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Cass Business School
CITY UNIVERSITY LONDON

Human Resource Management Changes in China:
A Case Study of The Banking Industry

By

Hon Fun Irene Poon

Thesis

Submitted to Cass Business School
City University of London
In Partial Fulfilment of the Requirements
Of the Award of the Degree of
Doctor of Philosophy

3rd August, 2009

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Acknowledgements

I would like to thank a number of people, without whom this dissertation would have been impossible.

First and foremost, I would like to express deep gratitude to my supervisor, Professor Chris Rowley, for his support, assistance and guidance during the research process. His inspiration and invaluable advice helped broad the views and enrich the meaning of this research.

Special thanks are due to Professor Wes Harry for his constructive suggestions and encouragement, Professor Joanne Zaleska for her valuable comments, and Professor Dick Wiggins for his superb assistance in the data management.

I would also like to acknowledge the generous support of two human resources consultancy firms, Watson Wyatt and Mercer who are crucial to the successful completion of this research.

Last but not the least, this study would not have been possible without the support of the participating firms, people, academics and practitioners alike. I would once again take this opportunity to express my sincerely thanks for all providing help during my field survey in China.

Abstract

Change in human resource management (HRM) has attracted attention in a range of management disciplines. Examining the influences on HRM change relates to several areas, including the discussion of convergence and divergence, institutional forces and cultural heritages, as well as HRM transferability and adoption. Evidence supporting these views remains diverse and not complete enough to explain the issues. To address the gap in the literature, the current research conducted an in-depth study of the banking industry in the People's Republic of China (henceforth China). China's entry into the World Trade Organisation (WTO) and its economic reforms have exerted pressures on local Chinese banks (LCBs) while offering business opportunities to foreign-invested banks (FIBs). Two research questions were formulated: (1) to assess if LCBs and FIBs operating in China have changed their HRM practices towards or from each other; and (2) to examine which contextual factors relate to HRM change.

Based on the research findings, changes were observed in both LCBs and FIBs during the period 2000 to 2008 in several HRM areas (*change content*), including resourcing and retention, rewards and performance, and training and development. LCBs used many Western HRM practices. Objective-setting performance management, graduate trainee programme, market-adjusted bonus schemes etc. were introduced due to competition and institutional isomorphism (*change context*). However, some of these changes were implemented for a couple of years but were not successfully carried forward because resistance was felt from employees and organisation inertia restrained LCBs from full absorption of new practices. On the other hand, FIBs transferred many global HRM practices to their local branches. Embedded culture and contingent impediments made neither customisation of global plans nor adoption of local approaches easy.

It is argued that (a) while transfer and adoption of HRM practices was observed, the **inter-group change** between LCBs and FIBs was much larger and faster than **intra-group change** between FIBs home and host countries. (b) The *change process* was not smooth; rather, **across-time change** was in the form of waves and characterised by delays and oscillations. It is not sure (c) if *change outcome* would result in LCBs and FIBs having their HRM systems converged towards something similar, formed a hybrid transitionary model, or remained diverge. Finally, (d) firm nationality and firm size had significantly influence on HRM decision, but firm age did not have any *change relationship* with HRM practices.

List of Abbreviations

ABC	Agricultural Bank of China (one of the Big Four state banks)
ADB	Agriculture Development Bank (one of the policy banks)
BCOM	Bank of Communications
BOC	Bank of China (one of the Big Four state banks)
CBRC	China Banking Regulatory Commission
CCB	China Construction Bank (one of the Big Four state banks)
DPEs	Domestic private enterprises
EIB	Export-import Bank (one of the policy banks)
FDI	Foreign direct investment
FIBs	Foreign-invested banks
GDP	Gross domestic product
HRM	Human resource management
ICBC	Industrial and Commerce Bank of China (one of the Big Four state banks)
ITUC	International Trade Union Confederation
ILO	International Labour Organisation
JSEs	Joint-stock enterprises
JVs	Joint ventures
KM	Knowledge management
LCB	Local Chinese bank
MBA	Master of Business Administration
MBO	Management-by-objective
MNCs	Multi-national companies
NCBs	National commercial banks
PA	Performance Appraisal
PBOC	The People's Bank of China (i.e. China's central bank)
PM	Personnel Management
PPP	Purchasing power parity
RMB	Renminbi (i.e. Chinese currency)
ROs	Representative offices
SDB	State Development Bank (one of the policy banks)
SOBs	State-owned banks
SOEs	State-owned enterprises
TVEs	Township and village enterprises
WOFEs	Wholly-owned foreign enterprises
WTO	World Trade Organisation

Declaration

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1. Introduction

1.1. Chapter Introduction

There has been a growing awareness of the importance of human resource management (HRM) in the global arena and a greater understanding of its international dimensions. Globalisation, internationalisation, foreign direct investment (FDI) and deregulation, all put companies under substantial pressure to best utilise their resources, including human resources. This challenge is even more intense in emerging economies, such as the People's Republic of China (henceforth China) which is undergoing unprecedented change. The post-2008 global financial crisis has spread over many other sectors across the global and a lot of economies appear to have deteriorated fast. There is no exception for China. Although China's banking industry did not have much exposure to the USA sub-prime mortgage and reduced liquidity crisis, China's banking industry will face a difficult path ahead. Transformation in management policies and practices in China's banking industry raises serious transfer and adaptation problems for enterprises. Because change is inevitable, it is important to understand why and how HRM change has occurred, what have been changed and which contextual factors have affected such change.

This chapter first presents the background of the investigation by reviewing various theoretical perspectives and debates in the literature about HRM change (Section 1.2). The case of HRM in the banking industry in China is exemplified to examine these change issues (Section 1.3). On the basis of the research issues, a conceptual framework is constructed to investigate research questions related to HRM change (Section 1.4). Next, the research design and methodology including research paradigm, sampling technique, data collection methods, data management and analysis are highlighted (Section 1.5). A justification for the study is also given (Section 1.6) and limitations of the research are highlighted (Section 1.7).

1.2. Background to the Research Problem

Attempts to understand HRM change continue to occupy a central place in the development of management and organisational theory. The starting point for the continued study of HRM change is no longer the question of whether there is change or not as empirical evidence suggests that organisations do change their HRM practices. Instead, the overarching research issues to all HRM change efforts are why HRM change occurs (*change context*), what HRM change is (*change content*), how HRM change occurs (*change process*), where new HRM is towards (*change outcome*) and which factors relate to HRM change (*change relationship*).

Change Context – Why HRM Change Occurs? The first question is why HRM change occurs. There are certain forces that facilitate or hinder HRM change. From a universalistic perspective (Harbison and Meyers, 1959; Kerr et al., 1960), worldwide socio-economic and political forces create tendencies for countries, and by implication their management practices, to change to become more similar. The preference towards 'a universal prescription' (Boxall and Purcell, 2003) implies that there is 'one best way' of managing and organisations should change their HRM practices and converge to best practice. Apart from the convergence view, the contingency perspective suggests that organisations should continuously adjust their HRM strategies to fit to the external environment (Hennan and Perlmutter, 1990; Jackson et al., 1989), corporate evolution (Adler and Ghadar, 1990; Mintzberg, 1979), internal business strategy (Becker and Gerhart, 1996; Delery and Doty, 1996), or work technology (Woodward, 1965). Institutional force plays an additional role in initiating change. Three institutional forces, i.e. constraining, cloning and learning forces, can push firms to adopt institutional rules when structuring companies and managing management practices (DiMaggio et al., 1983; McKinley et al., 1995).

While these theoretical perspectives attempt to describe the manner in which HRM changes are introduced, mediated and handled, they fail to explain why change processes are not uniform across regions, countries, industries and organisations. Even within the same organisation, HRM may converge on a macro-level but continue to be different or even diverge on a micro-level (Child, 1981; Adler et al., 1986). It seems that there may be other forces at work that hinder HRM change.

Cultural theorists contend that culture is a key factor implanted in a country's society and economy influencing change in organisations and therefore, can act as an 'informal constraint' (North, 1990) to slow down HRM change (Hofstede, 2001; Lammers and Hickson, 1979). Change in management practices can further be inhibited when a company cannot copy or transfer 'unique' (i.e. rare and inimitable) resources from other companies (Barney, 1986, 1991, 1995; Lado and Wilson, 1994) or cannot adapt its 'path dependent' HR elements to other companies' socially complex practices (Becker and Gerhart, 1996). Organisational inertia can also act as a brake on the full absorption of the changes. Organisational inertia can be deeply rooted in cultural and institutional heritages of companies (Ding et al., 2000; Warner, 1999), or can happen when certain practices are taken for granted as the way things were done before (Scott, 1987).

To summarise, contemporary research consists of considerable variations in theoretical perspectives on HRM change context, from earlier writer such as Lewis (1947) and Tushman and Anderson (1986) to recent ones such as Dawson (1994), Hope Hailer and Balogun (2008), and Warner (2008). The pluralistic nature of change literature, represented by a range of views, each has its strengths and limitations. Institutional forces and external pressures generate HRM change, but a range of contingent impediments (including cultural barriers, inimitable resources, and organisational inertia) hinder the change. There is clearly a paradox in change context. It is, therefore, worthwhile to further investigate the issues of HRM change.

Change Content – What is HRM Change? The second aspect deals with change content in terms of HRM levels and areas. A HRM system can include principle, policy and practice levels (Becker and Gerhart, 1996). It is relatively easy to observe change at practice level because this is where practices are implemented and mediated and where possible constraints may appear. These HRM practices may include recruitment, selection, retention, compensation, performance, training, development, knowledge management (KM), etc. Yet, there is not a clear list in the literature about which HRM areas or which 'bundle' is to be included in studies (Becker and Gerhart, 1996; Pfeffer, 1994). Different researchers have their own HRM list or model and there is no consensus on what change will happen in which HRM areas and at what levels.

Change Process – How does HRM Change Occur? Other than comparing HRM change at different levels and areas, it is equally important to understand the change process. Under the contingency perspective (Greer and Ireland, 1992; Lawrence and Lorsch, 1967), the magnitude of change is gradual, steady and continuous. However, structural inertia theorists (Cyert and March, 1963; March and Simon, 1958; Nelson and Winter, 1982) argue that change is infrequent and formidable. Still, some others (e.g. Brown and Eisenhardt, 1997) suggest that the pace is of a relative degree. The terms 'crossvergence' (Ralston et al., 1993) or 'relative convergence' (Warner, 2002, 2003) are introduced to describe this relative degree idea. Since there is no obvious analytical consensus in explaining how all change processes have happened, some more studies on change process are deemed suitable.

Change Outcome – Where is HRM towards? Another aspect of change is about the direction of change and outcome. Most studies reveal that HRM change is not necessarily towards a final destination or some best practice model, but remains at a transition stage (Cunningham, Poon and Rowley, 2008). It seems that there is a gap in the literature that predicts what the final change outcome would be.

Change Relationship – Which Factors Relate to HRM Change? The study of change process will not be completed without considering the effects of key variables describing an organisation's context (Jackson and Schuler, 1995). Contextual factors that may affect the choice and practice of HRM include company age, firm size (Ding and Akhtar, 2001; Jackson and Schuler, 1995), capability and capacity (Hope Hailey and Balgoun, 2008), growth rate (Jackson and Schuler, 1995), type of ownership (Ding and Akhtar, 2001; Zhang and Parker, 2002), country nationality (Edwards and Ferner, 2002; Ferner et al., 2001; Ngo et al., 1998), culture, laws regulations, labour markets (Hofstede, 1992; Pfeffer and Cohen, 1984), etc. Ignoring these contextual factors may lead to specification errors in models used to predict HRM (Becker and Gerhart, 1996).

These unsolved issues in HRM change intertwine what seems a simple and clear topic, and the extant literature provides only limited insights into the questions. Chapter 2 further elaborates different theoretical perspectives and gaps in the literature. It is obvious that additional empirical work is needed to investigate these change issues. To make this topic even more confusing, HRM change in an emerging market can be very different from that in developed countries. However, most of the literature reviewed has been based on studies and analyses undertaken in North America or Europe. Consideration of the Asian context is limited. China, an emerging economy with its rapid growth and dynamic market situation, represents an appropriate context for assessing the issues. The next session highlights the country and industry background of this research.

1.3. Country & Industry Setting for the Investigation

China started a series of macroeconomic reforms of industry, defence, agriculture and science from the late 1970s. These reforms have brought considerable change to the structure of the Chinese economy, for example the most rapid Gross Domestic Product (GDP) growth in Asia (World Bank Report, 2006) and have aroused enterprise-wide issues, such as relocation of factories, downsizing and retraining (Warner, 2002). Besides, the surge of

FDI in China's market is another influence on the changing patterns of management practices. Multinational companies (MNCs) have brought into China not only modern equipment and the latest technology ('hardware'), but also advanced management expertise and HRM systems ('software'). For instance, more flexible recruitment, fixed-term employment contracts, performance-based compensation, training, career development, and emphasis on staff retention (Ding and Warner, 1999; Zhao, 1994; Zhu and Dowling, 1994), have been introduced to local companies. Also, the localisation of managers (Shen and Vincent, 2004) and establishment of trade unions have occurred in MNCs operating in China (Ke and Morris, 2002).

China's accession into the World Trade Organisation (WTO) has caused another series of economic reforms (relaxation of foreign ownership restriction) as well as opening up the protected service industries (such as financial services, insurance and telecommunications). Among the service sector, the banking industry is changing quickly in order to fulfil the obligations of the WTO membership and to survive in the country's evolving economic, business, and regulatory environments. This may create a new institutional environment for local Chinese banks (LCBs) and foreign-invested banks (FIBs). The breaking up of the monopoly of state-owned banks (SOBs) (Chen, 2002), introduction of national commercial banks (NCBs) and expansion of FIBs (Chen et al., 2000), have all led to significant transformation in the structure of the banking industry in general and HRM practices in particular. Systems, models and management expertise brought by FIBs can become the benchmark for SOBs and NCBs to copy, while normative pressure to learn how to 'play the local game' can help ensure the competitiveness of FIBs. Yet, traditional cultural values, historical heritage and global policies can be barriers or bridges to change. Chapter 3 further outlines the macro environment of China's economy, its cultural uniqueness, industry setting and implications of WTO accession.

Nevertheless, previous studies of China were mainly focused on manufacturing industries (Björkman and Fan, 2002; Zhang and Parker, 2002). Limited research attention has been paid to changes in HRM areas in the service industry in this country. Services differ from goods in many important ways (Bowen and Schneider, 1988). An investigation using the banking industry to evaluate the issue of HRM change in China's service industry is deemed appropriate. The next section elaborates the research questions and the conceptual framework used in this study to investigate the research issues.

1.4. Research Questions and Conceptual Framework

Changes in HRM have been observed in China's banking industry. However, little rigorous work has been done to explain the *context*, *content*, *process* and *outcome* of these changes. Nor is there adequate research effort to explore the *relationship* of the factors to these changes. The purpose of this research is to investigate what, why, how, where and which HRM changes occur in the banking industry in China. Two research questions are formulated to examine these research issues: (1) to assess if LCBs and FIBs operating in China have changed their HRM practices towards or from each other; and (2) to examine which contextual factors relate to HRM change.

The research collects data from LCBs and FIBs. For the purpose of this study, LCBs refer to banks owned and operated by state or domestic financial institutions and FIBs refer to banks owned and operated by overseas financial institutions, which are normally MNCs. Three types of HRM change included in this study are **intra-group change, inter-group change,** and **across-time change.** Intra-group change assesses change within FIBs and is about transfer and adoption of FIBs home and host countries' HRM policies and practices. Inter-group change assesses change between LCBs and FIBs and is about LCBs imitating policies and practices brought by FIBs or FIBs taking up local policies and practices. Across-time change looks at adjustments in LCBs and FIBs within a certain time frame.

Moreover, the importance of organisational context on the study of HRM practices cannot be ignored in the evaluation of HRM models (Becker and Gerhart, 1996; Jackson and Schuler, 1995, 1999). Therefore, the second research question addresses the relationship between contextual factors and HRM areas. A conceptual framework which combines aspects of various theoretical models is constructed to examine the relationship between HRM areas and contextual factors. The HRM areas under investigation are resourcing and retention, rewards and performance, and training and development. Several contextual factors which are included in some previous studies (Ding and Akhtar, 2001; Ding et al., 2000, 2001; Lu and Björkman, 1997; Zhang and Parker, 2002; Zhu and Warner, 2004) and are related to the Chinese enterprises are included in this study. They are firm nationality, firm size and firm age. To control for the industry effect, branch network and firm ownership are introduced. Since HRM change is a dynamic concept as opposed to a static phenomenon, a time period is included in the conceptual framework too. The year 2000 (the year before China's joining the WTO) is set as the base year and the period from 2001 to 2008 is selected to gauge the cumulative effect of the change of HRM practices since then. Chapter 4 explains the research questions, the conceptual model and the relationships of contextual factors in detail. The next session explains the research design, the research strategy and the data collection methods in the current study.

1.5. Overview of Research Design and Methodology

A research design is a framework or blueprint specifying the type of data to be collected and analysed. In this programme of research, multiple designs are used. An exploratory research design is considered appropriate for the first research question owning to the fact that there has been limited prior theory about change in HRM in China (Burns and Bush, 1995; Neuman, 2006). Exploratory research is used to discover information about the degree of HRM change. A descriptive research design is then used to describe the relationship between the contextual factors and HRM areas. The research paradigm employed in this study is realism, in which the

complex and imprecise external reality is conceptualised and identified through practical and theoretical work (Bhaskar, 1989; Bryman, 2004).

Besides, the research strategy also consists of both qualitative and quantitative approaches. Triangulation entailing more than one method and multiple sources of data (Denzin, 1970; Patton, 1987) is employed in this study. Data triangulation is achieved by collecting data from various sources (such as HR departments, employees, companies' reports, government census, industry surveys, etc.) and methodological triangulation is carried out by using interviews and archival records analysis as mode of methods. Data collection methods include exploratory interviews with HR departments, employee interviews and records of secondary data. Rich data collected from interviews (Flick et al., 2004) allows for a deep penetration into a topic (Bryman, 2004), while archival records provide additional factual information in a cost effective manner (Dale et al., 1998). Rigorous procedures (such as expert panel review, validity test, reliability test, member check, and so on) are in place for question design, interview process, data collection and checking.

Moreover, the sampling strategy includes defining the population, constructing sampling frames, designing the sampling stage and drawing the sample for the research. First, as the banking industry covers a wide range of companies, the study targets those financial institutions that offer similar products and operate in similar environments, and hence face similar issues. Accordingly, commercial banks, including LCBs and FIBs, are selected. Second, a sampling frame is complied based on some widely accepted official directories. Third, the sampling design employed involves a multi-stage stratified design which allows more precise estimates of the results and better represents the variations in the population (Fowler, 1993). Two criteria, firm size based on the number of employees and firm nationality based on country-of-origins, are used to stratify the population. The assessments of firm size and national cultural impact are in line with many previous studies (Ding et al., 2000; Ferner and Quintanilla, 1998; Ngo

et al, 1998; Yan, 2003). The last step is to select sample banks in each stratum for investigation. Purposive sampling is used to ensure the researcher can sample those companies 'who are relevant to the research question' (Bryman, 2004: 334), and hence meet the purpose of the study (Pizam, 1994). Finally, thirteen (13) banks were selected. The selected sample represents banks of different countries origins and sizes. The methodological contributions of such a research design and methods are further elaborated in Section 1.6.

