

Supply-oriented and demand-oriented collective wage consultation in China:

A comparison of mechanism and results

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Abstract: Drawing on institutional change theories, this study proposes two types of collective wage consultation in China. One is the supply-oriented collective wage consultation i.e. the top-down model, and the other is the demand-oriented collective wage consultation i.e. the bottom-up model. Using multiple-case study, we explored the process and results of different type of collective wage consultation. We found that the process and results of supply-oriented collective wage consultation are not satisfactory. Specifically, it lacked workers' participation in the process and the results have not protected workers' interests adequately. On the other hand, the demand-oriented collective wage consultation can effectively defuse labor-management disputes, which had not only protected workers' interests, but also was conducive to development of collective bargaining.

Keywords: collective consultation; collective bargaining; labor relation; trade union

Introduction

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As a basic institution of labor relations, collective bargaining in industrial countries resulted from labor-management conflicts and disputes in the past hundreds of years. In China, collective consultation is adapted as a move in the direction of collective bargaining (Warner & Sek - Hong, 1999). However, it emphasizes the cooperation and diminishes competition between workers and management. By doing this, the state attempts to avoid strikes and their negative impact on workers, management, and the whole society. Therefore, collective consultation promoted by the state has been the main stream. Meanwhile, there were some cases which started from wild cat strikes and disputes, but ended up with collective consultation with support from other social forces. These two types of negotiation follow different mechanisms and demonstrate different results.

In 1992, the amendment of *Trade Union Law* stipulate that the “Trade unions shall coordinate the labor relations and safeguard the labor rights and interests of the enterprise employees through equal negotiation and collective contract system. In 2000, *Interim Procedures for Collective Wage consultation* was promulgated. In addition, the *Work Plan for Promoting Collective Consultation on Wages between 2011 and 2013* by the All-China Federation of Trade Union (ACFTU) claimed to promote the wide establishment of collective wage consultation among enterprises. At the end of 2013, 80% of enterprises with trade union branches had claimed to establish collective wage consultation program. Although it did not prevent the wide occurrence of labor conflicts and disputes, it is noticeable that these disputes were followed by some collective consultation between workers and management that were not organized by the official trade union. Specifically, these collective consultation started as wild cat strike, and was then coordinated by different parties like NGO and public lawyers, and ended with compromise of the management. Some of them even become regular negotiation between

workers and management. How can we understand these phenomenon? What are the differences between collective consultation on wages promoted by local government or trade union branch and the ones happened spontaneously?

To a large extent, the collective bargaining in most of industrial countries is the natural results of labor and management competition. In the early stage of industrialization, workers were extremely exploited while the interests of capital expanded drastically. The astonishing wealth gap resulted in violent resistance from workers. Collective bargaining started when employers with workers. At the very beginning, government did not intervene in collective bargaining, and sometimes even declared that the agreements between workers and management were illegal. But the continuous conflicts finally made the government intervene in labor disputes and became an actor in coordinating labor relations. The theoretical models proposed by Sandver (1987), Dunlop (1971) and Kochan, McKersie, and Cappelli (1984) are all based on such process. Although national state is included as an actor in all these models, the state only acts as a rule maker rather than a game player.

The collective consultation in China, however, has quite different development history from those in western countries. Specifically, all the actors behave in different ways and the relationship among these actors are different from the western models. The collective consultation in China involves some facets of democratic management in planned economy, which emphasize the cooperation between workers and management. In addition, trade union in China is not totally independent from the management and cannot represent workers interests. Therefore, real bargaining or negotiation does not exist between workers and management. The so called “tripartite relationship” actually involves four parties (i.e., workers, trade union, management, and state) where trade union is independent from workers. The trade union

subordinates to the Communist party and government (Chang & Qiu, 2011). The government plays an initiate role while the trade union mediates among workers, management and government (Chen, 2010).

