Once the award system was formed up, Xu held, once again, all designers meeting on March 3rd, 2009. In the meeting, she announced the decision of increasing all the designers’ salary, and the award policy for any extra work. The announcement gained a cheerful applause. “When I announced the news of increasing their salary and the motivation policy, I saw the satisfied smiles on their faces. I also saw their work results which satisfied me too!” commented Xu.

Rui Xiang paid double even triple salary for extra achievement so as to encourage designers work more to catch the delivery time. Encouraged by the competitive salary, luck patronized Rui Xiang again. All the designers were fully motivated. They created great result – although, the company had not got enough designers as CEO required, the order was performed accordingly. Ms. Xu finally admitted that the company could only get less than 10% gross profit from this order.

**Analysis**

According to Shrivastava (1993), crisis studying should be performed in “4C” aspects, causes, consequences, coping, and caution. Causes are the reason triggering the crisis; consequences are the impact from crisis; coping is the crisis handling process; and caution is what we should learn from the crisis. In this section, the case demonstrated before will be analyzed by following the “4C” model. As the causes and consequences have been described in the case, the analysis will focus on the coping and caution.

This case is a typical human resource crisis which resulted in company profit reduce and reflects several managerial defaults in this company. The defaults will be analyzed from different perspectives.

**First, the leadership style in the organization**

The leadership style in Rui Xiang is authoritarian. Researches have shown that Chinese employees are used to the authoritarian leadership (Alas et al., 2009; Gao & Alas, 2011), because an appropriate authoritarian may the decision process shorter, so as to make the organization more efficient, especially in a crisis situation (Gao & Alas, 2011).

However, once the authoritarian trends reached an extreme ending, there came the resistance of organizational internal communication. Due to the resistance, the top manager could not get sufficient information from middle managers. Middle managers do not see the necessity to collect the information via communication to employees and report to the top managers. They understand that the top manager does not need it.

The organization has HR department and the manager should be involved when the employees start leaving the company. However, in this case, the HR manager was involved only when he received the order from the top manager to find more designers. Neither, HR manager reported to the top manager that a number of employees started leaving, nor the top manager confirmed the employment situation before she signed the contract. It was the extreme authoritarian leadership that pulled the company into a crisis situation.

**Second, the organization internal communication**

a) The upward communication

Before the contract was set up, the company had suffered designer leaving for two weeks already. Why did not the CEO still sign the unprecedented large contract? Actually, the CEO did not know that the company was facing the issue of designer shortage. From the CEO to the department managers, all of them had not considered the employees leaving as an abnormal problem. Neither the design manager nor the HR manager had reported the reason of designers leaving, as both of them had taken it for granted that a large number of employees leaving was due to the fact that the designers were fed up with one place. They even never asked about it any leaving designers.

When the CEO’s order – each designer seven designs every day arrived at the department, the design manager should tell CEO that the ridiculous load is totally impossible! At least, as a department manager, he should know the capacity of each designer and himself. However, he chose to keep silent. In Chinese culture, people prefer to keep silent rather than to show directly the disagreement point, especially, when they disagree with the up-level manager. Besides the cultural reason, there is another reason held back Zhao to tell impossible – Zhao does not have good communication skills. He even had not built up the communication bridge between his colleague and himself. Therefore, nobody told him the reason designers. In fact, Chinese still prefer to be loyal to the organization.
they are not used to changing the working place. If the design manager had good communication skills, he definitely could know the real reason, and hold back some designers. Also, he could report to CEO, so that Xu could act earlier and the crisis could be avoided.

Designers, the key partners in this case, were not involved in the crisis communication. Therefore, they had not had any chance to propose the increase of salary or give any suggestion to solve the crisis.

It can be observed that the leadership style of Rui Xiang was authoritarian. As a successful business woman, Xu was proud of this. She was used to give orders, announcements, and addressed to her employees, including middle managers. She appreciated their silence, used to make decision without any discussion with the middle managers. Of course, both her department managers and employees were used to her leadership style – when they did not agree, they kept silence. Under this leadership style, the upward communication was reduced and even stopped.

b) The downward communication

Rui Xiang’s downward communication was influenced by the leadership style too. Before she signed the contract, Xu, who had already noticed the design manager’s very shy personality, even had not asked him if the department was ready for the huge order. Her brevity and authority helped her to make the decision to take the order, ignoring the fact that a lot of employees were leaving the company. If Xu could ask Zhao the designer’s capacity, the ridiculous word load would not be generated. Both Xu and Zhao would not lose "face".