In addition, the collected data is managed and analysed using processes suggested by Miles and Huberman (1994) and Strauss and Corbin (1990). The processes are data coding, reduction, display, conclusion and contribution to theory. To ensure quality and rigorousness, several ways are designed to check validity, reliability and objectivity. Last, but not the least, the ethnical standards of voluntary participation, informed consent, avoidance of harm, and confidentiality are upheld throughout the study. Chapter 5 details the research design, paradigm, sampling strategy, data collection method, data management and analysis. Based on this research design and methodology, an investigation was conducted. It is anticipated that the findings from the investigation can contribute to the fields of HRM and the next session elaborates on this.

1.6. Justification for Research

This research investigates HRM change in China's banking industry. This research can be justified by three major means: identification of the theoretical gap in the HRM change and extension of the literature (theoretical contributions), originality of research design applied in new context (methodological contributions), and potential value to practitioners (practical contributions).

Theoretical Contributions: First, there is an increasing interest among scholars in cross-cultural differences in HRM (Rowley and Benson, 2002; Sparrow et al., 2004). Some studies (such as Gamble, 2003) have compared Chinese HRM practices to the Western model while some others (such as Sparrow et al., 1994) have studied MNCs in the global or regional context. A review conducted by Poon and Rowley (2007) shows that only a few comparative studies have been conducted in the area of HRM in China. Moreover, those studies mainly compared China against some other Asian economies. There has been some neglect in the research of conducting comparison of HRM within the same local context. The questions of why change does (or does not) occur, what has been changed and how it occurs are relatively unexplored in previous cross-cultural management literature. To extend the body of knowledge, the current research is undertaken to investigate change in HRM by sampling firms operating in the same setting. As such, it has an advantage of understanding the external environment in the same research paradigm. This demonstrates the originality of this study. The study can contribute to the fields of cross-cultural HRM by addressing the gap in the existing literature; in other words, it helps uncover similarities in seemingly different theories of change and highlight the differences.

Second, the applicability of HRM theories in international studies is of particular importance, as the management research community is getting more internationalised (Lau, 2002). However, most HRM change models have an Anglo-Saxon base (Budhwar and Debrah, 2001) and the relevance of lessons learnt from the Anglo-Saxon experience to other contexts (Hofstede, 1993; Rowley et al., 2009) needs to be examined, especially in emerging economies, such as China, which have been undergoing unprecedented transitions in social, legal, and economic institutions that cause adaptation issues for enterprises. Differences in culture heritages, historical development and institutional context can all affect change theories and concepts (Pettigrew et al., 2001) being employed and developed in other cultural contexts. It is, therefore, important to examine the extent to which Western models of HRM change can be applicable to elsewhere.

Third, contemporary research in HRM change consists of substantial variations in theoretical perspectives on change context. This diversity of concepts and models can be seen as an advantage as it captures and reflects various HRM change issues (Grant et al., 2002). Nonetheless, previous studies have tended to investigate different discrete sets of HRM and have not included all potential relevant practices and factors at one time. This can be problematic as such pluralistic theories and concepts may encourage compartmentalisation of perspectives that do not enrich each other (Gioia and Pitre, 1990). To address this deficiency, the current study employs an eclectic approach to consolidate theoretical models from previous studies into a conceptual framework (mentioned in Section 1.4). The consolidation and improvement of previous models is considered an addition to knowledge because this can include some of the missing areas and allow greater precision in the identification of institutional sources of influence. Working out the relationships between seemingly divergent theoretical perspectives provides opportunities to advance theory building that has stronger and broader explanatory power than the initial perspectives.

Fourth, while HRM in China has been studied for many years, a large number of these studies have focused on manufacturing industries and factory environments (Björkman and Fan, 2002; Zhang and Parker, 2002). Studies investigating how different HRM practices are transferred and why change occurs in the emerging service sector in China are limited. With economic growth, the service sector in China is gaining importance in China in terms of contribution to GDP and number of people employed. A few researchers have studied HRM policies and practices in the financial industry in some other economies (Delery and Doty, 1996; Frei et al., 2000), but these studies have various methodological limitations, such as being cross-sectional studies, not being able to show the dynamic change of practices, etc. Additional, as Bowen and Schneider (1988) point out services differ from goods in many important ways. It is, therefore, questionable whether the findings from the previous HRM studies of

manufacturing industry can be applicable or generalised to the service sector. Hence, there is a wide scope for theory development for the service industry; and this study can contribute to such area.

Methodological Contributions: The research design draws a comparative sample from LCBs and FIBs to explore the dual nature of HRM change. A historical approach, a technique seldom employed in HRM research, is used. The sampling of a comparative group and the employment of time series data not normally used in this field demonstrate the creativity of the research. Much of the work to-date focuses on static similarities and differences, providing only a partial analysis of the situation. Simply studying HRM changes in an episodic fashion or a cross-section approach would not enable researchers to uncover the mechanisms through which changes are created and sustained (Pettigrew, 1990). Consequently, an examination of trends over time has a great advantage – to show the aggregate effect of HRM change across time while keeping track of individual practices in both inter-group and intra-group changes. This research design with comparative data can provide more comprehensive insights into the dynamic processes of transfer of practices to LCBs and adoption of practices by FIBs, and hence show the dual nature of HRM change.

Practical Contributions: The gates of the banking industry in China fully opened to FIBs in 2007. The existing literature recognises some contextual factors, but so far has not brought them together explicitly with respect to HRM changes. The research contribution is, therefore, to address this gap. The results of this research have the potential to provide understanding on how banks use HRM change to cope with their changing environment. This study of management practices can be useful for academicians studying the effects of management practices; firms seeking entry into, and survival in, China; and practitioners designing policy to tackle financial crisis. The findings of the study can provide timely insights for practitioners of local companies and MNCs to the challenges ahead.

While this research is expected to provide theoretical, methodological and practical contributions, the research findings are limited by the scope and assumptions of the investigation. The next section highlights those limitations.

1.7. Limitations of Scope and Key Assumptions

There are a number of limitations embedded in the nature and scope of this study. First, the study focuses on one industry in one country, namely the banking industry in China. The ability to generalise findings of this research to other populations, such as China's manufacturing industry, or the banking sector in other countries, may be limited. While this limits the generalisation of the findings, they can still be extended to other populations with a degree of caution.

The methodology itself has some inherent limitations. The use of time series data faces the risk of attribution of the sample (for instance mergers and acquisitions of the banks). Change in HRM is an ongoing process. The recall of historical events by the interview participants may lead to some bias. It is not possible to turn the clock back and 'repeat' the transfer of HRM under the same circumstances as would occur in a controlled experiment.

Besides, since archival records (such as government census) are collected for some administrative purpose and not with social science researchers in mind, and hence the quality, content and order of data is out of the influence of researchers. The results of interviews may also entail some interpretation on the part of interviewer. Various measures (such as member check, peer review) are implemented to minimise the effects.

In sum, although this study has certain limitations and assumptions, various measures are taken, including a triangulation approach using multiple data sources, various modes of data collection methods, using rigorous validity and reliability tests to ensure data quality. It is expected these measures can address and overcome the limitations as well as to maximise the overall value of the study.

1.8. Chapter Summary

This chapter builds the foundation for the study within the framework of the research questions. First, the background of the research is discussed and several theoretical frameworks are highlighted to introduce the research issues around HRM change context, content, process and relationship. Second, the background of the banking industry and China are presented. The banking industry in China is deemed appropriate for this study because it has recently undergone many changes in management policies and practices. Third, based on the review of literature, two research questions are formulated to examine five change issues. A conceptual framework is outlined and it includes HRM areas, contextual factors, control variables and a time element. To answer the research questions, this chapter also outlines how the research is designed, how the data is collected and what sampling techniques are used. The findings from the investigation are expected to make several theoretical, methodological and practical contributions. Limitations of scope and key assumptions of this study are discussed. Chapter 1 gives an overview of this research. The research questions and background are introduced. The overall theoretical framework and methodology are discussed.

The rest of this dissertation is structured as follows. Chapter 2 presents the literature review from universalistic perspectives, contingency views, institution and culture elements, and structural inertia as well as discusses the related issues of HRM change. Chapter 3 gives the background of the country, China, and the banking industry. Justifications are given to show the appropriateness of study of the industry and country. Chapter 4

provides the context of the research, followed by the research questions concerning change in HRM areas and the relationships with contextual factors and control variables. Chapter 5 details the research design, strategy and data collection methods.

After these initial chapters, the research findings are discussed in several other chapters. Chapter 6 highlights the differences found in HRM areas of the target banks, Chapter 7 analyses the relationship among HRM areas, contextual factors and control variables, and Chapter 8 diagnoses the change issues observed in HRM. A discussion and a conclusion, Chapter 9, brings the dissertation to its finale.

2. Literature Review

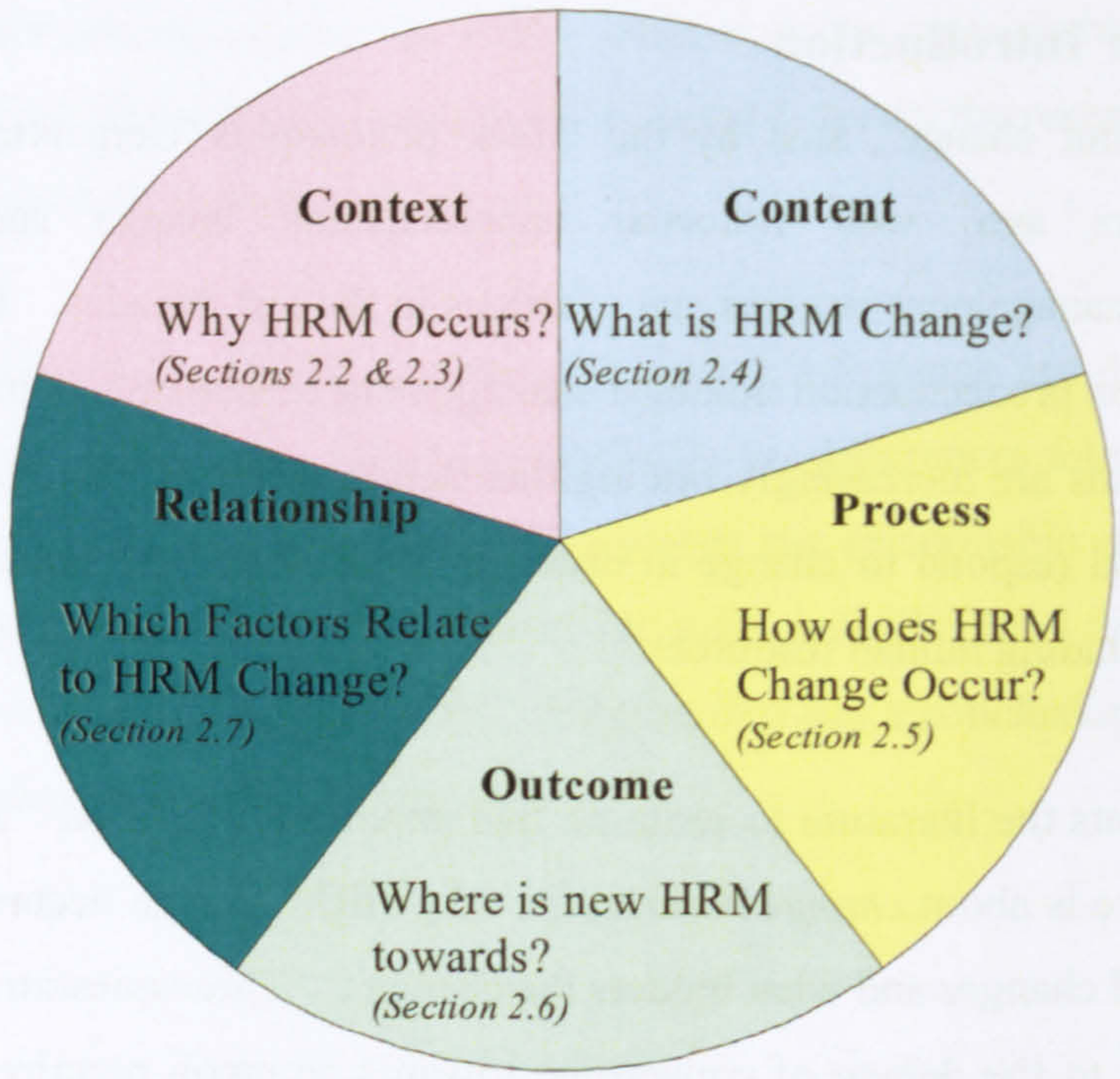
2.1. Chapter Introduction

'Nothing endures but change', said by the Greek philosopher Heraclitus some 2,500 years ago, well reflected unprecedented change and transformation in management policies and practices in the last decades. It has become a major preoccupation amongst management theorists to point out that organisations are increasingly finding themselves under pressure to creatively adapt and respond to change in order to survive and best utilise their resources, including human resources.

This chapter presents the literature to examine five important questions. A first set of literature is about *change context*, i.e. why HRM change occurs, what leads to HRM changes and what hinders the changes. These questions are closely related to the debate of converging towards common practices versus continuing divergence practices (Section 2.2), as well as the argument about 'culture-free' and 'culture-specific' issues (Section 2.3).

Second, there is a *change content* issue of what HRM change is. When this term 'HRM change' is used, does it mean the same thing for everyone? HRM change can be considered in terms of which HRM areas are included and at what level change occurs (Section 2.4). There are also questions on *change process* which addresses how change occurs in terms of pace, magnitude and time (Section 2.5). Closely linked to the question is discussion about HRM transference from MNCs and adoption by local companies. This is about change direction which addresses what *change outcome* is likely to be (Section 2.6). Finally, the chapter highlights the importance of contextual factors which is about *change relationship* (Section 2.7). Figure 2.1 presents the overall of change issues discussed in this chapter.

Figure 2.1: HRM Change Issues Covered in Current Research



Source: developed for this research

2.2. Change Context – What Leads to HRM Change?

Why do organisations change their HRM? There are lots of disagreements in the literature about what causes HRM systems to change.

2.2.1. Universalistic Perspective (Convergence)

From a universalistic perspective (Harbison and Meyers, 1959; Kerr et al., 1960), worldwide socio-economic and political forces create tendencies for countries, and by implication their management practices, to change to become more similar. Globalisation, internationalisation, and technological advancement push national systems towards uniformity as copying, benchmarking and transferring of practices are encouraged. This is similar to Taylor's 'scientific management' (Taylor, 1911), resulting in the view that there is 'one best way' of managing. This trend towards a universality of practices is generally referred to as convergence. The movement can be from both directions.

An implication for this is that HRM systems of different countries may change and become more similar or even converge towards some model (Rowley et al., 2004). Competition and market development which force firms to adopt different practices to be competitive and survive, can fuel transfers. HRM change is seen as a suitable strategy for corporate renewal. The preference towards 'a universal prescription' (Boxall and Purcell, 2003) implies that there is 'one best way' of managing and organisations should change their HRM practice and adopt the best practice. Classical management thought and more recent variants assume that a set of 'best' management practices, as in HRM, can be valid in all circumstances and help organisations perform better and obtain sustainable competitive advantage (Becker and Gerhart, 1996; Huselid, 1995; Lado and Wilson, 1994).

The universalistic views of 'best practice' continue to develop in various forms, as belief holds that practices can be applicable across countries (Becker and Gerhart, 1996; Delery and Doty, 1996; Peters and Waterman, 1982; Weber, 1947). For example, Inkeles (1980) identifies different forms of convergence: (1) simple convergence involving the movement from diversity to uniformity; (2) directional convergence involving movement towards a common point; (3) convergence via the crossing of thresholds rather than changes in absolute differences; and (4) convergence in the form of parallel change.

Nonetheless, the so-called 'best practice' in one situation may not be the best practice in another environment, given that institutional and structural factors are very different between countries and organisations (Zhu et al., 2007). The universalistic views have subsequently received considerable criticism because they over-simplify the impacts of economic development, give too much emphasis on the impact of external forces, and therefore, cannot fully explain variations in HRM change.

2.2.2. Contingency Perspective

Apart from the convergence view, the contingency perspective assumes that people and situation vary over time and the right mix of HRM strategies depends on a complex variety of critical environmental and internal contingencies (Greer and Ireland, 1992). Thus, organisations should constantly adjust and change their HRM strategies to fit to the external environment (Heenan and Perlmutter, 1990; Jackson et al., 1989), or to correspond to the firms' international corporate evolution (Adler and Ghadar, 1990; Mintzberg, 1979), or to tally with business strategy (Becker and Gerhart, 1996; Delery and Doty, 1996), or to match with work technology, such as small-batch, mass-production, or continuous process (Woodward, 1965).

Although there is no 'one' best practice, the contingency view suggests the key to success is to continuously change the management approach to different situations (Lawrence and Lorsch, 1967). These continual adjustments can lead to further dynamic changes in the social organisation and institutional structures of business systems. This implies that organisations are loosely coupled aggregates whose separate components can be adjusted or fine-tuned incrementally once weak constraints have been overcome (Meyer et al., 1993). Hence, change process under this assumption is generally gradual, steady, and continuous.

However, such views fail to explain why managerial ideas and practices vary by country and by organisation. Even within the same organisation, HRM may converge on the macro-level but continue to be different or even diverge on the micro-level (Adler et al., 1986; Child, 1981). For example, Amante's (1995) study concurs that MNCs (from Western countries, Japan and China) operating in the Philippines tend to converge in their compensation structure (macro-level), but continue to maintain their informal norms and behaviours (micro-level).

Implications for Convergence and Contingency Perspectives: The manner in which HRM changes are introduced, mediated and handled can lead to different outcomes. The dichotomous views of convergence and divergence only give a simple way of 'either-or', but not a 'both' approach. They fail to recognise that HRM change is highly contested by multiple actors (including individual, organisations, states, etc.) at different spatial scales (like local, regional, national and global) (Yeung, 2000). Even if convergence is found at the global level due to economic forces and technologies, it may result in divergence at national and intra-national levels, or sometimes crossvergence at sector and industry levels, as the changes are mediated by different institutions with their own traditions and cultures. It seems that neither perspective can explain all the changes in HRM areas across region, country, industry and organisation. Recent evidence and arguments point to multiple directions too (Cunningham, Poon and Rowley, 2008). Globalisation and socio-economic integration forces have an implication of allowing more cultural diversity in management composition as well as affect the contextual development of the cross-national organisations. It is, therefore, worthwhile to further investigate the issue of HRM change. This research intends to address this literature gap.

2.2.3. Institutional Theory

Institutional theory plays another role in initiating change. Institutional theory suggests that firms may change to adopt certain HRM practices not simply because of 'effectiveness', but due to specific social forces to gain legitimacy (McKinley et al., 1995). Organisations as a social entity need to seek approval for their behaviours in a socially constructed environment (Jackson and Schuler, 1995). The institutional rules are typically norms or expectations shared by members of a society or a particular industry and therefore, specify how an organisation should be structured and the kinds of managerial behaviour considered legitimate (Meyer and Rowan, 1977). Previous studies show that local governments (Walder, 1995a), social networks (Child, 1994) and regional economic policy (Tse et al., 1997) can be some of the institutional forces. These social forces can act as constraints

on the degree of change as firms are being pushed to adopt the institutional rules when structuring companies and managing activities (Scott, 1995).