The labor relations systems in China consists of weak labor, strong management, and the state which is in dominant position. Since economic growth (i.e. gross domestic product, GDP) is the key performance index of local government, workers' welfare are usually ignored. In addition, the local governments also influence management in many ways. Therefore, the coordination of labor relation depends on the government (Guo, 2009). When collective consultation becomes a key performance index of local governments, the government and trade union will mobilize all resources to meet the index.

In order to meet these index, local government and trade union branch may use various but not necessarily promote direct negotiation between workers and management (Wu, 2013). The key feature of collective consultation in China is that both actors of negotiation (i.e. workers and management), particularly the workers, is not independent. It has been criticized that collective consultation do not have much effects as an 'implanted' institution. Research suggests that the increasing collective contracts have not resulted in significant effects, since it is unilaterally promoted by government (Feng, 2012; Xie, 2012).

Warner and Sek-Hong (1999) suggests that the purpose of collective consultation is to reinforce the state control at the basic level of work units, rather than establishing negotiation between labor and management. They found that most of collective contracts are identical to the templet provided by governments, and the trade union branch played a conflicting role in collective negotiation. In many cases, the face to face negotiation does not occur (Shi, 2007). On the other hand, some researchers suppose that collective consultation in China is prospective.

Evidence have been found that trade union and collective consultation have increasing influence on industrial relations. For example, collective consultation have decreased the wage gap, and increase labor safety and the coverage of social security (Lee, 2009). Although the tripartite consultation is different from collective bargaining promoted by the International Labor Organization, it can be seen as the first step towards the genuine collective bargaining (Qiao, 2010; Shen & Benson, 2008).

Research has provided rich empirical description of collective consultation in China. However, theoretical explanation is scare. In this study, we try to provide theoretical explanation for why the collective consultation promoted by the government does not work effectively, while several collective bargaining after labor conflicts resulted in collective contracts.

Theoretical models of collective consultation

In this exploratory study, we use game theory as an analysis tool. We describe the theoretical model of both type of collective consultation in China. Than empirical evidence was provided to support the theoretical propositions.

Supply-oriented collective consultation

Institutional change theory suggests that institutions are self-sustaining system of shared beliefs which are established in the process of interaction among the agents involved. Although the third-party enforcement will influence the establishment of institution, these rules are generated endogenously. It is the *self-enforceability* that makes the institutions sustainable (Aoki, 2001). Using a demand-supply framework, Lin (1989) identifies two types of institutional change, which named induced and imposed institutional change, respectively. An induced institutional change refers to a modification or replacement of an existing institutional

arrangement that is endogenously initiated or executed by an individual or a group of individuals in response to profitable opportunities. While an imposed change is introduced and executed by governmental orders or laws (Lin, 1989). Problems that may arise in induced institutional change includes externality and free-rider, which are likely reduce the supply of institutions. Therefore, imposed institutional changes are necessary. On the other hand, due to the group interest conflicts and bureaucracy and the agency problem, the state may face policy failures when imposing institution change by law (Lin, 1989).

Collective consultation in China is promoted by government and the ACFTU, which is imposed institution change. Specifically, the ACFTU give order to its local branches. Meanwhile, local government and employer association would provide support to trade union in enterprises to sign collective agreements. However, it should be noted that workers are exclude in this process (See figure 1). Because this type of collective consultation is unilaterally promoted by government, we name it as supply-oriented collective consultation.

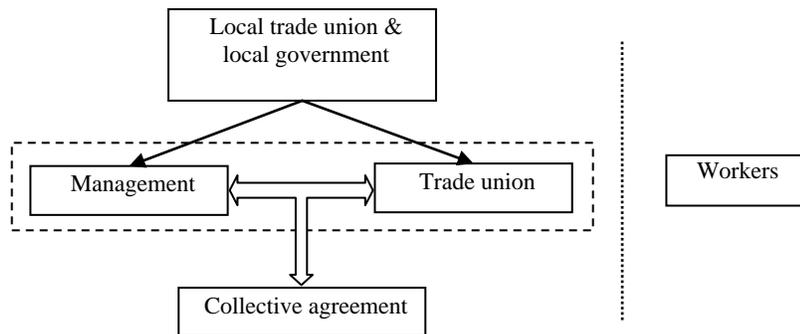


Figure 1 Supply-oriented collective consultation

Institutional arrangements are shared beliefs about salient way in which the game is repeatedly played (Aoki, 2001). New institutional arrangements can be established by changing the structure of the game, and this process may be imposed by the state. Some of the game players must change their knowledge of the domain and external environment and utilize new

