

Research on Labor Relationship Trusteeship Services for Micro and Small Enterprises (MSEs)

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Abstract

Under the background of "mass entrepreneurship and innovation", Micro and Small Enterprises (MSEs) have achieved vigorous development. However, due to small scale, limited funds, and rough management, disputes over labor relations keep emerging, seriously restricting the sustainable development of MSEs. The labor relationship trusteeship services for MSEs can prevent labor relations disputes, effectively reduce the occurrence rate of labor dispute cases, and increase the success rate of labor relations mediation. This study analyzes the origin of the service, evaluates the service effect, and finds that the trusteeship services have problems such as mismatch between service supply and demand, insufficient service execution quality, and challenges to the sustainability of cooperation. Countermeasures and suggestions are proposed, including demand-oriented service upgrade, full-chain quality control, and collaborative risk governance. This research provides valuable insights for promoting the labor relationship trusteeship services for MSEs and facilitating the construction of a scientific and reasonable labor relations management system for micro and small enterprises.

Keywords: Micro and Small Enterprises, Labor Relationship Trusteeship Services for Micro and Small Enterprises, Labor Relations Management

Introduction

As an important component of the market economy, MSEs have demonstrated vigorous development vitality and have become a significant growth point for economic development and an important channel for expanding employment. They play a crucial role in economic growth, employment stability, and social innovation. As of April 30, 2025, there were a total of 67,001,174 operating enterprises in China, among which 56,419,910 were micro and small enterprises, accounting for 84.21%. There are a total of 133,832,117 operating individual business households in China, and the combined number of inclusive MSEs is 190,252,027, accounting for 94.73% of the total number of major market entities (enterprises + individual business households) in China ("Micro and Small Business Households Make a Difference | Monthly Report on Inclusive Micro and Small Enterprises, 2025"). In China, the outstanding

contributions of small, medium and micro enterprises to economic and social development are referred to as "56789". The "5" indicates that small, medium and micro enterprises contribute over 50% of the tax revenue, the "6" indicates that they contribute over 60% of the GDP, and the "7" indicates that they contribute over 70% of the technological innovation achievements. "8" refers to the fact that small, medium and micro enterprises have created over 80% of urban employment. "9" refers to the fact that the number of small, medium and micro enterprises accounts for more than 90% of the total number of enterprises. It is evident that MSEs play a significant role in China's economic development.

However, MSEs are small in scale, lack experience and have incomplete rules and regulations, which leads to frequent labor relations disputes and derivative problems, seriously hindering the healthy development of micro and small enterprises. Due to limited resources, MSEs often find it difficult to establish a complete human resource management system, which directly increases the probability of labor disputes in the labor employment process due to non-standard systems (such as contracts, attendance, salaries, etc.). MSEs need to invest additional time and economic costs (such as arbitration and litigation, compensation, etc.) in handling disputes. Coupled with the hidden losses caused by inefficient daily management, this significantly increases the comprehensive labor cost. These pressures will distract the energy of business operators, restrict business expansion and talent reserves, and form a vicious circle that hinders the sustainable development of enterprises. To this end, this study proposes research on labor relationship trusteeship services for micro and small enterprises. Led by the government or social organizations and integrating the participation of social forces, it seeks more efficient and targeted service solutions, with the expectation of achieving a more flexible and adaptable management model in the field of labor relations for micro and small enterprises.

The significance of this research lies in systematically analyzing the theory of labor relations management, introducing external professional human resource management and labor relations management services for micro and small enterprises, and making up for the deficiency of their own professional capabilities. Relying on professional knowledge and rich experience, the custodian helps MSEs optimize the allocation of human resources, scientifically design salary and benefits, recruitment processes, labor relations management, etc., and enhance the overall level of human resource management. This research will contribute to the construction of a labor relations guarantee service system close to micro and small enterprises, vividly referred to as "the exclusive human resource management consultant by the side of micro and small enterprises". It aims to prevent the occurrence of labor disputes in MSEs and promote their sustainable development. The research results are expected to provide meaningful insights for policymakers, operators of micro and small enterprises, and scholars in the field of labor relations who are committed to promoting the high-quality and sustainable development of MSEs in China.