What roles do these institutional forces play in HRM change? DiMaggio and Powell (1983) suggest that there are three mechanisms of institutional isomorphic change, that is coercive, mimetic and normative isomorphisms. These mechanisms may sometimes be recognised as constraining, cloning and learning forces (McKinley et al., 1995). First of all, coercive isomorphisms or constraining forces, are formal and informal pressures exerted on firms by other organisations upon which they are dependent on or by cultural expectations in the society within which the firms operate (DiMaggio and Powell, 1983; McKinley et al., 1995). The ideological shifts from communism to market socialism and the implementation of economic reforms have promoted new management practices and a focus on the importance of people as a resource in China, for example. Indigenous companies start to conform to social constraints and accept other practices as a means of demonstrating legitimacy. There may be coercive pressures from MNC's parent organisations and taken for granted practices may be diffused through organisational actors to subsidiaries (Westney, 1993).

Second, mimetic processes or cloning forces pressurise organisations to mimic the actions of other organisations. Organisations tend to change their system and model themselves after similar organisations which are perceived to be successful (DiMaggio and Powell, 1983; McKinley et al., 1995). In the face of the extreme uncertainty generated by competition, organisations have a strong tendency to mimic the behaviour of competitors. The rationale is that organisations imitate the practices of other corporations to demonstrate that they are still 'in the game', 'with it', and actively doing something to address own problems. For example, Chinese state-owned enterprises (SOEs) imitate the practices of Western MNCs to demonstrate that they are in step with international markets. MNCs follow local customs to tackle cultural adaptation problems.

Third, normative pressures or learning forces stem primarily from professionalism, either from education, institutions or networks of professional associations (DiMaggio and Powell, 1983; McKinley et al., 1995). For example, the popularity of MBA (Master of Business Administration) degrees in China promotes transfers and ideas of managerial practices seen as prevalent in Western countries (Rowley and Poon, 2008). With China's accession to the WTO, MNCs are allowed to offer the same services and target to the same customers as local enterprises. This competition and cooperation will promote exchange and learning about how to recruit, retain, reward and train people between local companies and MNCs.

Implications for Institutional Perspectives: First, change processes are not uniform to all firms. Some companies may just implement the practices whereby formal rules are followed; and some others may internalise or 'institutionalise' (Kostova, 1999) the practices with commitment to, and psychological ownership of, practices. Second, firms can benefit from their institutional environment by initiating necessary practices to their advantage (Lau et al., 2002). Nevertheless, the institutional approach tends to view industry or society as constant and ignores the pre-existence of divergent or contradictory practices in the country (Rowley and Benson, 2002).

2.3. Change Context – What Hinders HRM Change?

2.3.1. Cultural Approach

Alternatively, cultural theorists contend that culture is a key factor implanted in a country's society and economy influencing change in organisations. Definitions of culture are widespread. Kroeber and Parsons (1958) regard culture as the transmitted and created content of values, ideas and other symbolic meaningful systems. Hofstede (1984) defines culture as the interactive aggregate of common characteristics that influence group's response to its environment and the collective programming of the mind. In the GLOBE research programme culture was defined as 'shared motives, values, beliefs, identities, and interpretations or meanings of significant

events that result from common experiences of members of collectives and are transmitted across age generations' (House et al., 1999: 182). Schneider (1985) views culture as a deeper construct, including norms and values systems. Triandis (1993) decomposes culture into objective elements (tools and appliances) and subjective elements (beliefs and norms). Culture may reflect general tendencies of preferences for particular states of affairs over others, or special rules for selective interpretation of environmental cues and responses (Tse et al., 1988). In short, most definitions of culture anchor around values and attitudes as in the core elements.

There are several schools of thoughts concerning the relationship between cultural factors and change in management practices. One stresses that organisational dissimilarities are entrenched in the idiosyncratic national and institutional regimes surrounding companies (Hofstede, 1992). Culture, in the sense of 'software of the mind' (that is patterns of thinking, feeling and acting of people) (Hofstede, 2004), can act as an 'informal constraint' (North, 1990) on institutions. Thus, the presence of culture plays a significant contextual role on decision-making (Bond et al., 1998; Satow and Wang, 1994), managers' judgement (Weber and Hsee, 2000) and knowledge management (Burrows et al., 2005). Greater cultural distance from a home country creates more problems for MNCs operating in, and adapting to, the host setting (Davidson, 1980) because change in decision making, communication and personnel practices are difficult (Child and Markoczy, 1993) and the concept of ideal management practices varies. Conflict within and between managers from different cultures may be unavoidable (Doucet and Jehn, 1997). This perspective postulates that cultural barriers can slow down HRM change. The supporters (Hofstede, 2001; Lammers and Hickson, 1979), who stress the embeddedness of management methods in a cultural context, tend to be more sceptical about the possibility of cross-national learning and see little room for change in management models.

The second school of thought emphasises the idea that companies may gradually be losing their national characteristics (Pauly and Reich, 1997). Globalisation and technological development are some of the contributory factors underlying the uniform behaviour (Casson et al., 1998). Culture, consisting of shared values and common rules, acts as a catalyst for HRM change towards something similar. This perspective assumes that managerial practices will become universal across countries and lead to consistent corporate organisational structures independent of country-of-origin (Crookell, 1986).

The third perspective sees that values system as different from the values supported solely by either socio-cultural or economic ideology influences (Ralston et al., 1993). Business ideology forces can lead to convergence and the socio-cultural forces can lead to divergence, and both interact with one another to create a cultural crossvergence (Ralston et al., 2006).

The 'culture-free' and 'culture-specific' debate is concerned with the degree to which organisations account for the particular context in which they operate and from which they evolve. Nevertheless, the cultural approach has been criticised as static rather than 'a shifting and changeable repertoire with diverse strands' (Gamble, 2003: 384). Differences in economic and political systems (Carroll et al., 1988), law and regulations (Florkowski and Nath, 1993) or socialisation factors (Lockett, 1988) can result in various degrees of HRM change. An alternative is to control for the country effect and compare companies from different cultures in a single country setting. A comparative approach to analyse both local companies and MNCs in a single setting (for example the banking industry in China) is used in this study to tackle this problem.

2.3.2. Resource-based Theory

Change in management can be hindered when organisations do not have the necessary resources to make the change. According to resource-based theory, 'unique' (i.e. rare and inimitable) resources cannot be copied or transferred from one company to another (Barney, 1986, 1991, 1995; Lado and Wilson, 1994). Unlike traditional sources of competitive advantage, for instance, natural resources, technology, etc. that are easily to imitate, human capital, one of the resources, can be difficult to copy because of causal ambiguity (because resources are idiosyncratic to the firm in which it resides) (Barney, 1991) and path dependency (because resources are accumulated over time and become difficult to perfectly imitate) (Nelson and Winter, 1982).

First, HR elements are path dependent and may include policies and practices developed over time (Becker and Gerhart, 1996). There are limits on organisations changing their own HRM systems and adapting to other companies' socially complex elements and practices. Second, it is difficult to grasp the mechanisms by which the interplay of HRM practices and policies generates value (Barney, 1991; Becker and Gerhart, 1996; Collis and Montgomery, 1995). Without being able to understand how various elements of the HRM system interact, it is not possible to imitate it, or even converge towards something similar. Therefore, firms may or may not change their HRM practices as long as these practices allow them to sustain competitive advantages.

2.3.3. Structural Inertia

Structural inertia theory within the organisational ecology literature argues that rules, standard operating procedures and patterns of decision making comprise routines and competencies that are resistant to change, even in the wake of formal structural change (Cyert and March, 1963; March and Simon, 1958; Nelson and Winter, 1982). Several reasons cause structural inertia. Hanna and Freeman (1984) argue that the magnitude of organisational inertia is related to normative standards and political coalitions that emerge within

organisations. Historical investments in personnel, plant, and equipment also promote inertia by discouraging disruption to the routines that support them. Ding et al. (2000) and Warner (1999) propose that organisational inertia, deeply rooted in the cultural and institutional heritages of companies, can act as a brake on the full absorption of changes. Scott (1987) calls such inertia 'organisational imprinting', when certain practices are taken for granted as the way things were done before. Accordingly, there is a lag between the implementation of a new management system and the realisation of the new system's steady-state functionality as the contextual factors of the organisation discourage interruption and hinder change processes. Change process under this assumption is infrequent and formidable. Amburgey et al. (1993) and Hannan and Freeman (1984) observe that older organisations are more different to change. Other contextual factors, for instance firm size, location, etc. are also likely to have effect. It is, therefore, important to understand and assess the relationship between change in HRM areas and contextual factors.

Implication: Looking at the theoretical perspectives, there is clearly a paradox. Institutional forces and external pressures generate HRM change. A range of contingent impediments (including cultural barriers, inimitable resources and structural inertia), however, hinder the change. Thus: 'over time, organisations develop not only operating routines but also "modification routines", procedures for changing and creating operating routines. To routinise the process of change, however, an organisation must gain experience in modifying operating routines' (Nelson and Winter, 1982: 17). In short, 'organisations learn to change by changing' (Amburgey et al., 1993: 54) which may equate to a dynamic capability (Teece et al., 1997) so that an investigation of organisation change must consider the time effect. This study addresses this issue by examining the dynamic of change process over a period of time.

2.4. Change Content – What is HRM Change?

The word 'change' carries various meanings depending on varying processes, for example to alter, modify, adjust, convert, switch, replace and transform. The word and its various connotations are often applied generically to all aspects of the change issue regardless of reasons, content, direction, time, process, and so forth. Thus, the conceptualisation, interpretation and understanding of HRM change remains subjective and variable among people, situations and time.

2.4.1. Change at Which HRM Levels?

In addition to the identification and definition, at which level HRM change is categorised, varies. From a system point of view, a HRM system includes architecture (guiding principles and basic assumptions), policy alternatives (mix of policies) and practice process (implementation and techniques) (Becker and Gerhart, 1996). While policy describes the abstract, strategic and general ideas, practice describes the actual, operational and practical level of an HRM issue. Does change occur at all levels? Or does it occur at some levels? For example, employees at the practice level may resist change in guiding principles due to local customs or lack of training, or operational practices may not be built into policy due to external constraints. It seems that change at one level does not necessarily imply change at another level (Becker and Gerhart, 1996; Rowley and Benson, 2002). These are key analytical and research issues in this area.

While it may be argued that the three levels of HRM structure are interrelated and hence should be studied together, Rowley and Benson (2002: 90) point out that international HRM can be better observed on 'lower level' or practical level, because this is where practices are implemented and mediated, as well as where possible constraints may appear. Therefore, this research focuses on HRM policies and practices, the strongest level, to assess the 'degree' of change and explore 'what factors' are crucial to the processes. A qualitative approach, such as exploratory interview, is ideal to understand the degree of change and contextual factors. This study uses exploratory

interviews with HR personnel and employees to collect data. More discussion of the research design and data collection methods can be found in Chapter 5.

2.4.2. Change in Which HRM Areas?

Attempts to evaluate change in the HRM area often raise the question of what to include or not. The trend in the empirical research has focused on a system view where either a 'bundle' of HRM practices or the whole system of HRM has been hypothesised. The resource-based view stresses that importance of complementary resources in combination or 'bundled' to enable a firm to realise its full competitive advantage (Barney, 1991) and serve as a potential source of sustainable competitive advantage (Becker and Huselid, 1998; Delery and Doty, 1996; Youndt et al., 1996). Accordingly, practices are most effective when used in combination with one another. An underlying theme is that firms should create a high degree of internal consistency, or 'fit', or synergy among their HRM practices (Michie and Sheehan, 2005). The logic behind this proposition is that firm performance can be enhanced by systems of practices (bundled HR practices) that support each other. This idea that a bundle of practices may be more than the sum of the parts appears in the discussions of external fit, configurations, holistic approaches, and so forth.

Though there is no clear suggestion in the literature about which bundle of HRM practices is to be included (Becker and Gerhart, 1996; Pfeffer, 1994), some previous studies highlight that changes are observed in recruitment and selection processes, performance contingent compensation systems, development and training, and staff retention (Becker and Huselid, 1998; Björkman and Fan, 2002). Although these previous studies provide a good foundation to understand HRM change, they have not yet provided a complete picture of the change issues (Hope Hailey and Balogun, 2002) because of the missing key HRM areas, being one-way comparisons or cross-sectional studies. Hence, the possibility remains open that a comparative study analysing time series data from dual directions can

provide a broader and more comprehensive view.

2.5. Change Process – How does HRM Change Occur?

When it comes to how an organisation changes its HRM, there is a diverging view about the process. What happened during change progresses, such as pace (tempo of change), magnitude (extent of change), time (sequence of change), direction (outcome of change), and transference and adoption, are all key research issues in this area.

2.5.1. Change at What Pace?

Some academics and researchers have tried to develop models to understand the pace of change progress. Earlier perspective (for example Lewin's planned model of unfreezing, moving and refreezing) views change as a planned linear process controlled by management (Lewin, 1947). Therefore, change tends to repetitiveness and cyclicality. The second perspective, the punctuated equilibrium model, argues that organisations undergo occasional dramatic revolutions or punctuations to overcome organisational inertia and establish new sets of rules and processes for the organisation to follow. Hence, the change process is episodic, discontinuous, and intermittent (Amburgey et al., 1993; Tushman and Anderson, 1986). Dawson (1994) suggests a third approach, the processual model. In this view, change is linked to developments in markets, work organisation, and systems of management control. The final perspective is a continuous transformation model. Proponents of this model (Brown and Eisenhardt, 1997) argue that, in order to survive, organisations must develop the ability to change themselves continuously in a fundamental manner. As By (2005) notices in his review article, different authors employ different terminologies when describing the same approach. Complications and uncertainty of change process can result from these various uses of the terms and concepts.

2.5.2. Change at What Magnitude?

It is equally important to know the magnitude of change as the base of the study. Change magnitude can be classified as fine-tuning, incremental adjustment, modular transformation, corporate transformation (Dunphy and Stace, 1993) and a continuous process (Dawson, 1994). Burnes (1996) differentiates incremental change from a continuous one. Grundy (1993) argues there are both smooth change and bumpy change. Therefore, measures of HRM change become less about 'all or nothing' and more about 'to what degree' or 'at what magnitude'.

Under the contingency perspective, the degree of change is gradual and steady. Nonetheless, structural inertia theorists argue that change is infrequent and formidable. McGaughey and De Cieri (1999) propose that depending upon the degree of influence of certain variables, change in organisations can be classified as: assimilation (one entity adapts to the norms of another), integration (entities are combined to create a new entity), separation (one entity preserves its own characteristics and diverges from the other) and novelty (creates new or novel entity). Rowley and Benson (2002) suggest that change of the HRM model appears the strongest at the level of practice and weaker at the policy or architectural levels in Asia. But again, how much stronger is difficult to quantify. Embedded customs and traditions can constrain the magnitude of change.

2.5.3. Change over What Time Frame?

Since organisations that change are unlikely to settle down to an equilibrium condition immediately (Amburgey et al., 1993), to assess HRM change it is better to try to measure change over a long time period. The use of static data from a cross-sectional approach to study a dynamic change process can undermine the validity of the findings. Fields et al. (2000) conclude after their study that collecting data at a point in time cannot delve into how much the organisation is changing and hence limits the reliability of their results. Mujagić et al. (2005) suggest that there are different stages of corporate recovery process (from reaction, to revitalisation, reorientation and growth

stages), and that such change process usually take a long period of time. Unfortunately, there have been only a small number of studies that study the changes in HRM over time because of the complexity and time investment involved.

One of the few examples are the series of studies conducted by Warner and his team (1996, 1997, 1999), who matched up the same or similar SOEs and joint ventures (JVs) in the same region for the purpose of comparison and applied the same research instruments to collect data. Some lagging effects were found and several old characteristics of HRM took time to phase out (Warner, 1999). Another example is a study conducted by Hassard et al. (2004) in ten metallurgical SOEs from 1995 to 2000. They concluded that while significant moves from traditional Chinese systems to market-oriented HRM models were observed in those five years, China's HRM was still somewhat removed from the ideal model in Western management. It is, therefore, believed that the collection of time series data allows investigation of the issues from a dynamic as opposed to a static perspective. In other words, a time series study measures the construct over time, enables for both inter and intra changes and hence provides a better understanding of how HRM practices have been evolving and how other factors have been interacting (see Chapter 5).

2.6. Change Outcome – Where is new HRM towards?

2.6.1. Change to Which Direction?

Another aspect of change is about the direction of change. Change in HRM practices and policies are not necessarily in one direction. It can occur in a multifaceted context (Briscoe, 1995; Dowling et al., 1994; Taylor et al., 1996). As suggested by Hope Hailey (1998), companies that manage change successfully choose the appropriate change path and design its strategy to suit their own direction. For instance, MNCs can use an ethnocentric strategy to transfer their headquarters' practices to their overseas subsidiaries; or employ a polycentric strategy to totally adapt to local situation; or adopt a geocentric strategy to balance both global

integration and local adaptation (Caligiuri and Stroh, 1995; Dowling, 1989; Perlmutter, 1969).

Closely related to the issue of change direction is the question about which party initiates the change and for whom. Edwards and Ferner (2002) argue that MNCs can be a principal channel for transferring knowledge across borders as they can utilise a proactive approach and propagate practice, while learning about local environments and regulations. Country-of-origin, dominance effects, pressures on international integration, and host country effects all influence MNC's decisions on HRM transference and adoption (Edwards and Ferner, 2002). Other (DiMaggio et al., 1983; McKinley et al., 1995) believes that indigenous companies change their HRM practices to keep up with competition. Thus, it is important to study HRM change from both sides, including MNCs and local companies.

2.6.2. Towards Convergence, Divergence or Crossvergence?

Besides, some recent studies indicate that companies are not converging in their practices in one direction, rather they may diverge or crossverge with respect to HRM. Ralston and his colleagues (1993) introduce the concept of 'crossvergence' to explain that a blending of cultures can lead to something either new or in-between which is not necessarily converging towards one universal, culture-free organisation. Such a view can be evidenced in the Asia-Pacific region which comprises areas of vast diversities (even within national boundaries) in terms of demographic characteristics, economic development, social background and cultural values (Rowley and Poon, 2008). In China, the term 'relative convergence' has been proposed by Warner (2002, 2003) to describe a new format of organisation 'perhaps analogous to the "limited company" system in Western economies' (Warner, 2003: 28).

Nevertheless, full transfer and adoption of practices are not easy. It is possible that a practice is formally transferred but employees do not internalise it (internalisation is that state in which employees view the practices as valuable and become committed to the practice) (Kostova, 1999). Many researchers believe that besides practices and policies, knowledge (both trait knowledge and explicit knowledge) needs to be shared with its members in an organisation (Ghoshal and Bartlett, 1998; Ferner et al., 2001; Nonaka and Takeuchi, 1995). Others highlight that characteristics of the practices that are being transferred, and cultural and organisational nature can be barriers of transfer (Zander and Kogut, 1995). If the practices and cultural values are compatible, it will be easier for employees to understand and internalise the practices (Rowley and Benson, 2002). Evidence has proved that, for example, Japanese firms operating in the Asian context tend to adapt to local conditions (Amante, 1995; Rodgers and Wong, 1996; Wong, 1996) because of some cultural values similarity between Japan and Asian countries (Ngo et al., 1998).