strategies collectively, which would lead to new equilibria. Accumulation of decentralized private experiments are necessary before the enforcement of formal law (Aoki, 2001). In collective consultation in China, the initiative and participation of game players (i.e. worker and management) are usually ignored. Due to the historical and institutional environment, both actors (i.e. worker and management) does not function independently in labor relations system. Therefore, a deep intervention is needed in the early stage of institutional change.

In addition, trade union in China is a nominal worker organization but actually controlled by the state that the leaders of local trade union branch are appointed by government. Trade union in companies is restricted by the management, while the workers may act independently by themselves to protect their own rights and interests (Chang & Qiu, 2011). Therefore, collective consultation, which is promoted by government without direct participation of workers, are likely to result in large number of collective agreements with little real impacts on wages and working conditions. This type of collective consultation are not likely to lead to “decentralized private experiments” and “shared believes”. Furthermore, it may distort the process and results of collective consultation.

The supply-oriented collective consultation has several features. First, government, which is actually represented by local trade union, urge management to participate in collective consultation through governmental orders. Second, trade union in enterprise does not function independently. This is particularly salient in private firms where trade union is actually controlled by management. Third, workers do not have collective labor rights such association and participation rights. Finally, management does not have motivation to involve in collective consultation.

Demand-oriented collective consultation

When current strategies do not lead to satisfying results, the game players tend to change the rules (Aoki, 2001). For example, if accumulated results of repeated interactions lead to significant inequality in terms of wealth, political power or social roles, the legitimacy of current institutional arrangements begin to be questioned. When some of the players change their strategy simultaneously, an “institutional crisis” may be triggered. In an “institutional crisis,” individual agents may not have clear expectations about the state of the game (Aoki, 2001). As a special player, the state can provide guidance for future institutional arrangements. For example, the state can suggest new institutional arrangements by adopting institutions from other domains. When the new arrangements and existing arrangements have connections, the new arrangements are likely to be adopted by game players (Huang, 2010).

As an increasing number of workers require to change their condition, stoppage or strike tends to be an easy choice when there is no effective way of communication between workers and management. Due to the free-rider problem and lack of knowledge, it is difficult for workers to behave sensibly. In this condition, if a third party can provide proper guidance or knowledge for both workers and management, the disputes tend to be resolved in a legal framework. Collective consultation gives both parties an opportunity for their voice. More importantly, these arrangements are likely to be identified by both workers and management when they are really involved in the negotiation process. As this type of consultation is based on the demand of both workers and management, we name it as demand-oriented collective consultation.

On the other hand, demand-oriented consultation includes several facets. First, there is an undersupply of institutions, which is similar to supply-oriented consultation. Secondly, game players break current institutional arrangements, and adopt new strategies to achieve new equilibrium. Specifically, workers challenge management’s dominant position in wage decision

by collective action to get higher wages. Thirdly, the trade union either adopt new roles in supporting workers, or be replaced by new representative elected by workers. Finally, other social forces provide support for workers. For example, public lawyers or NGOs provided technical support in negotiation, which reduced the cost of finding new strategies and accelerated the process of institutional change (see figure 2).