During the crisis, the CEO and HR managers were the only two internal persons who were involved in the communication for seeking solutions. The design manager was ignored, though he should not be. As the head of the Design Department, he definitely had his personal connections with certain designers who currently did not work for Rui Xiang. This is a common knowledge in China, regardless how inside or shy is he. He could invite these designers to join his team, especially for an urgent and a short while aid. Of course, the invitation should be sent out with the permit from CEO and a salary offer as well. The invitation was not sent actually because of the lack of downward communication rooted in the authoritarian leadership.

Similarly, each designer, as well as the design manager, is the source of the company to solve the HR crisis. They know many designers who are able to provide help at that time – this is the common knowledge for any business person. But, the crisis communication did not reach the designers at all.

c) The horizontal communication

The case does not show any evidence of the communication between departments during the daily work. During the crisis, the HR department still not had any touch with the Design Department. It looks as if the department in the organization never communicates to each other.

At this point, Rui Xiang’s internal communication defaults can be summarized in the following way. Taking for granted thinking blocked the way to detect a crisis issue. The design manager lacked communication ability. The authoritarian leadership style discouraged up and downward communication as well.

Third, the organization crisis strategy

a) The pre-crisis strategy

The company did not have a pre-crisis strategy which could detect the crisis before it happened. Therefore, the CEO took a huge order even though the company had already suffered a large number of designers leaving for two weeks. If the company could have a regular inspection principle, any standard or benchmark (the warning employee number or capacity, for example), the crisis could be avoided.

b) The crisis strategy

The company did not have a crisis strategy or plan which could be followed when the crisis happened. There was not any evidence to show that the company had predefined the stakeholder, impacted scope, communication plan, or possible solution. Therefore, the crisis management process had not had any principle to obey. Only the CEO gave orders based on her own idea. Each reaction was very slow which led to very passive process.

Indeed, Dongfang Art had encountered similar situation as Rui Xiang. However, Dongfang noticed the process when it started and reacted rapidly by increasing the salary of designers who planned to leave, and stopped them. There is not sufficient information to know how Dongfang handled the issue. The two comparable companies gave both positive and negative examples of quick reaction. Nevertheless, one thing is definite that to react quickly is better than react slowly in a crisis situation. The crisis strategy may help an organization to increase reaction speed during crisis as well as may help organization to improve crisis communication.

c) The post-crisis strategy

Though the company finally managed to perform the order, the CEO, Ms. Xu, did not notice all the triggered reasons of this crisis. She enjoyed her success by watching the designers’ work result. She did not think at all what should be improved in the future, how to avoid the same or similar crisis, how to prevent profit losing, and keep employee loyalty.

Conclusions and suggestions

This case gives an example of poor crisis communication and crisis strategy which is the result of an extreme authoritarian leadership in the organization. It can be concluded that the crisis management in Rui Xiang was not implemented. The top manager (CEO) and middle managers should increase daily communication and draft up a whole process of crisis management strategy, including pre-, during, and pro-crisis aspects, so that the organization could have a principle to detect, define, and deal with crisis. As far as the top manager is concerned, it is important to change the leadership style, in order to unblock the way of internal communication and collect everybody’s wisdom to verify an appropriate company development strategy. This case is a good example how the downsides of authoritarian leadership goes to an extreme ending. The suggestions should be considered by enterprise managers. The case can be used as a teaching material for management and business students.

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Žmogiškių išteklų krizės įvaišis Rui Xiang Canva kompanijoje

Santrauka

Šį organizacijos žmogiškų išteklių krizės atvejį galima panaudoti kaip mokymo priemonę rengiant verslo studentus. Šis pavyzdys atskleidžia prastą tarpusavio bendravimą ir parodo kaip svarbu turėti aukštos lygos įvairių išaiškinimų veiksnio įvertinimą. Tai leis kurti efektyviąją strategiją, kuri padėtų organizacijai suveikti su krize. Šioje organizacijoje yra išaiškinta viena iš organizacijų kritikų, yra nustatytas krizės valdymo procesas, susijęs su šešių etapų veiksniais: strategija, vadovavimas ir bendravimas. Krizės valdymo proceso modelis apima apimą kritikų veiksnį, kurį galima interpretuoti kaip svarbų organizacijos turtą. Tarpusavio bendravimo kritikų veiksnio įvertinimas leis sukurti efektyvųjį strategiją, pastebėjusį organizacijos skirtumą krizės atveju. Tai leis organizacijai sukurti efektyvųjį strategiją, pastebėjusį organizacijos krizės atveju.