2.6.3. Resist to Change or Internalise Change?

Furthermore, there is issue about by whom HRM change is applied: organisations, shareholders, managers, or employees. Many believe it depends on the cost and benefits of such change. Like other forms of investment, a shift in HRM policies and practices involves costs in the form of money, resources and time that could be allocated to the other areas (Mahesh, 2006). Therefore, managers who initiate the change need to be sure that the decision to adopt a practice is the right one. For the HRM department, a track record of implementing effective HRM practices is likely to lead to benefits in terms of credibility, visibility and power; but a history of unsuccessful programmes can bring a negative image of the HRM department (Buyens and De Vos, 2001). Moreover, employees are likely to trust the company that implements effective HRM practices. Constant change in practices is, however, likely to lead to 'initiative fatigue' and resistance to change (Abrahamson, 2003).

HRM change does not simply involve the costs and benefits evaluation. Closely linked to the issues is the question of transfer and adoption. Firstly, the transfer of management ideas can be viewed from various theoretical perspectives, namely rational, psychodynamic, dramaturgical, political, cultural and institutional approaches (Sturdy, 2004). Such multidimensional perspectives suggest that company transfer and adoption of ideas is contingent on various circumstances. Secondly, the transfer process can be at different stages: pre-institutionalisation (where there are few adopters and a limited knowledge), semi-institutionalisation (where practices are fairly diffused and have gained some acceptance), and full institutionalisation (where practices have become 'taken for granted') (Tolbert and Zucker, 1996). Thirdly, adoption of a practice can occur at various levels. At the surface level is implementation, whereby formal rules are followed by external and objective behaviours; and at the deeper level is internalisation, when employees have commitment to, and ownership of, the practice (Kostova, 1999). Fourthly, transfer and adoption processes can simultaneously take place: MNCs adopting local customs, or indigenous firms learning MNCs' practices (Briscoe, 1995; Dowling et al., 1994; Taylor et al., 1996). Since the firms' strategy and approach for transfer and adoption vary by issue and country, it is not sure if local companies are changing towards MNCs' practices or MNCs are adopting local practices.

To conclude, these unsolved change issues and questions intertwined what seems a simple and clear topic. To make the topic even more confusing, HRM change in an emerging market can be very different from that in the developed countries. China, an emerging economy with its rapid growth and dynamic market situation, is suitable to explore these issues. Since China started its economic reforms, the change momentum has increased dramatically. Rapid change has led to corporate restructuring, creation of a new institutional environment and introduction of market-driven HRM practices; and these were exacerbated by China's entry into the WTO and subsequent opening up of its service sector. The banking industry is an example of this. Hence, it represents an appropriate context for assessing

why, what, how and where HRM changes.

2.7. Change Relationship – Which Factors Relate to Change?

A large collection of studies on HRM strategy, both conceptual and empirical, are based upon the argument that the effectiveness of a HRM system depends on the extent to which HRM practices are compatible with the unique internal and external conditions of a firm. Balkin and Gomez-Mejia (1987) use a contingency approach to test relationships between strategy and environment in a sample of 33 high tech and 72 non-high tech firms in North America. They propose that (1) diverse environmental conditions, organisation strategies, and firm characteristics require different HRM policies and practices; (2) the effectiveness of different HRM policies and practices varies across organisational context; and (3) a firm has lower performance when there are significant deviations from HRM policies and practices that are best suited for that firm's environment, strategies and organisational characteristics. This approach suggests that the study of HRM practices will not be completed without considering contextual factors.

Hope Hailey and Balogun (2008) suggest a change kaleidoscope framework to examine the contextual features in change. The contextual features in the change kaleidoscope include time (explains how quickly change is needed), scope (deals with the degree of change needed), preservation (states which practices need to be maintained), diversity (measures in terms of values, norms and attitudes), capability (deals with organisational, managerial and personal capability to implement change), capacity (shows how many resources the organisation is able to invested in the proposed change), readiness for change (states the need for change and motivation), and power (deals with power vested within the organisation). It is important to understand change context, identify which contextual features are critical and link the contextual factors to change process.

From various studies, contextual factors that may affect the choice and practice of HRM in China include company age, firm size (Ding and Akhtar, 2001; Jackson and Schuler, 1999), growth rate (Jackson and Schuler, 1999), type of ownership (Ding and Akhtar, 2001; Zhang and Parker, 2002), country nationality (Edwards and Ferner, 2002; Ferner et al., 2001; Ngo et al., 1998), culture, laws, regulations, labour markets (Hofstede, 1992; Pfeffer and Cohen, 1984), etc. More discussion of the contextual factors can be found in Section 4.7.

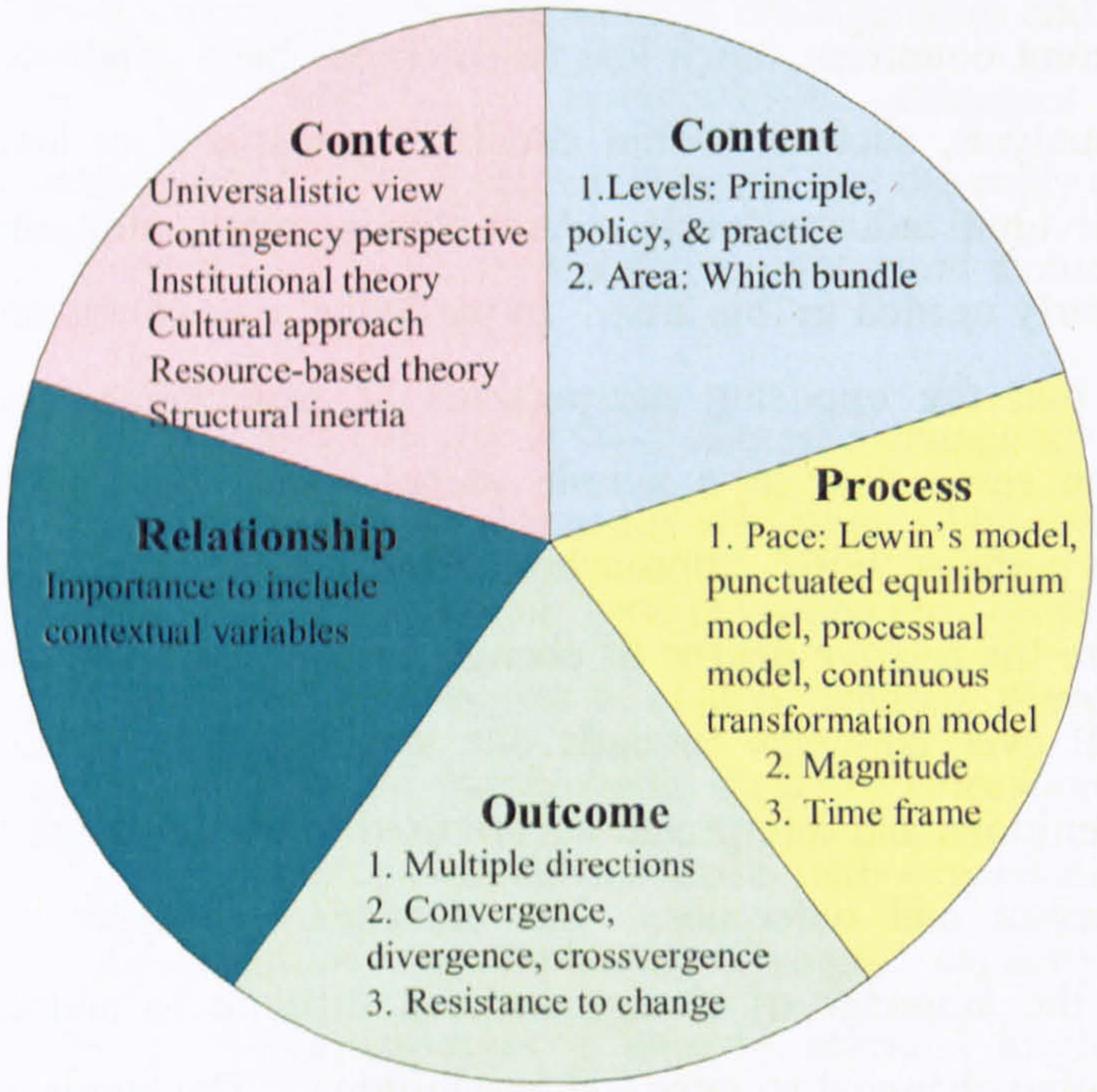
2.8. Chapter Summary

In summary, this chapter introduces the theoretical issues associated with HRM change context (why), content (what), process (how), outcome (where) and relationship (which) (Figure 2.2). The gaps in the literature are identified to derive the research questions of this study. A critique of the literature is that while most studies have attempted to compare management practices across different countries, much less research has been conducted on other levels of analysis, such as within country comparison, at local business sector or individual industry levels. As is demonstrated, additional empirical work is clearly needed in this area. In particular, one conclusion of the literature is that the opposing perspectives of convergence and divergence cannot be researched in a simple dichotomous view of an 'either-or', but more perhaps 'both', approaches. One solution for future research is to evaluate the relative degree of change without assuming that different models will ever converge towards one system. Moreover, a variety of words, definitions and interpretations are used in the literature to denote change processes and outcomes. The embedded concepts and assumptions behind the language of change make it difficult to address certain types of emerging change dynamics and possibilities. The literature, thus, remains inconclusive to describe many change issues.

Despite the controversy over theoretical perspectives, the concept can provide a potential analytical framework to conduct a cross-cultural or comparative study across a broad range of phenomena. A more detailed analysis of HRM change is necessary. Finally, a lesson learnt is that an integrative model, including influences of institutional elements, cultural context in management practices and various contextual factors, is crucial to studies.

The investigation, therefore, needs to consider level, area, pace, magnitude, direction and time effects when evaluating change in HRM. The next chapter will discuss the context of research and the background of the industry.

Figure 2.2: Literature Related to HRM Change Issues Covered in Current Research



Source: developed for this research

3. Country and Industry Setting for the Study

3.1. Chapter Introduction

This chapter firstly outlines the macro environment of China's economy and its cultural differences (Section 3.2). Since China started its economic reforms from the late 1970s, it has changed dramatically. Characterised by high economic growth, it has become an international investment magnet. Rapid change has brought uncertainties and anxieties to managers; and these have been exacerbated by China's entry into the WTO in 2001 (Section 3.3). The case of HRM in the banking industry is exemplified to indicate some of these difficulties, contradictions and dilemmas (Section 3.4). The post-2008 global financial crisis may trigger banks and financial institutions to revisit their HRM policies and practices. Hence, the banking industry represents an appropriate context for assessing HRM change.

3.2. China: Background and Context

3.2.1. China's Macroeconomic Situation

China continues to exert strong economic influence through trade and cross-border production networks. GDP growth was 11.4% in 2007, a 13-fold increase in GDP since 1980 (International Monetary Fund, 2008). Although the economic growth started to slow down in 2008 following global financial crisis, China is estimated to be the world's largest trading entity in terms of inward and outward flows of goods and capital by 2010 (Brown, 2008). Table 3.1 compares the GDP growth rates of China against those of major economies in the world. Moreover, a quick glance of the economic data indicates that China accounted for 10% of the world economy in terms of purchasing power parity (PPP) in 2007 (second to the United States), contributed one-third of global economic growth, and commanded the fastest growing economy in Asia over the past 20 years (International Monetary Fund, 2008). The first six countries by PPP in 2007 were United States (US$13,843 billion), China (US$6,991 billion), Japan (US$4,289 billion), India (US$2,988 billion), Germany (US$2,809 billion) and United Kingdom (US$2,137 billion). In addition, investment was supported by a continuous rush of FDI into China. FDI net inflows to China in 2007 were close to

US$80 billion. Consumption, although still lagging behind GDP growth, is being supported by strong income growth, especially in urban areas (Table 3.2).

Besides economics, many demographic characteristics in China have also undergone changes (Table 3.3). For example, more people have moved to live in urban areas. Coastal cities, such as Beijing and Shanghai, have seen a rise of an affluent middle class who requires better banking and financial services.

A series of macroeconomic reforms aimed at improving industry, defence, agriculture and science have been carried out by the Chinese government since the late 1970s. These have brought considerable change to the structure of the economy. First, economic reforms and industry restructurings have aroused enterprise-wide issues, such as relocation of factories, downsizing and retraining (Warner, 2002). Second, business systems in China have differentiated into several categories, namely SOEs, JVs, wholly-owned foreign enterprises (WOFEs), domestic private enterprises (DPEs) and joint-stock enterprises (JSEs) (Child, 2001). In most industries, SOEs remain under the guidance of the government and dominate the industry, although government influence on SOEs is diminishing (Child, 2001). In some sectors, efficient JSEs and DPEs seek to form partnerships with MNCs (Child and Tse, 2000) to strengthen their competitive advantages. This mixture implies that different types of firms may follow different routes to reform and experience various changes. Third, China's exchange and trade system has become more open in recent years, first with direct FDI inflows, followed by the gradual liberalisation of foreign trade regime, and then some opening up of currency and credit markets. For example, in July 2005, China devalued the renminbi (RMB) currency against the US dollar and revised its procedures for exchange management.

Table 3.1: GDP of Major Economies (2000 to 2008)

Major Economies	2000	2001	2002	2003	2004	2005	2006	2007	2008*
China	8.4%	8.3%	9.1%	10.0%	10.1%	10.4%	11.1%	11.4%	9.3%
Asia (excluding Japan)	6.9%	5.8%	6.9%	8.1%	8.6%	9.0%	9.6%	9.7%	8.2%
Japan	2.9%	0.2%	0.3%	1.4%	2.7%	1.9%	2.4%	2.1%	1.4%
United Kingdom	3.8%	2.4%	2.1%	2.8%	3.3%	1.8%	2.9%	3.1%	1.6%
United States of America	3.7%	0.8%	1.6%	2.5%	3.6%	3.1%	2.9%	2.2%	0.5%

*Source: International Monetary Fund, various years, * Estimation*

Table 3.2: Inflation and Salary Increases in China (1995 to 2008)

Inflation and Salary	1995	2000	2006	2007	2008*
Inflation (Consumer Price Index)	17.1%	0.4%	1.5%	4.8%	5.6%
Salary Increase (%)	-	7.5%	8.3%	8.6%	8.7%

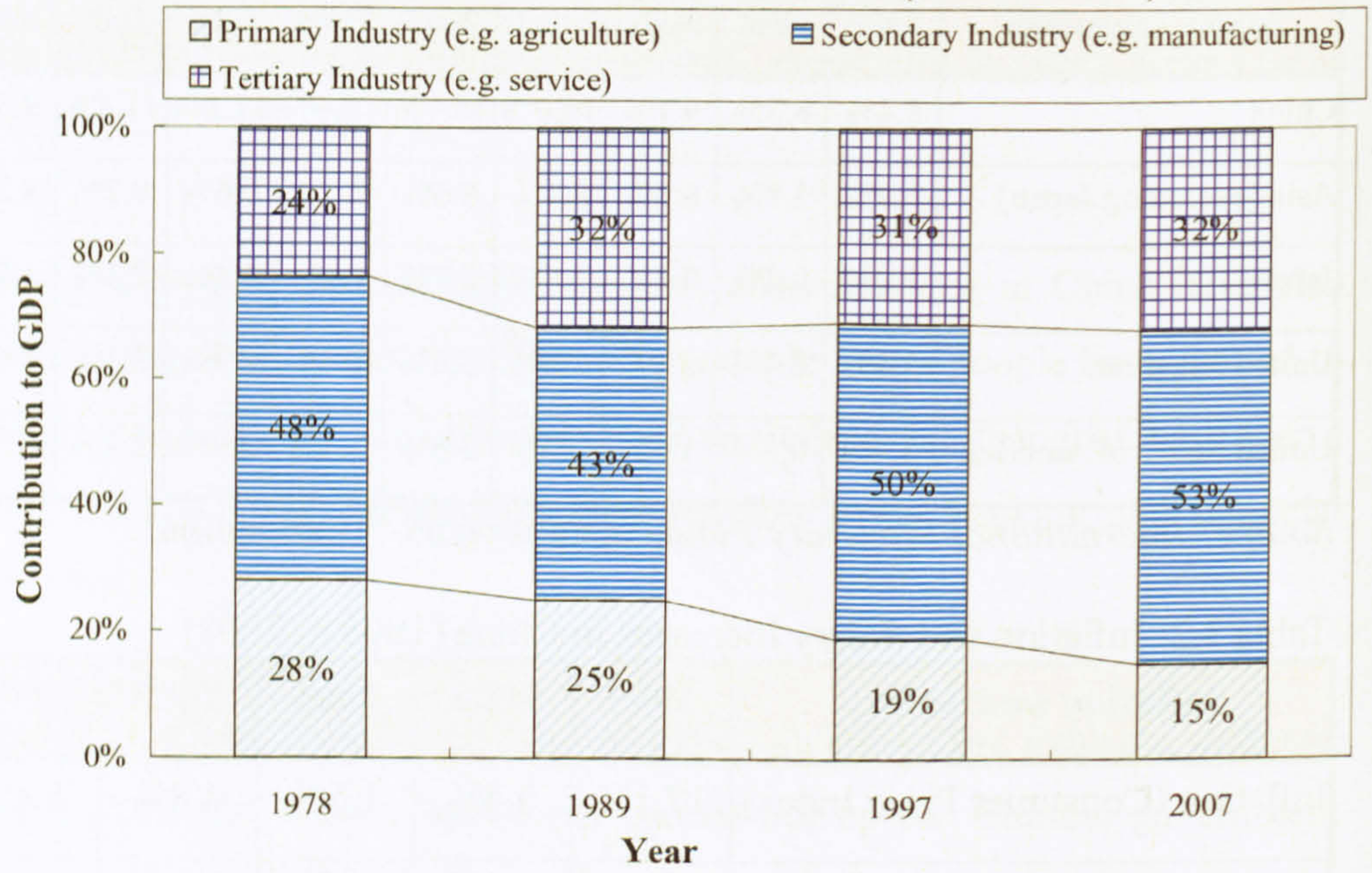
*Source: United Nations Economic and Social Commission for Asia and the Pacific; Hewitt Salary Survey, various years, * Estimation*

Table 3.3: Demographic Characteristics for China (1995 to 2006)

Demographic Characteristic	1995	2000	2006
Population (million)	1,211	1,267	1,314
Working Population (million)	679	712	744
Proportion of Male to Female	51:49	52:48	51:49
Proportion of Urban to Rural Residence	29:71	36:64	43:57