Method

This study adopts qualitative research methods. Based on the theoretical framework of "labor relations management", through literature analysis and interview methods, it systematically analyzes the problems and coping strategies faced by labor relations management in micro and small enterprises. The research design is mainly based on descriptive analysis. The information sources include national policy documents (the "Opinions on Building

Harmonious Labor Relations" issued by the Central Committee of the Communist Party of China and The State Council in August 2024, the "Service Standards for Risk Prevention and Control of Labor Employment in Small and Medium-sized Enterprises" in 2025 Edition, and the "Several Opinions of The State Council on Further Promoting the Development of Small and Medium-sized Enterprises" in May 2025), as well as unified information released by the Human Resources and Social Security Bureau and industry organizations Data, academic journals, research reports on human resource management services, etc. Through qualitative content analysis methods, the literature data are compared, summarized and integrated, with a focus on three main areas: the trusteeship services system, the insufficient operation of trusteeship services, and countermeasures and suggestions for improving the effect of trusteeship services. This study reveals problems such as the mismatch between supply and demand of services, insufficient quality of service execution, and challenges to the sustainability of cooperation in the trusteeship services for micro and small enterprises. It also puts forward countermeasures and suggestions for demand-oriented service upgrading, full-chain quality control of, and collaborative risk governance. Although this study does not involve field research, in order to enhance the credibility and robustness of the research results, this paper adopts the multi-source data (triangular cross-proof) strategy to integrate and analyze the information, providing a theoretical basis and policy basis for subsequent empirical research (Santos et al., 2020).

Current Situation of the Problem

In 2024, there were 4.257 million labor dispute cases in China involving 4.549 million workers. It has increased by 10.6% compared with 2023 (3.85 million cases), and has continued to rise for seven consecutive years (Statistical Bulletin on the Development of Human Resources and Social Security in 2024, 2025), among which the proportion of micro and small enterprise cases is prominent (Shandong Provincial Department of Human Resources and Social Security, 2025). The labor relations of MSEs have the following problems:

The signing rate of labor contracts and the participation rate of social insurance in MSEs are low. MSEs do not sign labor contracts, or are forced by the inspection of the labor security administrative department to sign formal labor contracts with employees, but in fact do not fulfill the contracts. MSEs generally have poor economic benefits. Especially in recent years, they have been severely affected by the epidemic, with meager profits or even severe losses. To save on rigid expenditures such as social security and compensation, they deliberately circumvent the legal constraints of labor contracts. The short-term survival strategy of "not signing contracts → reducing labor costs" was formed (Zhou & Wang, 2021), making it difficult to bear the social insurance costs of all employees (Zhao et al., 2024). In addition, some employees have a weak legal awareness. For the sake of immediate interests, they agree that enterprises do not purchase social insurance, resulting in an extremely low participation rate of social insurance for MSEs (Xu et al., 2024).

MSEs have not established independent human resource management institutions. HR (Human Resource Management) in MSEs is mostly part-time (Ilić et al., 2020), especially in labor-intensive micro and small enterprises. The legal awareness of the enterprise leadership is not strong, and there is a lack of standardized rules and regulations and corporate culture construction. In terms of labor relations management, there are no professional labor relations management institutions and personnel, and various rules and regulations are not

standardized or complete (Rees& Li, 2020). In particular, there are many problems with the wage and salary system. There is no trade union established and no wage negotiation system. The wage standards and bonus distribution are all decided by the business owners. Without a scientific and reasonable labor quota standard, the boss can freely determine the labor quota and wage standard, and the labor cost is low.

The conflicts between employers and employees have become prominent. In the relationship between employers and employees in micro and small enterprises, enterprises hold an absolute dominant position, and the rights and interests of employees are vulnerable to infringement. Enterprise managers default on workers' wages, and employees have no labor protection or economic security and no welfare, which continuously deepens the conflicts between employers and employees (Lin et al., 2024). Due to the lack of complete rules and regulations, when conflicts arise between the two sides, they cannot be resolved in a timely and effective manner, and the conflicts deteriorate into inevitable labor disputes.

Implement the Labor Relationship Trusteeship Services for MSEs

In view of the problems such as insufficient labor relations management capabilities of micro and small enterprises, prominent illegal employment phenomena, and high incidence of labor conflicts and disputes, this study proposes to implement labor relationship trusteeship services for micro and small enterprises. The governance of labor relations should be intervened in advance and proactively to achieve a transformation from intervention-based governance to service-oriented governance. The government and enterprises jointly build harmonious and stable labor relations among micro and small enterprises, creating a better business environment for their stable development.

The labor relationship trusteeship services for MSEs refers to a service model where a professional third-party institution (such as a human resources service agency) takes on the responsibilities related to the labor relations management of MSEs on behalf of the enterprise. It provides a series of professional services related to labor relations for MSEs to help them standardize employment management, reduce employment risks, and build harmonious labor relations. The scope of the entrusted service includes onboarding and offboarding management, labor contract management, social insurance management, salary and welfare management, rules and regulations management, labor dispute resolution, labor laws and regulations consultation and labor dispute resolution, etc. As shown in Figure 1. It basically covers the entire process service from onboarding management to offboarding management, aiming to help enterprises optimize human resource allocation, reduce employment risks, and enhance the standardization and professionalization level of labor relations management.