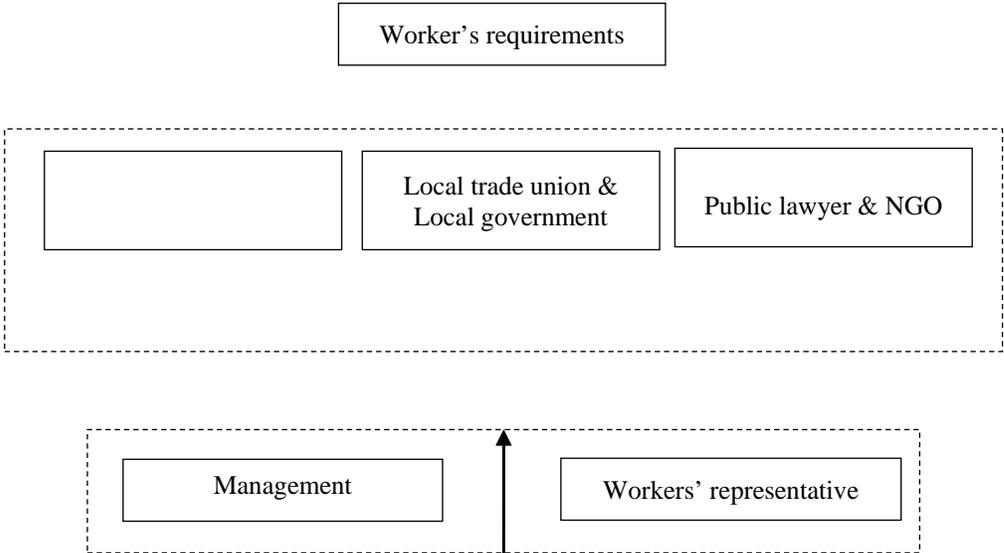


Figure 2 Demand-oriented collective consultation

In May 2010, workers in Honda Auto Parts Manufacturing Co. launched strike for higher wage. With the participation of local trade union, management of the Honda headquarters, labor activists, labor and management reach agreements on increasing wages and schedule for future negotiation. Since then, several other collective actions in Guangdong province, starting with stoppage or wild cat strike, ended with agreements between workers and the management. For example, workers in DENSO (Guangzhou Nansha) Co., Ltd launched stoppage for higher wages in June 2010. With the help of local trade union, workers and management reached an agreement on increasing 800 RMB for every worker each month.

In October 2011, more than one thousand workers in a factory of Citizen Watch Company in Shenzhen protested for including 40 minutes of rest in working hours. Public lawyers negotiated with the management on behalf of workers and finally reached an agreement. Another widely known collective action happened in September 2011. Workers in Hengbao Company in Guangdong province protested against management for social security disputes. These are all demand-oriented collective consultation which started with collective action of workers and ended with agreement between workers and management. Table 1 summarizes the function of each party involved in these events.

Table 1 Comparison of demand-oriented consultation

	Honda	DENSO	Citizen	Hengbao
Workers' action	Stoppage for 17 days for higher wages	Stoppage for 3 days for higher wages	More than one thousand workers' stoppage	Workers' stoppage because the company did not pay for worker's social security
Local government	Sent police but withdrew later, and organized negotiation	Mediated actively between workers and management	Mediated actively between workers and management	Did not intervene effectively
Trade union	Did not involve at the beginning, then organized new election	Mediated between labor and management	Did not involve	Did not involve
Public media	Lots of reports	Reported	Reported	Did not report
Management	Actively involved	Actively involved	Suppress the workers at the beginning and then compromised	Suppress the workers at the beginning and then compromised
Social forces	Professor of labor law as representative of workers	N/A	Public lawyer as representative of workers	NGO provide suggestions
Results	<ul style="list-style-type: none"> • Big wage increase • Reelection of the trade union in the company • Establish schedule for future negotiation 	<ul style="list-style-type: none"> • Big wage increase • Reelection of the trade union in the company • Establish schedule for future negotiation 	<ul style="list-style-type: none"> • Overtime payment for the past • establishment of labor relations committee 	The management pay for all social security for all workers

Comparison of the results of two types of consultation

According to aforementioned analysis, supply-oriented collective consultation does not involve decentralized private experiments which are necessary process of institutional change.

Intervention of government, dependent trade union, and lack of labor rights are not likely to result in effective negotiation and results. Therefore, we propose following proposition:

Proposition 1 Supply-oriented collective consultation will not lead to real negotiation between labor and management, and the agreement does not have much impact on wages and working conditions.