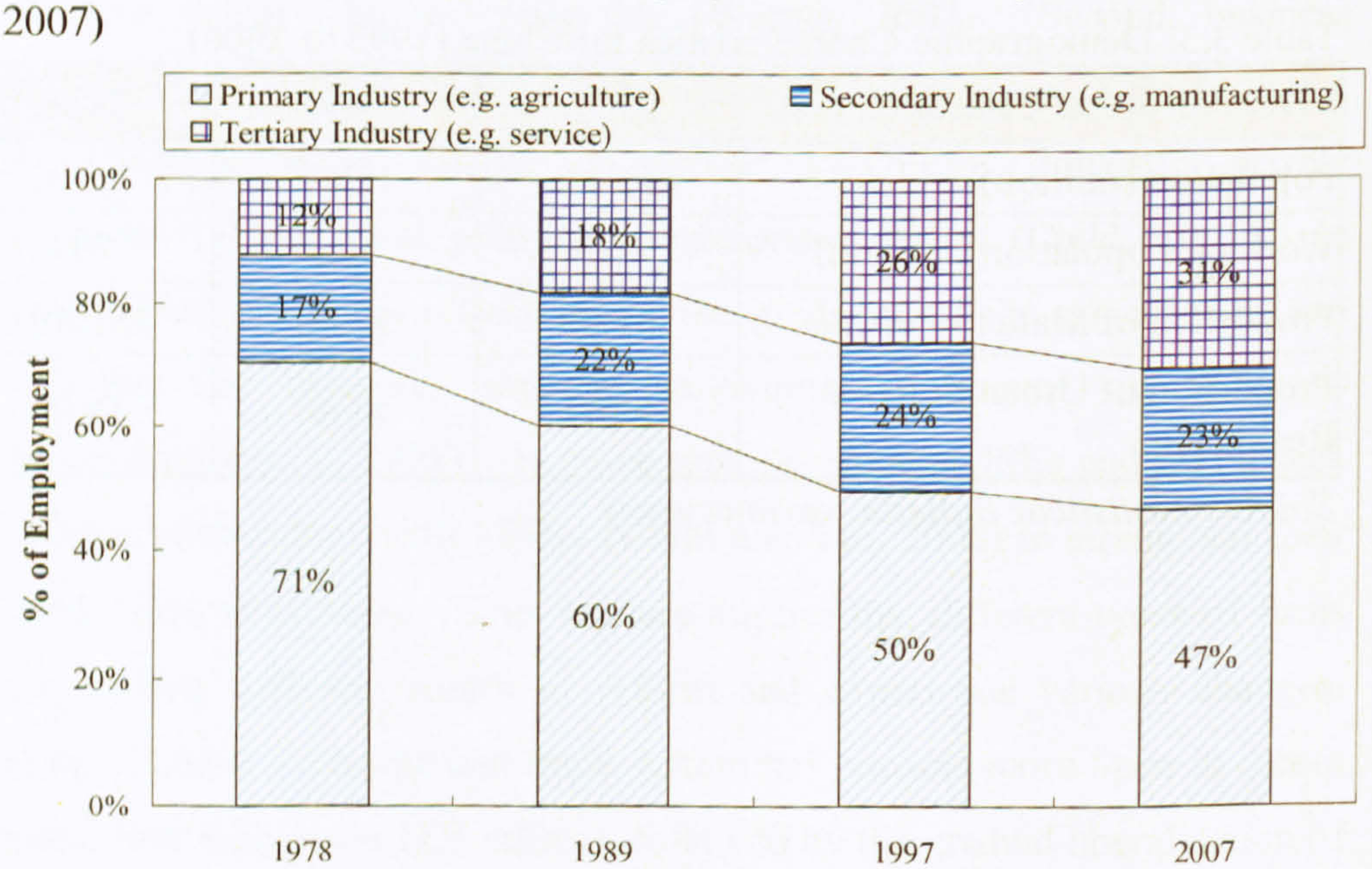
Source: Statistical Bulletin, various years

Figure 3.4: Industry Contribution to GDP in China (1978 to 2007)



Source: Statistical Bulletin, 2008

Figure 3.5: Percentage of Labour Employment in China by Industry (1978 to 2007)



Source: Statistical Bulletin, 2008

In the labour market, new HRM practices have emerged. For instance, fixed-term employment contracts, performance-based compensation, career development, as well as an emphasis on staff retention (Ding and Warner, 1999; Zhao, 1994; Zhu and Dowling, 1994) have been introduced by local companies. Localisation of managers and establishment of trade unions have occurred in MNCs operating in China (Ke and Morris, 2002). Nonetheless, it is not yet clear what HRM change has happened. At which level, area and process? Is the general direction of new practices towards a 'convergence' or 'divergence' outcome? Are local companies mimicking foreign practices? Are MNCs adopting local practices?

Despite the growing importance of the Chinese market, it is still an under-researched area compared to Europe and North America (Chew and Horwitz, 2004; Lau, 2002). Previous studies in China were mainly focused on manufacturing industries (for example Björkman and Fan, 2002; Zhang and Parker, 2002). Limited research attention has been paid to changes in HRM areas in service industry in the country. With economic growth, the services sector is gaining importance in China. In 1978, the service sector accounted for 24% of total GDP. In 2007, this number increased to 32% (Statistical Bulletin, 2007) (see Figure 3.4). The number of people employed by the service sector has multiplied, from 12% in 1978 to over 30% in 2007 (Figure 3.5).

Joining the WTO has caused another round of economic reform (for example relaxation on foreign ownership restrictions, liberalisation of foreign exchange) as well as opening up service industries (including financial services, insurance and telecommunications). The HRM environment can be an important determinant of productivity for knowledge-based companies and service firms. In the service sector, a much larger share of total production costs is accounted for by employment and much more extensive direct contact is made between employees and customers. The current study enriches the literature by examining change in HRM in the service sector.

3.2.2. Cultural Studies

Cultural Studies: Several extensive studies have been conducted to develop cultural measures. The first one is Culture's Consequences (Hofstede, 1984) which measures national culture of Western countries. The resulting cultural dimensions are power distance, collectivism, masculinity, uncertainty avoidance, and long-term orientation. The second study, Chinese Values Survey (Bond et al., 1998), has been tested to Western and Eastern managers across many nations. The resulting cultural factors of the Eastern managers are Confucian work dynamism, integration, human-heartedness, and moral discipline. The third one, conducted by Trompenaars and Hampden-Turner (1997), defines culture into three areas: relationships with other people, passage of time relationships, and relationships with the environment. These areas can be further defined into seven dimensions: universalism versus particularism, specific versus diffuse, individualism versus communitarianism, inner-directed versus outer-directed orientation, time as sequence versus time as synchronisation, achievement versus ascription, and equality versus hierarchy.

The last one is the Global Leadership and Organisational Behaviour Effectiveness Research Programme (GLOBE). GLOBE, a cross-cultural research project, was conceived by Robert House and funded in 1993. Since then, GLOBE has evolved into a multiphase, multimethod research project in which some 170 investigators from over 60 nations representing all major cultural regions in the world collaborate to examine the inter-relationships between societal culture, organisational culture, and organisational leadership (House et al., 1999). It measured the impact of nine cultural attributes of leader expectations and the effects of these attributes on organisational practices (House et al., 2004). One major objective of the study was identification of universally accepted and effective leader behaviours, attributes and organisational practices . (cultural generalisation), as well as those that only applied to some cultures (culture contingency) (Koopman et al., 1999). Table 3.6 explains these cultural studies in detail.

Using these cultural studies, some researchers highlight that Asians are generally more particularistic (giving priority to particular relationship) than other Westerners. Indeed, Asian culture is a mirror image of Western management culture (Hampden-Turner and Trompenaars, 2002). The prime distinctions of Eastern cultures from Western one are collectivism and Confucianism (Hofstede and Bond, 1988). This observation is consistent with the basic premises of relationalism (Chen, Chen and Xin, 2004) and guanxi practices (Farh et al., 2000) of Asian culture. The collectivism dimension of Hofstede's study has been repeatedly proved by many researchers to be applicable to Asian and Chinese managers (Tse et al., 1988; Weber et al., 2004). House et al. (1999) find that the endorsement of the leadership prototypes is more associated with respondent value orientation. For example, collectivistic values in Confucian Asia societies generally prefer team-oriented leadership.

Implications of Cultural Studies: These studies come up with some common cultural values that seem common across the Asians – hence the often used phrase 'Asian values'. Many believe that Asian growth is widely attributed to traditional management styles that are rooted in Asian social values not found in the Europe and North American context. However, the degree to which businesses have to take account of the particular cultural context that they operate in is still arguable. Another critique is that Asian's religious and philosophical beliefs vary and include many traditions. Hardly any Asian country has the same cultural dimensions or values. Even within the same country, variations in culture can be found. Inasmuch as national cultures remain different, cross-national differences in HRM practices will continue to exist. Finally, culture is not isolated and unchangeable, but constantly changing, being modified, and transforming. Social norms including political, economic, and historical factors also influence managerial thinking and approaches and reshape the outcome of HRM change. The cultural perspective alone may not be able to explain all HRM differences found in countries.

Table 3.6: Selected Cultural Studies

Researcher	Cultural Study	Objective of Study	Cultural Dimension	
Hofstede, 1984	Cultural Consequences	Measure national culture of Western countries	• Power distance	Degree of acceptance of unequal power distribution
			• Collectivism	Extent to which individuals are integrated into groups
			• Masculinity	Distribution of roles between the genders
			• Uncertainty avoidance	Degree of tolerance for uncertainty and ambiguity
			• Long-term orientation	Values oriented towards the future
Bond et al., 1998	Chinese Values Survey	Analyse Western and Eastern managers	• Confucian work dynamism	Society's search for virtue
			• Integration	Social stability and strong family bonding
			• Human-heartedness	Individual's level of social consciousness and awareness
			• Moral discipline	Self control in relations to others
Trompenaars and Hampden-Turner, 1997	Seven cultural dimensions	Cultural differences between universalistic societies and particularistic societies	• Universalism versus particularism	Whether rules or relationships regulate behaviours
			• Specific versus diffuse	Decomposition to find the details or bringing things together to build the big picture
			• Individualism versus communitarianism	Rights of the individual versus rights of the group or society
			• Inner-directed versus outer-directed orientation	Importance of thinking and personal judgement or control of the outside world
			• Time as sequence versus time as synchronisation	Relative emphasis on the importance of the past, present, or future
			• Achievement versus ascription	Gaining status through performance or other means
			• Equality versus hierarchy	All people having equal status or being superior to others

Table 3.6: Selected Cultural Studies (Cont'd)

Researcher	Cultural Study	Objective of Study	Cultural Dimension	
House et al. 1999	GLOBE	Leader attributes and behaviours, and organisational practices	• Achievement, performance orientation	Encouraging and rewarding performance improvement and excellence
			• Future orientation	Planning, investing in the future, and delaying gratification
			• Assertiveness	Degree to which individuals are assertive, dominant, and demanding in their relations with others
			• Collectivism	Degree to which individuals are integrated into groups within a collective
			• Gender egalitarianism	Degree to which a collective minimises gender inequality
			• Humane orientation	Degree of being fair, altruistic, generous, caring, kind to others
			• Power distance	Extent to which power in a society is unequally shared
			• Family collectivism	Degree to which integration of the individual within the family
			• Uncertainty avoidance	Extent to which society relies on social norms and procedures to alleviate the unpredictability of future events

Source: developed for this research

3.2.3. Asian Values and Chinese Culture

Asian Values: Though not applicable to every county in Asia, Confucianism is one of the most compelling influences in many Asian societies. Confucianism was originally developed from the teachings of the early Chinese sage Confucius. His teachings were then summarised and further developed into a complex system of moral, social, political, philosophical, and religious thoughts. Its application to modern business is that the rationale for business is to continue the interests of the family. The idea of the family is translated into the group in the business context, such as loyalty to the group and obedience to authority (Hofstede, 2001). In most Asian societies, high power distance is acceptable. This is seen in the following examples. The hierarchical structure of Taiwan is mirrored in its enterprises (Warner, 2002). In South Korea, sharp distinctions between owners, managers and workers can be observed (Rowley and Bae, 2002). Triandis (1995) uses the term 'vertical-collectivist' to describe deference to authority in Thai companies. Besides, the practice of not acting in a way to make others 'lose face' (meaning one's dignity, self-respect, and prestige) is basic to dealing with South-East and East Asians (McGreal, 1995; Redding and Ng, 1982). A comparison of Asian values with Western approaches helps understand the rationale behind management practices.

Chinese Culture: In China, culture is seen as a set of core values which underlie social interactions among Chinese people. From a Confucianism view, culture is grounded in action as it emphasises social situation and context, considers that attaining of civilisation through rituals and promotes the practicing of rituals in all occasions (Neville, 2003). Similar to other Asian societies, in Chinese culture the concept of 'workplace is family' (Hofstede and Bond, 1998), hierarchy (Child and Warner, 2003; Redding, 2002) and norms of social relationships, are all derived from Confucianism (Child and Warner, 2003), in which harmonious relationships and rapport is desirable (Bond et al., 1998; Warner, 1993). Another deep-rooted cultural value is guanxi – relational networking based on interpersonal connections (Farh et al., 2000; Warner and Zhu, 2002; Wright et al., 2002; Xin and Pearce,

1996). The doctrine of relationship interdependence with others comes from the idea of Daoism (Child and Warner, 2003; McGreal, 1995; Warner and Joynt, 2002). Besides, *The Art of War*, a piece of Chinese military work of literature, stresses the principle of understanding counterparts for every success and advocates the importance of appreciating the characteristics of tasks and organisational dynamics in management (Satow and Wang, 1994), handling conflict (Tjosvold et al., 2001) and making decisions (Satow and Wang, 1994; Tse et al., 1988; Weber et al., 2004). As Chinese people are typically low on uncertainty avoidance (Hofstede, 1984) and on trust (Fukuyama, 1995), they tend to save up money for future generations (Chiu and Kosinski, 1995; Chow and Luk, 1996; Redding, 1990).

Implications: HRM practice is probably the most culture-bound management function (Kanungo and Jaeger, 1990; Laurent, 1986; Van Dijk, 1990). Practices developed in one context, such as in the West, cannot simply be assumed to work in the same way in other countries, such as Asian countries, which have substantially different value sets (Poon et al., 2009). Some researchers (Braun and Warner, 2002; Rosenzweig and Nohria, 1994; Warner and Joynt, 2002) suggest that certain HRM practices are more cross-cultural transferable than the others. For instance, recruitment and training practices are less culture-bound because they are characterised by the technical ingredients attached to various positions (Anderson, 1992; Watson, 1994). Traditional philosophies embedded in Asian societies and Chinese people have an influence on the transfer and adoption of modern managerial approaches (Child, 1994; Douw et al., 2001; Noronha, 2002; Tang and Ward, 2002). Additionally, the introduction of Chinese culture and values into the research paradigm can allow broader theorisation as a particular event or phenomenon should be studied under the appropriate paradigm which collaborates to sponsor it. Hence, it is important to extend previous research by investigating whether practices brought by companies from different nationalities and hence different culture contexts, would be adopted in other locales.

3.3. China's Accession to the World Trade Organisation (WTO)

China was formally accepted as a full member of the WTO on 10 November 2001. While no immediate impact was felt, accession pushed the economy further along the path of opening up industries and provided impetus towards financial markets liberalisation. Under WTO agreement, China agreed to open up its highly regulated and protected service industries by reducing many entry barriers (Geib, 2005; Lin, 2001). Competition is expected to be fierce in the banking, insurance and financial investment services (Chen, 2002) because the relaxation of market entry rules in those industries boosts FDI and creates momentum towards further liberalisation of the RMB currency and cross-border transactions. It is argued that such a transformation may lead to major changes in the institutional infrastructure and promote a new way of thinking in China's industry (Dorn, 2001).

3.3.1. The WTO Arrangements in the Financial Industry in China

In the service sector, the financial system is changing rapidly in order to fulfil the obligations of the WTO membership and to survive in the country's evolving economic, business, and regulatory environments. According to Mr. Shi Jiliang, vice-chairman of the China Banking Regulatory Commission (CBRC), increased liberalisation will have a major impact on LCBs. Though the initial shocks are not likely to be too significant, eventually a fair number of smaller banks may see their clients and people leave for FIBs (China Daily, 2008). In accordance with the WTO agreements, China has gradually lifted restrictions on FIBs in terms of ownership, forms of operation and establishment, allowing more FIBs and their branches to enter. In fact, five years after China's accession (that is by 2007), the gates of the banking and financial industry are fully opened to FIBs.

Table 3.7: The WTO Agreements relating to the Banking and Financial Industry

	Before WTO	2002	2003	2004	2005	2006	2007
Regional Restriction	Operation in Beijing	Shenzhen, Shanghai, Dalian, Tianjin	Guang zhou, Zhuhai, Qingdao, Nanjing, Wuhan	Jinan, Fuzhou, Chengdu, Chong Qing	Kunming, Beijing, Xiamen	Shantou, Ningbo, Shenyang, Xi'an	Operation in all cities
Client Restriction	Foreign exchange for foreign enter-prises	Foreign exchange for all Chinese clients	-	RMB currency for Chinese enterprises	-	-	RMB currency for all Chinese clients
Service Restriction	Not allowed	Auto-mobile finance for enter-prises	-	-	-	-	Automobile finance for all Chinese clients
Ownership Restriction	RO or WOFE	-	-	-	JV up to one-third of foreign owner-ship	-	-

Source: adopted from WTO Report (2001)

The main promises under WTO agreement are summarised as following and seen in Table 3.7 (WTO Report, 2001).

1. Regional Restriction: Upon joining, China will open Shenzhen, Shanghai and two other coastal cities to FIBs. Gradually, it will open sixteen more cities in next four years. Five years after the WTO entry, China will cancel all regional limitations.
2. Client Restriction: China will eliminate client restrictions on MNCs in handling foreign exchange business upon joining. FIBs can eventually offer RMB currency services to all Chinese clients (for example deposits and clearing of RMB currency).
3. Service Restriction: Foreign non-banking banks are allowed to provide automobile consumption credit business and enjoy equal treatment with the same type of Chinese-funded banks.

4. Ownership Restriction: Before WTO accession, FIBs had to establish a representative office (RO) in China for at least two years before applying a license and turning into a wholly-owned operation in financial industry. JV opportunities (up to one-third of foreign ownership) will be allowed in the next three years.

3.3.2. Implications of WTO Accession

China's accession to the WTO can be seen as a catalyst with which the Chinese government transforms its whole economic system in general and SOEs in particular, with a move towards broad international market systems (Zhao et al., 2002). The impacts on the Chinese business situation can be viewed from several aspects. Firstly, entry into the WTO leads to opening up of the protected service industries to non-local, non-state and foreign enterprises. While the state monopolies are ending, resources (both physical and human) necessary for competitive advantage are expected to flow into the service sector as the economy is becoming more advanced and privatised (Chen, 2002). This trend may create a new institutional environment for China's private enterprises and MNCs.

Secondly, the accession of MNCs in China's market will bring a large amount of capital to China in the form of FDI and JVs. As a result, some DPEs will have a chance to cooperate with MNCs and to update their old systems (Zhao et al., 2002). The normative pressure for MNCs to learn local customs, as well as mimetic processes of implementing new systems by local enterprises, may increase as the result of cooperation.

Thirdly, rules governing international business operations will become effective in China. Several international organisations, for example the International Labour Organisation (ILO) and International Trade Union Confederation (ITUC), may raise concerns about China with regards to labour rights, role of trade unions, social protection, etc. (Zhu and Warner, 2004). For example, the ILO may partner with large employers to develop programmes for workers, or may press governments to take legal sanctions

against those MNCS who operate in countries that exploit labour. Institutional cultures are likely to be increasingly influenced by integration in the global economy, and with this, will come with risk and opportunity to the companies (Brauer et al., 2007).

Besides, China's accession to the WTO may enhance the business reorganisation of local enterprises (for example mergers, acquisitions, public listings, etc.) and evolution of new organisational forms (for instance JVs). Greater marketisation can lead to more market-driven HRM practices, such as even more performance-driven rewards, more contributory social insurance and less unionisation (Warner, 1997). The decentralisation of decision-making authority at enterprise level and the introduction of a responsibility system have already transformed many manufacturing companies into business entities responsible for their own profit and losses (Warner, 1995). Similar phenomena and changes can be expected in the service sector.