The operation mode of the labor relationship trusteeship services for MSEs can roughly be summarized into two types: government-led type, such as the pilot project of the labor relations affairs trusteeship service for MSEs in Haizhu District, Guangzhou City. Through the government building a platform and providing subsidies, it openly selects and guides and supports human resources service institutions to provide services for micro and small enterprises. The second type is the third-party institution service type. Micro and small enterprises, based on their own needs, entrust professional third-party management service institutions to handle matters related to labor relations, such as human resource management service companies or management consulting companies.

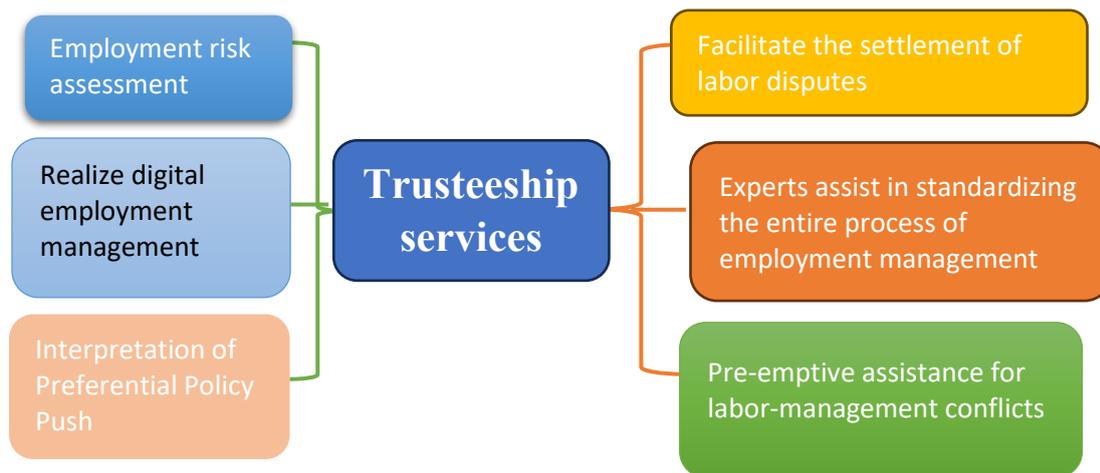


Figure 1 Labor relations affairs trusteeship services for MSEs

The Significance of Implementing the Labor Relationship Trusteeship Services for MSEs

Standardize employment management. Help MSEs establish and improve labor employment management systems and procedures, making their employment behaviors more standardized and legal, and avoiding labor disputes caused by poor management.

Reduce employment risks. Through professional services and guidance, potential labor employment risks such as work-related injuries, work-related deaths, and labor disputes can be identified and resolved in a timely manner, reducing the economic losses and legal risks that enterprises may face.

Enhance the competitiveness of enterprises. Enable MSEs to devote more energy and resources to production and operation, improve the operational efficiency and market competitiveness of enterprises, and promote the sound development of enterprises.

Promote harmonious labor relations. It is conducive to creating a good atmosphere of labor relations, enhancing employees' sense of belonging and loyalty, improving their work enthusiasm and creativity, and achieving the common development of the enterprise and employees.

Promote the development of labor relationship trusteeship services for micro and small enterprises. By leveraging third-party professional institutions, provide labor relations management solutions for micro and small enterprises, reduce the burden on enterprises, and ensure that the legitimate rights and interests of workers are protected. At the same time, efforts should be made to strengthen the construction of the public service platform for labor relations of micro and small enterprises. Through government leadership and social participation, comprehensive services such as policy consultation, legal aid and skills training should be provided for MSEs to enhance the overall quality and adaptability of enterprises and employees.

For instance, the pilot project of labor relationship trusteeship services for MSEs in Guangzhou was launched in 2022, with Haizhu District as the pilot area. Through the approach of the government building a platform and providing subsidies, it openly selected and guided

human resources service institutions to offer a package of labor relations services to micro and small enterprises. This pilot program has achieved remarkable results, promoting the self-regulation of internal governance among MSEs in Haizhu District, Guangzhou City, enhancing their market competitiveness, facilitating the mutual empowerment of harmonious labor relations and industrial integration, and achieving a win-win-win situation for the government, human resources service agencies, and micro and small enterprises. It has also pioneered the "Guangzhou Model" for labor relations governance in micro and small enterprises.