On the other hand, demand-oriented collective consultation are likely to function effectively because both workers and management are motivated to involve in the process. In addition, direct participation of workers reduced agent problem of trade union or government, which is likely to lead to effective process and results. Therefore, we propose following proposition:

Proposition 2 Demand-oriented collective consultation are more effective.

Although a large amount of research on collective bargaining in industrial countries have been conducted, there are not much agreement on evaluating the production of collective bargaining. Generally, the results of collective consultation includes wage indexes and non-wage indexes. In early research, wage were supposed to be more important. For example, Anderson (1979) proposed that the output of collective bargaining includes: (1) the minimum annual salary; (2) the change in the minimum annual salary between two negotiation; (3) the level of nonwage bargaining outcomes; and (4) the change in nonwage bargaining outcomes between two negotiations. Because the collective consultation in China aims on increasing wage, we measure its effects by wage increase rate. In addition, we also measure workers' perception of the collective consultation. Generally, most of the consultations in China are supply-oriented ones. But there are several demand-oriented ones that should be noted.

Wage increase

Sixty collective agreements between 2011 and 2012 were collected to assess the effects of collective consultations, including 46 firm level agreements and 14 industrial level agreements from state-owned, private and joint-venture business in Hunan, Beijing, Jiangxi, Zhejiang, Guangdong and Jilin province. Thirty-one out of these agreements included terms for total amount of wage or average wage increase which ranged between 2% and 20%. Twelve out of the 31 agreements stated that the increase rate of wage would depend on annual profit. Only 3 out of the 31 agreements stated increase rate for specific job, while the rest 28 only stated average increase rate for all workers or total wage (see figure 2). Due to the resource limitation, we do not know whether these agreements have been put into practice. But it is likely that these vague statements would not ensure wage increase for low wage earners. In addition, as can be seen in the following section, the nominal wage increase rate in supply-oriented collective consultation is smaller than in demand-oriented collective consultation.

Table 2 Articles of wage increase in collective agreements

No. of collective contracts	Contents
1	5% increase of total wage for all employees
2	10% increase of total wage for all workers
3	11% increase of total wage or 430,000
4	Averagely 10% for each worker
5	Averagely 5% for each worker
6	7% wage increase when total profit of the company increase by more than 10%; 5%-6% wage decrease when total profit of the company decrease by more than 10%; otherwise, the wage increase rate equals to CPI
7	Averagely no less than 6%
8	No less than 6% wage increase when total profit of the company increase by more than 10%; otherwise, the wage increase rate equals to CPI
9	Total wage increase by 10%, but individual's wage depends on performance appraisal results
10	Increase 5% averagely when the company reach its profit goal
11	Increase no less than 6% averagely when the company reach its profit goal
12	Try to increase more than 5% averagely when the company reach its profit goal
13	8% increase averagely
14	Increase by 11.11%
15	3-5% averagely
16	20% averagely
17	If the profit goal is not achieved, wage will be decreased by less than 5%; otherwise increase by no less than 12%
18	Averagely no less than 8% when reach the profit goal
19	Averagely no less than 10% when the company performance increase as planned.
20	Increase by 6% averagely when the company reach its profit goal, when profit is higher than the goal, increase wage by no more than 12%; wage would decrease by 1% for every 10 million that the company loss; but less than 12% in the worst scenario

21	Total wage increase by 12%, average increase by 12% for each worker
22	No more than 2-4% wage increase in the headquarter, and no more than 4%
23	Averagely increase by 10% when the company performance increase as planned.
24	Averagely increase by 8.6%
25	Increase by no less than 10% annually between 2011 and 2014; meanwhile the total wage go with the rate of return on common stockholders' equity
26	Basic wage 4.25% (which is CPI); performance bonus 5.5%
27	Wage of formal increase by 13.45%.
28	Wage will increase by no less than 5% when profit increase by more than 5%; wage will be decreased by no more than 2% when profit decreases
29	Wage of formal employee increase by 3.5%, informal employee 350 RMB
30	Basic wage increase by 18%
31	According to the government suggestion, the average wage increase by 17.4%, housing accumulation fund increase by 2%

A noticeable case of supply-oriented consultation occurred among restaurants and hotels in Wuhan. As shown in figure 2, the minimum wage between 2005 and 2010 was lower than 2011 when the collective consultation happened. But obviously, the additional effects of supply-oriented consultation is small since the increase rate is only a bit higher than in 2010 (see table 3).