3.3.3. Research in the Service Sector

Nevertheless, the previous literature regarding WTO accession has largely been conducted in the manufacturing sector in China. For example, Yeung and Mok (2002) interviewed thirty one manufacturing firms located in Guangzhou, Zhejiang and Beijing and listed the major managerial challenges after WTO accession as trade disputes, market development, localisation of expatriates, and compliance with international standards. Geib (2005) conducted over 90 interviews in small and medium-sized North American firms in Shanghai, Beijing, Hong Kong and Singapore. He concluded that cultural risk and changing values could be the priority areas for small firms operating in China. There are, however, virtually no published works about change in HRM in the service industry of China after its entry to the WTO. Hence, there is a wide scope for theory development in the service sector. Will local service companies follow Western HRM practices? Or will MNCs learn local practices?

Furthermore, services differ from goods in at least three important ways: they are intangible, they tend to be produced and consumed simultaneously, and they tend to involve consumers in their production and delivery (Bowen and Schneider, 1988). The simultaneous delivery and receipt of services in the face-to-face service sector brings employees and customers close together, blurring the boundary between the two groups (Schneider and Bowen, 1985). The direct contact between employees and customers in the service sector suggests that HRM may be even more important in the service sector than in the manufacturing sector (Reichheld and Sasser, 1990; Schneider and Bowen, 1985). This study uses banking industry as an example to evaluate the impact on HRM change in the China's service sector. The findings of the study provide timely insights for firms seeking entry into, and survival in, the Chinese market and practitioners designing policy, and hence the current study is a contribution to both practitioners and policy makers.

3.4. The Financial Industry in China

In recent years the forces in the world economy have necessitated that financial institutions become more international in outlook if they are to survive in the global arena (Cappon, 1994; McCormick and Rose, 1994). Noticeable changes have been observed in the structure of the global financial industry, for example mergers, acquisitions, emergence of new players, deregulation, and application of modern technology (Qing, 2001). These changes have intensified competition in the financial markets in many countries and have contributed to the introduction of a series of transformations. The recent ones include the consolidation of banks in Switzerland, credit crunch issues in the banking industry, bail-out of US mortgage and insurance companies, and so on.

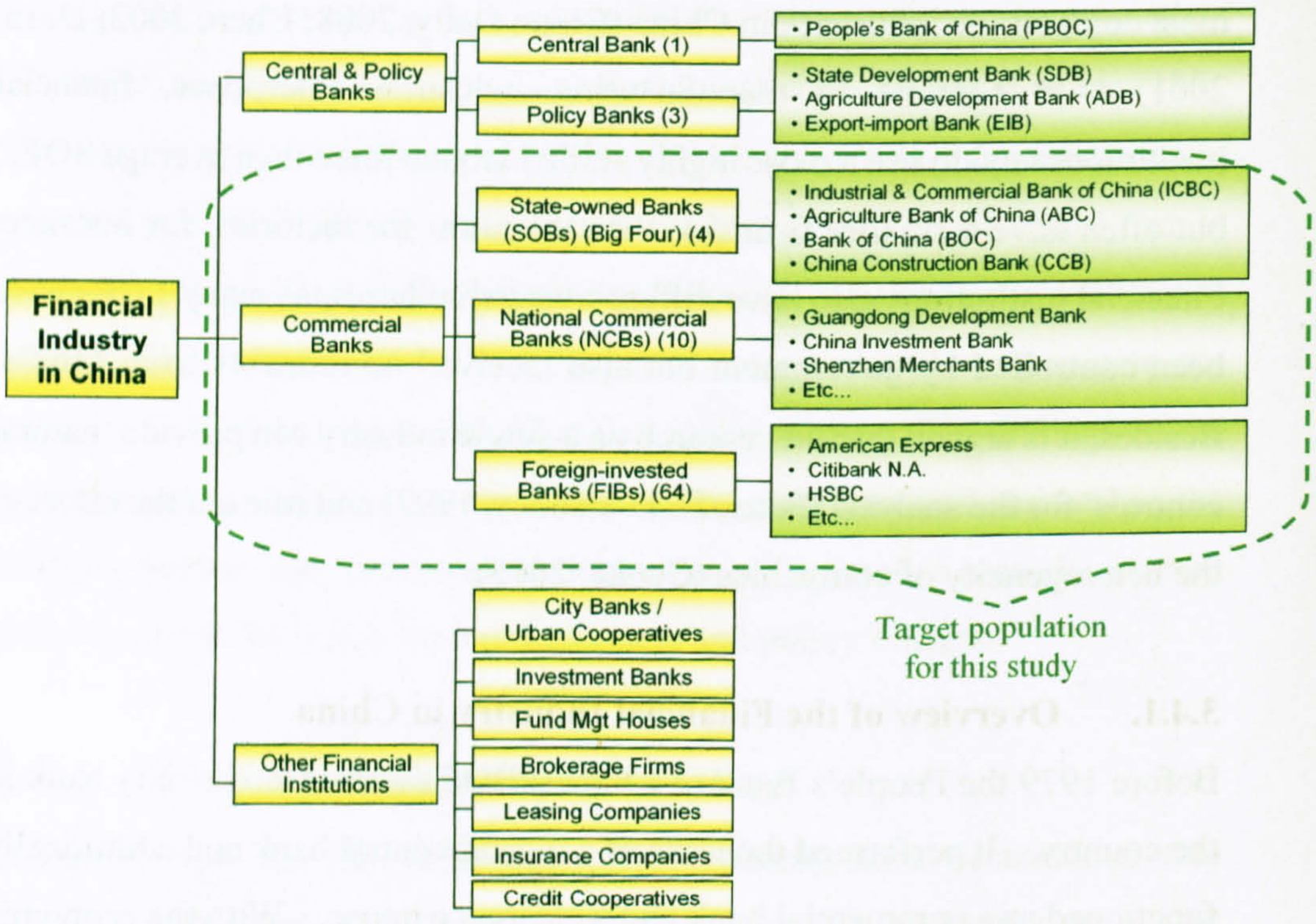
The banking industry in China represents an appropriate industry context for assessing what, why, how, where and which change in HRM areas occurs. Entry of new players, reforms of banking regulations, liberation of the RMB currency, to name a few factors, have all made the banking industry one of the most competitive industries in China (China Daily, 2008; Chen, 2002; Dorn, 2001). In contrast to manufacturing industrial enterprises, financial institutions tend to use a more highly skilled labour-force than average SOEs, but often have a smaller firm size than the norm for factories, for instance. Financial institutions also have diffuse ownership bases, as many LCBs have been controlled by government but also received investments from MNCs. Besides, it is argued that the research on a single industry can provide 'natural controls' for the analysis (Peteraf and Shanley, 1997) and rule out the effect of the heterogeneity of companies (Cooke, 2005).

3.4.1. Overview of the Financial Industry in China

Before 1979 the People's Bank of China (PBOC) served as the only bank in the country. It performed the tasks of a typical central bank and additionally functioned as a commercial bank and a clearance house. With the economic reforms the mono-banking system became increasingly incompatible with the emerging economy (Chen, Dietrich and Feng, 2000). The PBOC was restructured with its commercial businesses spilt off into four SOBs. They were: Bank of China (BOC), Agriculture Bank of China (ABC), China Construction Bank (CCB), and Industrial and Commercial Bank of China (ICBC), together nicknamed the 'Big Four'. Hence, in 1986 the state monopoly (Chen, 2002) in the banking industry was further broken up when joint-stock banks (JSBs) were allowed to establish. These are NCBs (held jointly by government and private enterprises). Generally, their branch networks are not as extensive as those of the Big Four. Moreover, three policy banks (including State Development Bank, Export-import Bank, and Agriculture Development Bank) were established to focus on SOEs and related industries (Lardy, 1998). In addition, non-bank financial institutions also grew very fast, for instance credit cooperatives for township and village enterprises (TVEs), finance companies for consortiums of enterprises,

investment trust companies, brokerage firms, etc. Figure 3.8 is a snapshot of the financial industry structure in China.

Figure 3.8: Structure of the Financial Industry in China



Source: Adopted from Chen, Dietrich and Feng (2000); PBOC (2008)

Comparing the structure of the banking industry in China with that in some other developed countries, there are some important similarities and differences. Table 3.9 shows the industry structure in each country. Similar to other developed countries, the banking industry in China is divided into 2-tier, central and policy banks, and commercial banks. Nevertheless, SOBs in China play a more dominant role in the commercial banking sector than those the same types do in other countries.

The market share of SOBs has declined because of the entry of competitors. The Chinese government has allowed public listings of three SOBs and nine NCBs on the Hong Kong Exchange and the Shenzhen and Shanghai Stock Exchanges. Table 3.10 highlights those listing cases. Frequent interactions with competitors coupled with public listings facilitate LCBs (including

SOBs and NCBs) to learn new management initiatives. These encourage the creation of new institutional rules governing acceptable behaviour and exerting pressure.

Table 3.9: Structure of Banking Industry in Selected Countries

Type of Bank	China	America	Japan	Britain	Germany
Central bank	✓	✓	✓	✓	✓
Policy bank	✓				
State-owned Bank (SOB)	4 SOB			4	3
National Commercial bank (NCB)	16 NCB	✓	✓	✓	✓
Foreign-invested bank (FIB)	✓			✓	
City and rural bank	✓		✓		✓
Saving Institutions		✓	✓		✓
Cooperatives	✓		✓	✓	✓

Source: Adopted from Li et al. (2004)

Table 3.10: Recent Listings of China's Banks in Stock Markets

Ownership	Name of Chinese Banks	Listing Date	Name of Listed Exchange
SOBs	China Construction Bank (CCB)	Sep 2007	Shanghai
		Oct 2005	Hong Kong
	Bank of China (BOC)	Jun 2006	Hong Kong and Shanghai
	Industrial and Commercial Bank of China (ICBC)	Oct 2006	Hong Kong and Shanghai
NCBs	Bank of Communication (BCOM)	May 2007	Shanghai
		Jun 2005	Hong Kong
	Industrial Bank	Feb 2007	Shanghai
	China Citic Bank	Apr 2007	Hong Kong and Shanghai
	China Merchant Bank	Sep 2006	Hong Kong
	China Huaxia Bank	Sep 2003	Shanghai
	China Merchant Bank	Jun 2002	Shanghai
	China Minsheng Banking Corporation Limited	Nov 2000	Shanghai
	Shanghai Pudong Development Bank	1999	Shanghai
	Shenzhen Development Bank	1991	Shenzhen

Source: Various Companies' Annual Reports

3.4.2. Foreign-invested Banks (FIBs) in China

Regarding FIBs in China, the Industrial Bank of Japan and the Bank of Tokyo were among the first to establish, in Shanghai in 1982 (Kuilman and Li, 2006). Since then, the number of FIBs has continuously increased. By 2007, 71 FIBs from 20 countries (such as America, France, Hong Kong, Japan, Taiwan, U.K., etc.) have opened over 230 branches in China (PBOC, 2008). Up to 2007, investments by FIBs in the banking industry totalled over US$165 million, which was 15% of the total assets of LCBs (PBOC, 2008). However, the majority of FIBs can only engage in the commercial banking business or provide for investment banking services. They are not allowed to undertake RMB currency or retail banking services.

China also imposes strict geographical limitations on the establishment of FIBs. For example, a FIB can only open a single new branch in a year, and only in a province where it previously had no branch. Thus, it is difficult to quickly build an extensive branch network, a valuable competitive advantage in the banking industry. The reasonable alternative to setting up their branch network is for FIBs to partner with a LCB to access a larger customer base (Chen, Dietrich and Feng, 2000; Han-nan Finance Research Centre, 2000). In the resultant joint stock arrangement, FIBs create partnerships with LCBs to complement their business networks, build relationships and capture retail banking business. For example, one month after China joined the WTO, HSBC signed an agreement with the Bank of Shanghai to form a JSB (Jiang et al., 2003). By 2005, 11 JSEs had been formed. The introduction of FIBs as strategic investors is also beneficial for LCBs by increasing capital strength and diversifying ownership. Foreign investors bring in management experience and technology. Thus, there may be possible that LCBs to benchmark foreign practices and MNCs to learn local customs. More discussion can be found in Section 4.2.

3.4.3. Research on the Banking Industry

Despite the recent changes in the industry and the future transformation of financial institutions, studies on HRM in the banking industry in China are relatively rare and the industry is inadequately understood. A few researchers have studied HRM policies and practices in the banking industry in some other context, but these studies have some methodological limitations. Delery and Doty (1996) conducted a survey of senior HR executives in banks in North America in order to obtain information of HRM policies for loan officers. They found a positive correlation among the company's return on assets, return on equity and the presence of employment security for loan officers. Frei et al. (2000) conducted a survey in the 1990s covering 135 banks and 121 financial companies, which together comprised over 75% of the total industry in North America, as measured by asset size. The survey showed that technology, HR and other assets could be aligned to produce a given level of output in the banking industry. Nevertheless, both studies used cross-sectional data and did not include comparisons. The possibility, thus, remains open that a historical retrospective study with a comparative approach may produce different results. An examination of trends over time is essential to understand the dynamic processes of convergence and divergence while comparative analysis can compare and contrast HRM changes from different perspectives.

Definitions: While there is no official definition of 'LCB' and 'FIB' in China, previous research in this industry tends to use firm ownership to define the bank (see the work done by Chen, 2002; Jiang et al., 2003; Kuilman and Li, 2006). LCBs refer to banks owned and operated by native financial institutions. These include SOBs, NCBs and JSBs. Though the central bank and policy banks are 'locally' owned by the government, they are typically excluded from previous studies because their main functions are policy setting and regulation, rather than providing banking services. For this reason the current study does not include the central bank and policy banks in the 'LCB' definition. By contrast, FIBs refer to banks owned and operated by financial institutions from other countries. They are normally

MNCs. In this industry, FIBs, which provide banking services, are in the form of WOFE. JV ownership was not allowed to operate until the full opening of industry recently, in 2007. RO can only be involved in marketing functions and cannot provide banking services. Therefore, FIBs included in the current study are in the form of WOFE and not in the form of JV or RO.

3.5. Chapter Summary

Economic reforms from the late 1970s, the transition towards a market orientation and China's recent accession to the WTO, have all led to considerable transformation in the structure of the Chinese banking industry in general and change in HRM practices in LCBs and FIBs in particular. Systems, models and management expertise brought in by FIBs can become the benchmark for LCBs to copy, while learning how to play the local game can improve the competitiveness. Yet, traditional cultural values, local institutional preconditions and global policies can simultaneously act as barriers or bridges to change. Therefore, the banking industry in China represents a suitable industry context for this study. An investigation focusing on both LCBs and FIBs operating in China is deemed appropriate as this area is relatively unexplored. Which HRM areas have been changed, at which these levels have changes occurred, why there have been changes, to what extent, and so on, are important questions to be considered. The next chapter elaborates the two research questions and the conceptual framework used in this study to answer these questions.

4. Research Questions and Conceptual Framework

4.1. Chapter Introduction

The previous chapters have reviewed the gaps in the theoretical perspectives, the dynamic situation in China's banking industry and the under-researched nature of the area. While it is relatively obvious that changes in HRM have been taking place, little rigorous work has been done to explain the pace and magnitude of these changes as well as the resulting direction. Nor is there much effort on explaining differences in organisations in their acceptance of new HRM practices or exploring factors affecting the differences. To address these change issues, the current research investigates HRM changes using the banking industry in China as a case. For this purpose, two research questions are generated to (a) evaluate the change issues in key HRM areas and (b) assess the role of contextual factors in HRM change.

This chapter first describes HRM policies and practices in China and in the banking industry (Section 4.2). It is followed by a discussion of the relevant theories and a comparison of LCBs and FIBs in terms of resourcing and retention (Section 4.3), rewards and performance (Section 4.4), training and development (Section 4.5). A conceptual framework which comprises aspects of various theoretical models is constructed to gauge this research (Section 4.6). The framework includes an examination of contextual factors (Section 4.7) and control variables (Section 4.8) relevant to HRM change in the Chinese context.

4.2. HRM in the Banking Industry in China

4.2.1. Definition of HRM in China

HRM is crucial for organisations and economies to achieve success (Barney, 1991; Pfeffer, 1994). Despite this view of HRM's value as a specialised and specific business function, it is a relatively new area of interest in China. The complication stems as to what HRM means and what it includes.

Questions arise as to whether definitions and theories developed in the West are applicable to different contexts. HRM cannot be divorced from its institutional context. To apply the HRM concept to other countries, it is important to understand its meanings in an appropriate context. The translation of HRM into Chinese is 'renli ziyuan guanli' which means 'labour force resources management'. Some people use it misleadingly as a synonym for 'personnel management (PM)' (renshi guanli) and treat it as such (Warner, 1995). Yet Legge (1989) contends that HRM differs from PM in four ways: (a) whereas HRM concentrates on the management of people, PM focuses on the control of subordinates; (b) line managers play a key role in HRM in coordinating resources, but do not do so under PM; (c) the management of organisational culture is an important aspect of HRM, but not in PM; and (d) HRM is a more strategic task than PM. The roles of PM were far from the concept of HRM as understood in Western theory. Some researchers criticised HRM is a combination of both 'East' and 'West' conceptualisations (Zhu et al., 2007) and HRM is culturally bound (Easterby-Smith et al., 1995). Whether HRM can, or even should, be replicated in the Chinese context is a matter of opinion as Western notions of HRM are not present in Chinese enterprises (Warner, 1995).

Attempts to study changes in HRM raise another question, of what exactly HRM areas to include. The literature provides no clear list or model of HRM practices. Different researchers have their own models. While some commonalities exist across various models, there is less of a consensus, and HRM models vary over time, by location and by researcher. It is not the intention of this research to test any of previous theoretical frameworks; it is, however, critical to explore the change issues on the most relevant HRM areas in China. Table 4.1 lists some recent comparative studies in Asia and the research areas covered. Notably, resourcing and retention are common across most of the comparative studies. Also, training and development, rewards and performance are areas of HRM commonly included in the research. Other areas, such as teamwork or diversity, are not dominant practices in the study of HRM change in Asia.

Previous theoretical frameworks are used to come up with a conceptual framework. Transfer and adoption of HRM practices is a complicated process because it requires a balance between global integration and local customisation as well as an investigation from both local companies' and MNCs' perspectives. Thus, a single theoretical framework is not sufficient to explain the process. An eclectic approach can integrate various theoretical approaches that in fact complement each other. Because of the advantage of this approach, many researchers (Kim and Hwang, 1992; Kostova and Roth, 2002; Shi et al., 2001) have applied eclectic models to weave together elements taken from a variety of theoretical perspectives, including institutional, resource-based and other approaches, and construct their frameworks for research. Since the eclectic approach can allow for a more comprehensive investigation of HRM change issues, such a conceptual framework consolidating ideas from the literature is constructed for this study.

Consolidating ideas from the literature, the key HRM areas included in this study are resourcing and retention, rewards and performance, and training and development. It is argued that the three selected HRM areas are appropriate for the study because they encompass the main common areas of HRM and have been rigorously tested in several comparative studies across Asian countries. Other HRM areas, such as teamwork, diversity, are not included as they are less relevant to the issues of HRM change in Asian countries. The combination and improvement of previous theoretical frameworks in a new manner is considered an addition to knowledge since this can cover some of the missing areas and allow greater precision in the identification of institutional sources of influence. Moreover, working out the relationships between different theoretical contexts provides opportunities to advance theory building that has stronger and broader explanatory power than the initial perspectives as well as to contribute to debate on the robustness of change research overall.