Specifically, Haizhu District of Guangzhou City has adopted the "One-Click" digital service platform of Haizhu Human Resources and Social Security Bureau. Through the selected and included human resources service institutions, it provides a series of services for micro and small enterprises, including compliance check-ups, employment guidance, review of labor contracts and regulations, dispute mediation, and consultation and answer questions. The innovation of the labor relations governance model that transforms interventionist governance into service-oriented governance enables the human resources and social security department to promptly grasp the employee rogues, labor regulations and employment situations of MSEs through the labor relationship trusteeship services for micro and small enterprises. This has endowed the human resources and social security department with a "penetrating" supervision model featuring collaborative linkage, proactive intervention, substantive supervision and pre-intervention. In addition, the micro and small enterprise management service has also guided MSEs in compliance with employment regulations, helped them take preventive measures in advance, promptly identify and properly resolve labor disputes, and achieved good results in promoting harmonious and stable labor relations among micro and small enterprises.

Found Deficiencies

From the current implementation, existing problems and achievements of the labor relationship trusteeship services for micro and small enterprises, the following deficiencies exist:

The supply and demand of trusteeship services do not match. The content of the trusteeship services is monotonous (such as only covering basic matters like contracts and social security), which is difficult to meet the diverse needs of MSEs (such as employee training, performance management, dispute resolution, etc.), resulting in incomplete service coverage.

Inadequate quality of service execution. The professional levels of institutions vary greatly. Some lack experience in labor law, resulting in operational errors (such as non-standard contracts and social security mistakes). The communication between the two sides is inefficient, and the information such as policy changes and service progress is not conveyed in a timely manner, which affects the service effect.

Trusteeship partnerships have sustainability challenges. Cost-benefit imbalance occurs. Enterprises consider the costs too high and the short-term benefits not obvious, reducing their willingness to participate. Ambiguous responsibility definition and unclear division of responsibilities between institutions and enterprises during disputes (such as institutional mistakes leading to legal risks for enterprises) can easily trigger disputes.

Countermeasures and suggestions

The labor relationship trusteeship services for MSEs project is an innovative practice of labor relations supervision that is proactive, service-oriented and penetrating. It should be implemented from three dimensions: service scope, service quality and service depth.

Therefore, this study puts forward several suggestions for the entrusted service of labor relations affairs of micro and small enterprises:

Strengthen Trusteeship Demand-oriented Service Upgrade. Through research (questionnaires, visits), accurately identify the demands of micro and small enterprises, expand service content to value-added items such as training and performance management, and dynamically optimize service processes to control costs. At the same time, enhance enterprises' willingness to participate through policy subsidies and publicity.

Full chain quality control. Strengthen the qualification review of institutions and personnel training, and establish a service evaluation mechanism (linked to subsidies); Build a two-way communication platform (meetings, hotlines) simultaneously to ensure that policy updates, service progress and enterprise feedback are synchronized in real time.

Collaborative Governance of Trusteeship Services Risks

Clearly define the division of rights and responsibilities in the agreement (such as the error compensation clause), and provide a risk early warning mechanism. The government can standardize the definition of responsibilities through model contract texts and reduce the risk of legal disputes.

Conclusion

This study systematically analyses labor relationship trusteeship services for MSEs and reveals the following key findings:

Prominent Labor Relationship Trusteeship Services Issues in MSEs. Due to their small scale and limited resources, MSEs commonly face problems such as low labor contract signing rates, insufficient social insurance coverage, and a lack of professional human resource management departments. These issues lead to frequent labor disputes, severely hindering sustainable business development.

Positive Impact of Trusteeship Services. Labor relationship trusteeship services effectively standardize employment management in MSEs, reduce labor-related risks, improve the success rate of labor dispute mediation, and allow enterprises to focus more on core business operations, thereby enhancing market competitiveness.

Current Shortcomings of Trusteeship Services. The study identifies mismatched service supply and demand (limited-service scope), insufficient service execution quality (varying levels of institutional expertise), and sustainability challenges (cost-benefit imbalances and unclear accountability), all of which undermine the effectiveness of these services.

Based on these findings, the study proposes the following recommendations:

Demand-Driven Service Enhancement. Conduct targeted surveys to accurately identify MSEs' needs, expand service offerings to include value-added programs such as training and performance management, optimize service processes dynamically, and increase participation through policy subsidies.

End-to-End Quality Control. Strengthen qualification reviews and staff training for trusteeship agencies, establish service evaluation mechanisms, and build two-way communication platforms to ensure service quality and timely information exchange.

Collaborative Risk Governance. Clearly define responsibilities in service agreements, implement risk early-warning mechanisms, and encourage governments to standardize accountability through model contract templates to minimize legal disputes.

In conclusion, labor relations affairs trusteeship services serve as an effective solution to current management challenges in MSEs. However, further improvements—such as precise

demand matching, quality enhancement, and collaborative risk governance—are necessary to refine the service model. These measures will help MSEs build harmonious labor relationships and achieve sustainable development.

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