Table 3 The annual increase rate of minimum wage of waiters in Wuhan

	2005	2006	2007	2008	2009	2010	2011	2012
Minimum wage (RMB/month)	563	648	680	730	780	940	1170	1300
Increase rate (%)	/	15.1	4.9	7.4	6.8	20.5	24.5	11.1

Note: The minimum wage of waiter in restaurants between 2005 and 2010 is from official website of Wuhan Bureau of Statistics. Data for 2011 and 2012 was not available, so we use the minimum wage in collective agreement. The minimum wage of 940 was from 1st May in 2010. The minimum wage of 1100 was from 1st December 2011. The collective consultation happen in April. That means the minimum wage in collective agreements only a bit higher than minimum wage made by the government.

However, wage increase rate in demand-oriented consultation is larger than in supply-oriented consultation (see figure 4).

Table 4 Wage increase rate in demand-oriented collective consultation

Case	Honda	Brother Industries Ltd.	LGD (Nanjing)	Triumph (Hainan)	Guangming	DENSO	Sichuan chemical
Time	2010.5.17	2010.6.3	2011.12.26	2011.9.7	2011.11.1	2010.6.21	2011.11.30
Wages increase (RMB)	500	150	196	150	900	800	400
Wage increase rate (%)	35 ⁴	20 ⁵	14% ⁶	16.13 ⁷	60 ⁸	61.54 ⁹	40 ¹⁰

⁴ <http://www.caijing.com.cn/2010-06-07/110454246.html>.

⁵ http://www.cdnews.biz/cdnews_site/docDetail.jsp?coluid=113&docid=101191750.

⁶ <http://www.jtpp.cn/a/report/opinion/2012/0503/2889.html>.

⁷ <http://www.jtpp.cn/a/report/news/labor/2012/0130/2525.html>.

⁸ <http://www.jtpp.cn/a/report/news/labor/2011/1102/2172.html>.

⁹ <http://auto.163.com/10/0628/08/6A8JHF0E000816HJ.html>.

¹⁰ <http://www.jtpp.cn/a/report/news/labor/2012/0105/2457.html>

Workers' perception

Three surveys were done to explore worker's perception of collective consultation in different cases. First, a general survey was conducted in companies claimed to have collective agreements between workers and management in Guangdong, Hunan, Jiangxi, Fujian, Beijing and Shaanxi province. One thousand workers in different jobs were invited to participate in the survey, and we received 674 adequately answered questionnaire representing 67.4% of the respondents we surveyed. In addition, two surveys were conducted in two noticeable cases of collective consultation. In supply-oriented consultation in Wuhan, 3000 workers were invited to participate in the survey and 2954 adequately answered questionnaire were collected, which represented 98.46% of the workers surveyed. In a supply-oriented consultation occurred in Hengbao Company in Shenzhen, where 117 workers participated in the survey and 87 completed questionnaire were collected.

The results show the difference of perception of collective consultation in different cases. Workers in demand-oriented consultation in Shenzhen show highest knowledge and requirement for collective consultation, while respondents in the general survey show lowest knowledge and requirement. The demand-oriented consultation in Shenzhen happened in three waves, that the success in the first wave made more workers determined to negotiate with the management and finally succeeded. In Wuhan cases, although the supply-oriented consultation promoted by local government and trade union branch did not involve much direct participation from workers, workers demonstrated higher knowledge and requirements for collective consultation than in the large sample survey. It should be noted that high and middle level managers were also included

in the general survey. Since managers tend to have more knowledge about collective consultation, the level of knowledge of workers in the general survey will be even lower than in table 5.