Table 4.1: Selected Comparative Studies in Asia

Researcher	Comparative Base	Comparison Direction	Focus	Research Area				Cross-sectional Study or Longitudinal Study
				Resourcing / Retention	Rewards / Performance	Training / Development	Other Areas	
Rowley et al., 2004	China, Japan, South Korea	Local → Theoretical practice	Examine the degree of convergence	✓	✓	✓		Some trend analysis
Shen and Edwards, 2004	Chinese MNCs	MNC → International	Explore the issue of Chinese IHRM	✓			Expatriate	Cross-sectional study
Gamble, 2003	China, United Kingdom	Local → MNC MNC → Local	Study transfer of HRM practices	✓	✓	✓		Cross-sectional study
Yan, 2003	JVs from Anglo-Saxon, Continental Europe, Asia	MNC → Local	Test effects of nationality & strategic orientation on HRM	✓	✓	✓		Cross-sectional study
Rowley and Benson, 2002	China, Japan, Korea, Thailand	Local → Theoretical practice	Explore issues of convergence and divergence	✓	✓	✓	Teamwork, managerial role	Some trend analysis
Warner and Zhu, 2002	China, Taiwan	Local → Theoretical practice	Identify and compare HRM systems and practices	✓		✓		Longitudinal study
Björkman and Lu, 2001a	Chinese-Western JVs	MNC → Local	Compare HRM practices	✓	✓	✓		Cross-sectional study
Ngo et al., 1998	China, America, British, Japan	MNC → Local	Investigate effects of country origins on HRM practices	✓	✓	✓	Diversity	Cross-sectional study
Goodall and Warner, 1997	Shanghai, Beijing	Local → MNC	Measure the extent HRM in JVs different from traditional	✓	✓			Cross-sectional study
Sparrow et al., 1994	Anglo American cluster, France, Japan, Korea, Brazil South American cluster	Local → Theoretical practice	Investigate global practices for competitive advantage				Culture change, structure	Cross-sectional study

Source: developed for this research

4.2.2. Change in HRM Areas in China

Economic reforms and new labour legislation have brought change to Chinese management, for example the introduction of labour contracts, the endorsement of performance rewards, and contributory social insurance (Ng and Warner, 1998). In combination with the WTO agreement, these changes may contribute to the creation of an institutional framework within which changes in HRM may take place. Nevertheless, all these reforms and changes have not pointed directly to any specific kind of HRM practices best suited to firms operating in China (Björkman and Fan, 2002). Rather, the changes in the political-legal context have created a situation where there is no strongly institutionalised model of HRM (Goodall and Warner, 1998). Given the lack of a local model on how to operate successfully, local managers may view MNCs as successful role models and believe their practices should be mimicked (DiMaggio and Powell, 1983; Westney, 1993). In uncertain situations, stakeholders may exert pressure on managers to implement new management practices (Abrahamson, 1996). Both LCBs and FIBs are expected to gradually resemble other successful organisations in the environment in which they are embedded. Table 4.2 highlights some of the changes. In this research, it is argued that institutional perspectives and cultural factors are critical in explaining why LCBs and FIBs differ in their propensity to adopt HRM practices. It is important to study both directions (i.e. whether the transfer is from LCBs to FIBs or vice verse) and magnitude of adoption (i.e. how much change has occurred).

Chinese Companies / LCBs: The previous research on HRM in China has focused on the linkage of HRM practices with firm performance (Björkman and Fan, 2002; Ngo et al., 1998), business objectives (Zhang and Parker, 2002) and firm nationality (Ngo et al., 1998; Yan, 2003). The contemporary studies of Chinese SOEs seem to show that gradual changes in HRM practices have been taking place in the 1990s (Ding and Akhtar, 2001). Surveying a sample of thirty eight companies in manufacturing and process industries in Beijing, Shanghai and other Chinese cities, Goodall and Warner (1999) observe 'hybrid' HRM practices with the characteristics of both the

West and the East. Also, interviewing sixty three Sino-Western JVs located in Beijing, Shanghai and Guangdong provinces, Björkman and Lu (2001a) show that the HRM practices (including recruitment, training, compensation) of these firms closely resemble those of their Western parent firms. They conclude that there has been a trend towards introducing more 'Western' HRM policies in China. Such tendencies are likely to accelerate after China accession to the WTO.

Notwithstanding this evidence, while one might expect that the economic and legal reforms should have direct and significant effects on local firms, organisational inertia (see Section 2.3.3) deeply rooted in the cultural and institutional heritages of Chinese companies can act as a brake on the full transference and absorption of the changes (Ding et al., 2000; Warner, 1999). This persistence explains, at least partly, the difference in the pace of convergence in HRM practices between different ownership forms and in different locations in China (Hassard et al., 2004). Besides, although LCBs may copy HRM practices, tools and systems from their strategic partners, they may not internalise the basic assumptions and guiding principles of such MNCs (see Section 2.6.2). The extent to which foreign HRM practices are implemented may be blended with existing values held by Chinese managers.

MNCs / FIBs: LCBs and FIBs differ in terms of laws, regulations (Fu, 1998), organisational structure, size (Wong and Wong, 2001), corporate governance, and employment practices (He and Fan, 2004; Lardy, 1998; Shen and Edwards, 2004) because FIBs were granted special rights to set up their organisations and implement their management practices (see Table 4.2). The banking industry in China is very attractive to foreign investors; major financial institutions from many developed countries have started doing business in China and hence competition is keen. Modern financial systems are immensely complex and everything from training programmes to compensation systems tend to be among the most sophisticated in the marketplace (Kwan, 2005). In addition to financial acumen and technical

expertise, this industry demands a high level of international awareness of its employees and extensive knowledge of other business sectors of the country. Some 71 FIBs, joining with 4 SOBs, 11 JSBs and NCBs, hundreds of municipal companies, and thousands of deposit-taking institutions across China are competing for similar talent (see Section 3.4 for detail). Since regional platforms and operating environments in China and other countries are different, it is interesting to discover if HRM 'with Chinese characteristics' (Warner, 1995) or 'Asian HRM' (Rowley et al., 2004) can be fostered in the banking industry in China.

FIBs tend to acquire local market knowledge and indigenous management practices which reconcile their parents' strategies. Warner (2009) and Yan (2003) point out that the increasing competition in China and economic developments require MNCs to adjust their strategy and management practices relevant to the environment. Bartlett and Ghoshal (1991) argue that firms competing in global industries have to be simultaneously globally integrated and locally responsive. As a result of organisational learning and migration of knowledge between affiliates, a MNC's affiliate may form a 'third HRM system' that is different from both home and host HRM practices (Shen, 2005). The recent wave of cross-border mergers and acquisitions has speeded up the organisational learning process. While the country-of-origin (or firm nationality) effect of MNCs may create a distinctively national favour to management style, it does not close off the possibility for MNCs to learn and adopt from other business systems in which they operate (Quintanilla and Ferner, 2003; Whitley 1996, 1998). Nevertheless, it is noted that many MNCs have corporate-wide systems and management philosophies which call for adherence to parents' HRM policies (Ferner, 1997). MNCs' policies remain deeply rooted in national business systems of their home country (Whitley, 1996). Consequently, it may be hard, if not impossible, for a global company to transfer the entire management system to affiliates without an influence from local practices or to copy the host country's HRM practices without any influence from parent country's systems (Edwards and Ferner, 2002; Shen et al., 2005).

Table 4.2: HRM Practices in the Banking Industry in China

HRM Areas	Chinese Bank (LCBs)		Foreign Bank (FIBs)	
	1980s (Before Reform)	1990s (After Reform)	1980s (Early Entries)	1990s (Development)
Resourcing & Retention	Lifetime employment, jobs assigned by state	Contract based	Use expatriates	Localise managers, various retention tools
Rewards & Performance	Flat structure, little wage differential	Based on rank / position, social security system	Performance based	Typically higher pay than LCBs
Training & Development	Limited provision	Technical skills training	On-the-job training, overseas assignments	Training with local universities

Source: developed for this research

4.2.3. First Research Question

Given the above, the first research question is:

Research Question 1: *To what degree have the LCBs and FIBs operating in China changed their HRM practices towards or from each other?*

The first research question addresses the issue of change in key HRM areas. It examines HRM change issues from both the LCBs' and FIBs' perspectives. Some past studies have compared Chinese HRM to the notions of practices in Western countries or elsewhere, while some others have examined MNCs in a global or regional context. There has been limited comparative study in the area of management and HRM in China (Poon and Rowley, 2007) and few analyses have been conducted to evaluate the HRM practices from both perspectives in the same context. As pointed out by Cooke (2004a), the HR practices of MNCs can be different from those of Chinese enterprises because management is subjected to various sources of influence (such as local and universal strategies and practices) in their choice of HR practices. The fact that this research question is designed to explore HRM areas of Chinese companies and MNCs in the same context can help address this gap

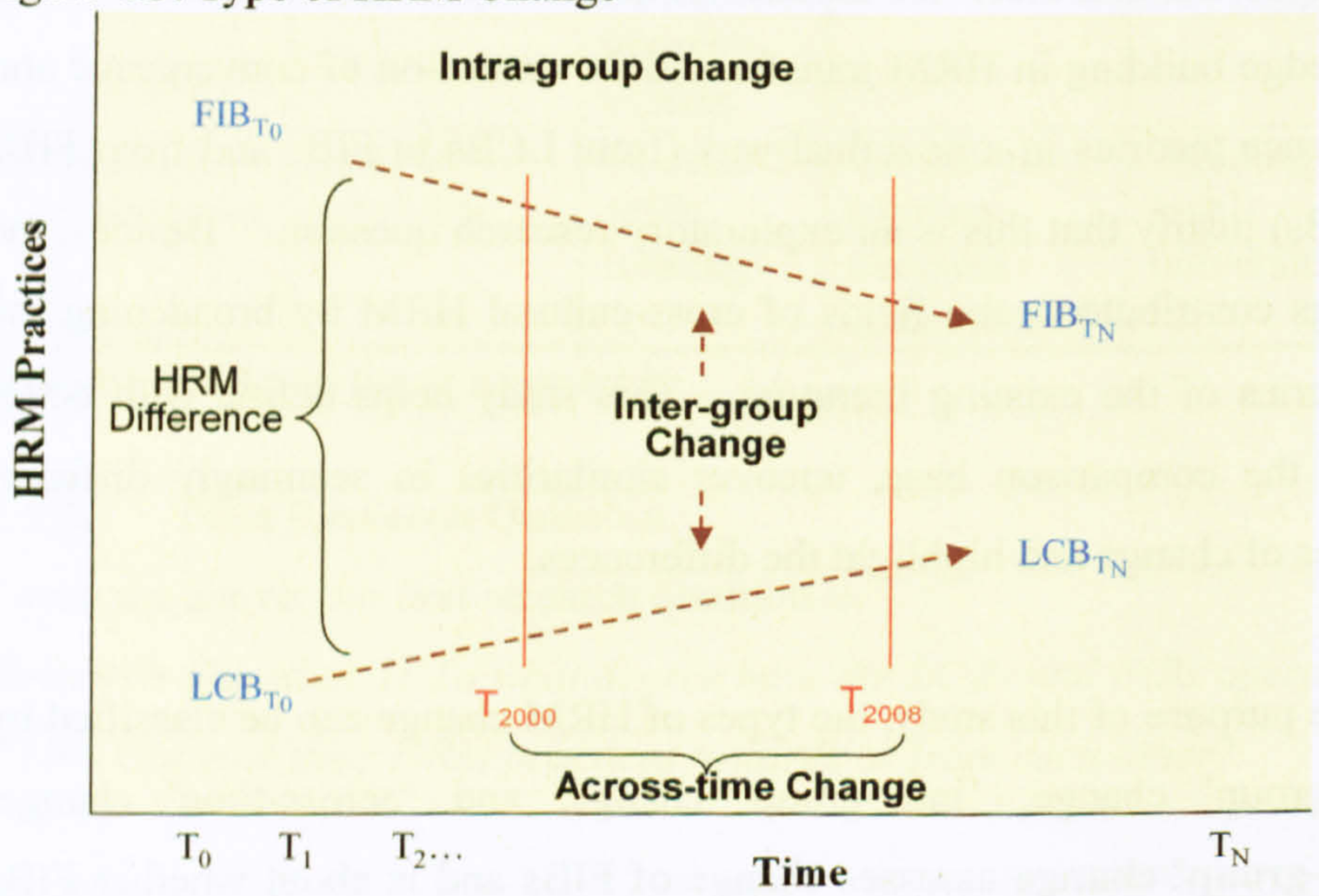
in the literature. Besides, it has an advantage of understanding the impact of the external environment, such as political systems, economic developments and social / demographic differences in the same research paradigm (more discussion of research paradigm on Section 5.2).

An exploratory research design is employed for the first research question. The term 'exploratory research' focuses on determining what concepts to measure and how to measure them. It is used to discover and raise new possibilities and dimensions of areas of interest (Churchill, 1995; Zikmund, 2000) (see Section 5.3.1 for discussion about exploratory research). The knowledge building in HRM transfer and the extension of convergence and divergence theories in a new dual way (from LCBs to FIBs and from FIBs to LCBs) justify that this is an exploratory research question. Besides, the findings contribute to the fields of cross-cultural HRM by broadening the boundaries of the existing literature. This study helps define with better clarity the comparison base, uncover similarities in seemingly different theories of change and highlight the differences.

For the purpose of this study, the types of HRM change can be classified by 'intra-group' change, 'inter-group' change, and 'across-time' change. **'Intra-group' change** assesses change of FIBs and is about whether FIBs diffuse home HRM policies and practices to the host country or whether FIBs integrate global schemes into the host country's policies and practices in their baseline values (analysing FIB_{T0} and FIB_{TN}). Change in the FIB's home country is outside the scope of this study. **'Inter-group' change** assesses change between LCBs and FIBs and is about whether LCBs are imitating policies and practices brought by FIBs or whether FIBs are taking up local policies and practices. It is argued that HRM areas of LCBs and FIBs are different initially (comparing LCB_{T0} and FIB_{T0}). **'Across-time' change** looks at adjustments within a certain time frame. HRM practices of LCBs may change (movement from LCB_{T0} to LCB_{TN}) and those of FIBs may change as well (movement from FIB_{T0} to FIB_{TN}). Since 'HRM change' cannot be directly observed, this study will measure 'HRM

difference' between LCBs and FIBs to evaluate the degree of change. Are LCBs and FIBs operating in China converging towards, or diverging from, each other (comparing LCB_{TN} and FIB_{TN})? The type of HRM changes is visualised in Figure 4.3. The key HRM areas included in this study are resourcing and retention, rewards and performance, and training and development. These areas are consolidated from various comparative studies of HRM in Asia. The following sections explain what these HRM areas are and justify why they are included in the present study.

Figure 4.3: Type of HRM Change



Source: developed for this research

4.3. Resourcing and Retention

In recent years, there has been growing recognition that organisations are required to acquire change management capabilities in order to survive and flourish in radical change settings. Employee resourcing and retention has attracted a particularly high level of attention in recent years (Rees and Eldridge, 2007). The role of resourcing and retention are seen as integral to strategic HRM practice, as the performance of employees is considered in the light of contributions towards company objectives (Smid et al., 2006). Resourcing and retention in MNCs can be conceptualised as the outcome of the interaction of domestic policies and a variety of firm-specific and the host country factors, for instance international strategy, stage of internationalisation, host country's political, legal, economic and socio-cultural conditions, and so on (Shen et al., 2005).

At a policy level, much of the attention is directed to whether the pattern of recruitment is ethnocentric (which results in all key positions in MNCs being filled by expatriates, or applies some global recruitment programmes), polycentric (localisation is adopted and local people are recruited to manage subsidiaries in their own countries), or geocentric (utilises the best people for the key jobs throughout the organisation, regardless of nationality) (Dowling et al., 1999; Sparrow, 2007). Each approach has its own advantages and disadvantages, affecting communication, coordination, control and cultural familisation (Shen and Edwards, 2004). There is little evidence to suggest that resourcing systems are common to, or indeed are transferable in, the international arena. The use of specific recruitment and selection practices may be highly dependent upon prevailing legal frameworks (Wolf and Jenkins, 2006). Besides, resourcing success results when the organisation understands the relationships among person-job fit, person-organisation fit, and cultural differences, and recruits accordingly. In a study of a bank in New York, Borucki and Lafley (1984) demonstrate how recruitment and selection practices are adapted over time to meet different strategic imperatives as they emerge. Recruitment of a person who is not the best person for a job leads to money being wasted on training, a decline in

employees' morale, and an expensive selection mistake if it has to be rectified (Molander and Winterton, 1994).

In addition, differences in selection methods and criteria should not necessarily be seen to exist solely between Chinese and Western based organisations. Shen and Edwards (2004) and Zhu et al. (2007) suggest that HRM practice is a hybrid of traditional Chinese PM and modern Western HRM. It is speculated that different banks adopt a mix of approaches to recruit and select the best employees. Therefore, this study investigates recruitment practices at different staff levels, namely top executives, managers and entry graduates, as well as various selection criteria and processes, for both LCBs and FIBs.

Furthermore, the current study also examines the issue of retention, which is the effort by an employer in keeping desirable workers in order to meet business objectives (Frank et al., 2004). Retention is important because the costs of turnover are significant and far-reaching. Fitz-enz (1997) points out that an average company loses around US$1 million for every 10 managerial and professional employees who leave the organisation. Combined with direct and indirect costs, the total cost of employee turnover can be as high as two years' pay and benefits. Not only does retention reduce turnover costs and increase productivity, it is also correlated with high customer loyalty and greater profitability. This is particularly the case in knowledge-based companies and service firms, such as banks, which demand people with a high level of expertise and extensive knowledge.

4.3.1. Top Executive Appointment

MNCs / FIBs: China has implemented reform in the higher education system and dramatically improved the quality of its workforce in recent years. Hitherto the pool of very experienced senior managers was still small. The changes in the education system have only been in place for a few years, and the beneficiaries are young graduates fighting for entry-level jobs, not senior-level employees with the requisite experience to be effective senior executives. Consequently, many FIBs began their operations by using expatriates as top executives in China. The principal reasons for employing expatriates are a perceived lack of availability of management and technical skills in the host countries (staff availability), a control and coordination role, and knowledge transfer (Law et al., 2004; Selmer, 2003, 2004; Shen and Edwards, 2004).

Recently, FIBs have used fewer expatriates and more local managers, returnees, or other overseas Chinese, all of whom provide good experience at a lower cost. According to a survey conducted by Deloitte Touche Tohmatsu (2005), 40% of firms in China's manufacturing, retail, banking, finance and telecommunication sectors are planning to phase out their expatriate senior executives over the next few years. In practice, localisation of management can be generalised into two categories, 'globalised' localisation (where expatriates are replaced by Chinese with overseas experience) and 'localised' localisation (where expatriates are replaced by local Chinese managers who have worked their way through the ranks) (Yeung and Mok, 2002). With WTO accession, will FIBs speed up the localisation of top executives (pace of *change process*) so as to tailor their services to local language and conditions?