Table 5 perception of collective consultation in different survey

Questions	Hengbao Company	Wuhan	General survey
Is collective consultation necessary?	93.1%	55.7%	69.3%
Do wages need to be decided through collective consultation?	95.4%	79.1%	68.2%
Do you know whether there is collective agreement in your company?	90.8%	51.4%	38.1%
Do you know the contents of collective contracts?	91.9%	39.0%	21.6%
Is there any introduction of collective consultation in your company?	100%	65.5%	19.8%
Do you know whether there is trade union in your company?	18.4%	73.5%	53.1%

Note: workers in Hengbao Company only know the negotiation in their company about social security but not collective consultation.

Table 6 show worker's perception of the future of collective consultation. Workers in supply-oriented collective consultation are more optimistic but more likely to suppose collective consultation does not really exist. It is probably because the collective agreements were actually between trade union branch and management, without much participation of workers. On the other hand, workers in demand-oriented consultation tend to be pessimistic.

Table 6 Workers' perception of the future of collective consultation

	Hengbao	Wuhan	General survey
Very bad	23.0%	2.51%	3.4%
Bad	41.4%	6.73%	15.6%
Neutral	1.1%	25.03%	25.8%
Good	33.3%	42.98%	48.8%
Very good	1.1%	11.40%	6.4%
I don't know	0	11.36%	0

As can be seen in table 7, the respondents' intention of participation varied in different surveys. Respondents in demand-oriented collective consultation are more willing to participate in collective consultation than in general survey and supply-oriented consultation. In all three cases, the willingness of being representative is lowest among all other forms of participation, which indicates the free-rider problem. Finally, the workers in demand-oriented consultation

have more positive attitude toward collective consultation.

Table 7 Participation intention of workers in different cases

Participation intention	Hengbao Company (%)	Wuhan (%)	General survey (%)	Knowledge of collective consultation	Hengbao Company (%)	General survey (%)
Know the contents of collective agreements	4.61	3.97	4.12	Improve employee satisfaction	4.08	3.78
Know the process of collective consultation	4.28	3.92	3.96	Improve management skill	3.69	3.5
Know related law	4.22	3.94	4.10	Improve working condition	3.64	3.56
Express opinion	4.17	3.91	3.98	Improve organizational performance	3.59	3.51
Electing representative	4.16	3.88	3.90			
Pay attention to the implementation	4.03	3.93	3.97			
Want to be the representative	3.64	3.75	3.54			

Conclusion

In this study, drawing on institutional change theory, we proposed two types of collective consultation: supply-oriented and demand-oriented consultation.

The supply-oriented collective consultation, which is promoted by local government and trade union branch, does not involve much participation from workers. Workers are still much weaker than management and the consultation is actually dominated by management. Due to the superiority of management and bureaucracy and the agency problem, the supply-oriented consultation is not likely to be an effective way of establishing collective interaction between workers and management. The empirical evidence has supported that most of supply-oriented consultation does not increase worker's income as in demand-oriented consultation. Additionally, since workers are not involved in the process, it does not increase workers' knowledge of consultation. In the most well-known Wuhan case, the local trade union tried to establish consultation mechanism on behalf of workers. Although the supply-oriented consultation improve worker's income and work condition and knowledge of collective consultation, it also

increased financial cost of local government.

In contrast, demand-oriented consultation is launched by workers or management spontaneously, and finally reach to agreement through negotiation. However, due to the superiority of management, induce consultation in China needs involvement of other social forces like government, public media, NGO and researchers. Demand-oriented consultation, which results from the needs of labor or management, does not only increase worker's income, work condition, or other illegal rights, but also improve worker's knowledge and participation intention.

The empirical evidence supports the propositions that supply-oriented collective consultation does not work effectively, and it does not involve enough participation from workers. Induce collective consultation are more effective. Therefore, the supply-oriented collective consultation needs more participation of management and workers, otherwise the institutional change will be delayed. On the other hand, more efforts are needed to reinforcement the results of induce consultation and establish future schedule.

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