Chinese Companies / LCBs: Prior to the reforms, managing directors in SOEs were regarded as 'administrative cadres' whose appointments and promotions were determined by the state (Ding and Warner, 2001). A cadre's political power, social status, information access, income and welfare benefits, were all determined by his / her official ranking in the bureaucratic hierarchy (Yan, 1995). The major criteria for cadre appointment were 'redness' (political soundness) and 'expertness' (technical competence) (Tung, 1982). Due to the fact that production quotas were assigned by the state planning committee, top executives were not held accountable for the profits and losses of operations. Absence of punishment for poor business performance resulted in a rigid hierarchical ladder for administrative cadres, along which everyone moved up and nobody moved down.

The labour reforms have attempted to promote fair competition and more open PA to break the cadres' status. The reduction of the state's administrative interference implies that local companies can use business-related skills and abilities, rather than political and ideological qualities, to recruit top executives (Zhang and Parker, 2002). Will more top executives be employed from the labour markets using flexible recruitment practices, as opposed to appointment by government (*change content*)?

4.3.2. Managers and Employees Recruitment

MNCs / FIBs: In the banking industry, FIBs have the flexibility to recruit employees through a market-oriented mechanism. They can determine the size of their staff, recruit people according to their business needs and use their own selection criteria. As FIBs enter and expand their operations in China, they need mid-level managers to run their branches. Because of the high level of direct interaction with local employees and customers, Chinese mid-level managers are ideal. Training programmes, as well as more opportunities for higher education, have provided many skills that would have been difficult to obtain in the early 1990s. Local Chinese managers are getting more familiarised with Western business practices. Qing (2001) predicts that FIBs are able to attract the best talent because their working

environment and career advancement opportunities are better than those available within LCBs.

Chinese Companies / LCBs: Before the reforms, managers and employees were allocated to their work units ('danwei' in Chinese) according to the state plan designed by the Central Planning Committee. Recruitment, allocation, employment permit, transfer and dismissal were all subject for the official approval of the labour bureau (Zhu, 1997). Work units were commanded to accept new employees assigned by the bureau without considering their practical needs. The so-called 'iron rice-bowl' (Warner, 2003) described this life-long guaranteed employment. Negative economic phenomena, such as absenteeism, inefficient use of working time, reluctance to learn new skills, and high wastage of energy and raw materials, were observed in almost every SOE (Holton, 1990; Zhu and Dowling, 1994, 2002). The labour system reforms since 1986 have given individual companies greater autonomy in choosing recruitment sources and deciding the number of managers and employees hired according to business needs (White, 1996). New people were required to sign contracts and could be terminated by employers (Ding et al., 1997). This new contract system represented a departure from the traditional 'iron rice-bowl' policy (Warner, 2003). To what extent has the installation of the contract system given SOBs discretion to decide HR planning? In what way has the new recruitment policy offered solutions to increase work efficiency?

4.3.3. Entry Level (Graduate) Recruitment

MNCs / FIBs: Large organisations in the America and Europe have used college placement offices and job fairs as the major sources of new employee recruitment for years. Researchers and practitioners attribute the reasons for using college students to the affordability of new graduates, increases in the number of entry-level jobs over the last several years, and updated educational experiences of new graduates relative to more experienced applicants (Bottjen and Cohen, 2001; Hoopis, 1994). Although the primary objective of college recruitment is simply to fill employment vacancies (Rynes and Boudreau, 1986), of much greater interest to organisations are the kinds of people that are likely to fill positions at the company, and how those individuals 'stack up' against those who are likely to work for their competitors (Slaughter et al., 2005).

Chinese Companies / LCBs: China has traditionally had a very low level of higher education. The Chinese government began extensive efforts at improving the state of education in the country. The percentage in higher education has increased substantially since then, more than doubling in the last decade alone. The number of graduates in 2005 was 3.4 million, an increase of 600,000 from 2004 (Statistical Bulletin, 2006). According to China's Ministry of Education, the proportion of 18-22-year-olds attending Chinese universities in 2005 was 15%, compared to 7% in 1995. The number of Chinese graduates from all fields of study entering the job market is growing rapidly. This increase means that the Chinese workforce is significantly better educated than just a few years ago – but this also implies that competition for entry-level jobs would be much fiercer.

4.3.4. Selection Methods and Criteria

Selection is the process of gathering information for the purposes of evaluating and finding the right individuals with suitable skills and qualities for a given position (Dowling et al., 1994). The implementation of selection methods and use of appropriate selection criteria determine the success of the match between the individual and the job. This, in turn, has important consequences for the functioning of the organisation as a whole. Mis-match can be particularly serious if a structural imbalance arises between the workforce and the job structure (Geerlings and van Veen, 2006). Roe and Berg (2003) propose some selection principles applicable to Europe and other Western countries. These are meritocracy, risk avoidance, employment and career opportunity, fair chance and involvement. They claim that there is greater similarity in selection methods between countries that are geographically and culturally closer to each other. However, other researchers (Hough and Oswald, 2000) show that the validities of domestic selection instruments cannot be generalised to international sites due to differences in behavioural predictors. Walder (1995a) and Walder et al. (2000) argue that political selection processes under state socialism involve both political loyalties and educational qualifications. Besides, the changing nature of work presents difficulties for traditional job analysis with its focus on more static aspects of knowledge and skills. The latest development in selection has been on the competency of candidates to undertake specific job related tasks (Roe and Berg, 2003). This change has been promoted by the emergence of the resource-based view of the firm which attributes organisational effectiveness to critical qualities (i.e., competencies).

Chinese Companies / LCBs: As for selection criteria, the credentials of a job applicant were often heavily weighted, particularly for entry-level jobs (Huo and Von Glinow, 1995). Among all the data provided in the credentials, the school / college from which the job applicant received the highest degree was the most important selection factor. None of these selection principles were the same as the ones prevailing in Europe and Western countries. As for selection methods, there was a tendency to downgrade face-to-face interviews and to rely on guanxi as the primary base for selection (Huo and Von Glinow, 1995). Liao (1991) and Zhao (1995) concur that employment tests in a written form and skill tests in practical forms (e.g. operation of a machine) are regarded as effective selection methods in China.

Managers were selected to implement state policies and induce political loyalty; and different selection methods were used. Since SOEs are highly dependent on, and controlled by, the government, the very first step in selecting candidates is a formal procedure called 'political inspection', that is whether or not a person is politically qualified. This results in a de facto glass ceiling for non-party members. Their political disadvantage effectively excludes them from competing for positions with significant power and authority (Walder, 1995b). If the candidates being considered have the same political backgrounds, formal education and competency then become decisive. As a result, political considerations typically outweigh business performance and individual competency in decisions regarding selection. Similarly, Zhou (1995, 2001) shows the impacts of the shifting state policies on varying opportunities and distributive mechanisms for managers and professionals over time.

MNCs / FIBs: Roe and Berg (2003) find that the selection methods that are most used in Europe and North America are one-to-one interviews, group/panel interviews, educational qualifications, and application forms. Financial service companies operating in China tend to have a systematic recruitment approach and their selection processes are perceived as fair by candidates (Ke and Morris, 2002). Companies feel more comfortable with face-to-face encounters and direct evaluation of job candidates. Previous studies (e.g. Zhang and Parker, 2002) show that skills, competencies and previous experiences are the common selection criteria used by MNCs in China.

It seems that there is a gap between LCBs and FIBs in terms of selection methods and criteria. But, Anderson (1992), Watson (1994) and many other researchers point out that recruitment and selection practices are less culture-bound because they are characterised by the technical ingredients attached to various positions. Hence, certain resourcing procedures and practices should exhibit little variability across countries. If this is the case, LCBs and FIBs should eventually change their selection practices to resemble each other more (i.e. 'inter-group' change should be observed).

4.3.5. Retention Effort

In today's highly competitive labour market there is extensive evidence that organisations, regardless of size, technological advances, market focus and other factors, are facing retention challenges. In the banking industry, customer retention and employee retention 'feed one another' (Sellers, 1990: 63) and organisations 'with satisfied employees have satisfied customers' (Rust et al., 1996: 63). High employee turnover can lead to numerous issues in low productivity and poor service, and thus accelerating high turnover (Schlesinger and Heskett, 1991). Loss of a senior branch manager, for example, may have compounding effects as banks may lose relationships with clients and future profitability (Zhu, 2003).

Chinese Companies / LCBs: Previous literature shows that cash-based compensation components (base salary, merit pay, year-end bonus, and individual bonus) are the most important factors in retaining and motivating local Chinese employees (Chiu, et al., 2002). Money is perceived to be very important in the minds of Chinese people (Chiu and Kosinski, 1994). A policy of pay and bonuses that is intended to promote retention is likely to tie employees voluntarily to the company since the general standard of living in China is still low. Besides, companies may package their compensation more attractively compared with the industry average to retain people. Better compensation conveys a message that the company values its people. In return, employees can view the surplus income as a gift and hence work more industriously (Pfeffer, 1999). Moreover, promotion from within and having clear succession planning are effective HRM practices in Chinese companies (for example, Fey and Björkman, 2001; Huselid, 1995; Ngo et al., 1998). The availability of internal promotion opportunities binds employees who seek career advancement. Companies offering such chances create an incentive for employees to perform well so as to earn the monetary and status rewards brought by promotion (Pfeffer, 1999).

MNCs / FIBs: In additional to competitive compensation and promotion, employee retention can include a basket of tools. Jacobs (2007) gives the examples of such tools as (1) education and training; (2) regular communications and feedback; (3) management that listens; and (4) employee involvement. It seems that other than monetary rewards, maintaining good employee relationships and employee development are equally important to retain employees.

FIBs in China try to discourage turnover by providing training opportunities for their employees. By doing so, they may face the risk that their newly trained managers will become attractive recruits for other corporations (Wong and Law, 1999). There is no guarantee that trained managers will remain with their organisations after training programmes. Thus, it is difficult for the organisation to decide if training and development opportunities should be provided. On the other hand, maintaining long-term relationships can build on Chinese values, such as loyalty and mutual commitment (or in Chinese terms, 'pao') as well as cultivate employees' commitment towards the organisation (Wang, 2004; Wong et al., 2001). More discussion about Chinese culture can be found in Section 3.2.2.

To summarise, the normative pressure for FIBs to learn local customs, as well as mimetic process of implementing new systems by LCBs, may increase as the result of cooperation and competition. Reforms of traditional Chinese HRM systems have been observed, but it is not sure if resourcing and retention practices of indigenous companies and MNCs would become similar and what the new HRM is towards (i.e. *change outcome*).

4.4. Rewards and Performance

Rewards are an important HRM element because they can enhance performance in several ways. First, financial rewards can spark effort (a motivational effect) and turn attention to what the organisation values and its priorities (an informational effect). Second, differential reward systems enhance performance by attracting the right people and repelling the wrong people (a selection effect) (Pfeffer and Sutton, 2006). Because reward decisions play a critical role in rewarding and motivating employees, and ultimately in enhancing organisational effectiveness, there is a research need for an understanding of how different rewards components work.

There are various reward mechanisms. Based on the previous research (Deutsch, 1975), there are at least three primary rules governing a company's reward decisions: equity, equality, and need. The equity rule specifies that employees should be rewarded on the basis of their contributions, for example task performance. This is similar to expectancy theory in which firms can use compensation to motivate employees to increase their efforts on, and direct their efforts towards, important company outcomes (Gomez-Mejia and Balkin, 1992; Heneman, 1992). Propositions from expectancy theory (Vroom, 1964) suggest that salary and bonus can influence performance when employees perceive a relationship between their efforts and performance and when they then obtain a valued outcome if they perform well (Heneman, 1992). The equality rule specifies that individuals should be rewarded equally, regardless of their contributions to the group or the organisation. Also the need rule states that individuals should be rewarded on the basis of their personal needs. Accordingly, a company's reward decisions on salary, bonus, promotion, and performance appraisal (PA) may vary depending on the applicable of equity, equality and need rules.

Another complication is that cultural values and social norms in which organisations are embedded can affect how reward decisions are made (Bond et al., 1982; Hui et al., 1991; Kim et al., 1990; Leung and Bond, 1984). For instance, individuals in collectivism-dominated nations tend to prefer the equality rule or the need rule, because individuals who hold the collectivist cultural values are concerned with interpersonal relationships. On the contrary, individuals in individualism-dominated nations tended to prefer the equity rule, because they are less concerned with relationships and more concerned with task contributions. Hence, the use of performance bonus, salary increase, promotion, and evaluation of performance can differ and companies may change rewards and performance systems to suit contingent situations.

4.4.1. Performance-based Bonus Scheme

Pay-for-performance is a generic term used to describe a variety of payment systems that establish a linkage between pay and measures of performance of individuals, groups, or organisations as a whole. Its application may be as classical as traditional piecework where workers are rewarded on the amount of products they produce, or as recent as share options where rewards are related to shareholder value. Other variants include individual performance-based bonus plans, group gain sharing or profit sharing plans.

A performance-based bonus scheme is used by companies for various reasons, such as keeping up with the competitors, enhancing motivation and retention, improving productivity, etc. The practice of performance-based bonus schemes has support from expectancy theory in that individuals are motivated to perform if they know that their extra value-added performance is recognised and rewarded (Vroom, 1964) by a bonus. Consequently, companies using such bonus pay can expect improvements. However, prior empirical studies of performance-based bonus schemes have yielded mixed results (Gerhart and Milkovich, 1992); and there is no guarantee of pay success in all contexts.

Chinese Companies / LCBs: Previous literature showed that rewards practices in China were based more on seniority, political orientation and interpersonal skills, than on performance, competence and business profitability (Von Glinow and Teagarden, 1988). As a result, compensation as an effective means of motivating employees and rewarding hard work was seriously undermined. This resulted in low work-morale and serious inefficiency in Chinese SOEs (Takahara, 1992; Child 1994). Decentralisation after the recent labour reforms gave SOEs an opportunity to revisit their remuneration practices and build performance-based rewards systems, a practice widely used by Western companies. While bonus schemes have been introduced to China, as Björkman (2002) concluded, there have been relatively limited changes in reward and performance practices among Chinese companies. Some loss-making SOEs continued to pay similar wages and bonuses as the other SOEs; and bonuses were often distributed amongst employees irrespective of their productivity. Though SOE managers could, in theory, give fewer bonuses to under-performing workers, those attempting to discriminate in this way risked deteriorating labour relations. Negative incentives were also weak (Chiu and Lewis, 2006). Such rigidity of rewards and performance in Chinese companies made it difficult to motivate good performers and differentiate poor employees.

MNCs / FIBs: Performance-based bonus systems are typically employed by MNCs and the component contingent on performance is significant (Björkman, 2002). They are usually linked to individual employee performance and business profitability. Both quantitative measures and subjective management judgment are used to determine bonus levels. While it may be expected that bonus systems employed by FIBs are different from those of LCBs, it is not sure if FIBs will simply extend home performance-based bonus schemes to the host country (an ethnocentric strategy), or adopt similar bonus practices as SOEs (a polycentric strategy), or integrate global schemes to local environments (a geocentric strategy).

For example, many Chinese companies prefer to pay equal bonuses to all their employees (Warner, 1995) or use group incentive schemes. This may due to the Chinese values of respect for seniority and collectivism (Bond et al., 1998; McGreal, 1995). FIBs may modify their own bonus system and follow such indigenous companies' rewards practices to suit local customs (i.e. 'intra-group' change may be observed).

4.4.2. Salary Review Mechanism

Chinese Companies / LCBs: Salary policy in China has been heavily influenced by two factors: political ideology and cultural belief. Both these emphasise the need for egalitarianism in which material rewards are officially subjugated to ideology. From a cultural perspective, Chinese people prefer to distribute rewards equally (i.e. equality rule) when the amount to be allocated is perceived as unlimited; but prefer to distribute rewards based on contribution (i.e. equity rule) when a constant sum is to be divided (Hui et al., 1991). The ideal Communist distributional principle is to each according to one's need (i.e. need rule). In the past, the central government set general wage policies, structure and pay differentials. SOEs did not have the autonomy to determine their pay levels in light of business needs. The salary policy has generally been criticised as being collective, over-centralised, rigid and insensitive to variations in performance (Chow, 1992).

The objective of the reforms of the reward system was to transform the old wage structure into a performance-based flexible wage system (Korzec, 1992; Ng and Warner, 1998). Accordingly, Chinese companies are allowed to set their own wages which incorporate a mix of basic wages, functional wages by status or seniority and variable bonuses (Zhu, 1995). The most popular wage system in China is the fixed wage based on rank or position (Wang, 1990). To what extent has the devolution of administrative power from the central government to companies given SOBs and NCBs the discretion to organise and allocate wage funds? In what ways does the new salary policy present new challenges to LCBs to recruit, retain and motivate employees?

The exploration of these tensions in the salary review can enhance the understanding of the pressures and dilemmas facing the banking industry.

MNCs /FIBs: Some researchers point out that compensation packages vary by industry and firm (Lu and Björkman, 1998; Wang, 1990). For instance, surveying 465 MNCs and SOEs in multiple industries, Ding et al. (2006) conclude that service industries (including banking) tend to give the highest compensation among all the sectors and managers in MNCs have salaries that are significantly larger than those of managers in SOEs. In the banking industry, FIBs typically offer a salary based on market mechanisms and bring pay in line with key competitors. Zhu (2003) finds that payments offered by FIBs, such as HSBC, can be upto five times higher than those offered by SOBs. In coping with a lack of talented managerial and technical personnel in China, organisations are increasingly relying upon reward systems to recruit, motivate and retain employees (Ding et al., 2006). With more localisation of employees, FIBs are expected to adjust their salary level close to those of LCBs. To what extent have the salary increase mechanisms brought by FIBs exerted a pressure on LCBs to review their salary policy? To what degree can pay differentials between FIBs and LCBs be closed eventually (i.e. 'across-time' change can be observed)? These questions are explored in this study.

4.4.3. Promotion Mechanism

In the management literature, studies of promotion can be viewed from twin aspects, promotion selection criteria and career development. Organisation scholars emphasise that organisational attributes (such as centralisation, provision of succession planning), job factors (such as job ladders and job barriers), and individual characteristics (such as age, gender) can influence the features of promotion criteria that are adopted by organisations (Allen, 1997; Ferris et al., 1992). There is also a distinctive body of literature that calls attention to the importance of external environments which often trigger corresponding changes in the internal structure and in career opportunities in organisations (Walder, 1985). For example, the role of government and political dimensions in promotion decisions are recognised.

In the second aspect, career development can be viewed as an organised, planned effort comprising structured activities that will result in a mutual planning effort between employees and their organisation (Gilley and Eggland, 1989). Career progress is the movement of individuals through a sequence of jobs. An important feature of career progress is that a corporation and its employees are partners, which means that employees are responsible for planning their own careers and that corporations should support them in their endeavour (Chen et al., 2004). The more recent development is around the idea of the boundaryless career, which does not characterise any single career, rather a range of possible forms that defies traditional employment assumptions (Arthur and Rousseau, 1996). Specifically, such a career is characterised by movements across the boundaries of several employers and the use of supportive external networks and information. The boundaryless career is independent from traditional organisational career arrangements and breaks hierarchical reporting and advancement principles.

Chinese Companies / LCBs: Past studies of promotion and career development in Chinese organisations investigate macro-institutional environments. Due to the fact that production quotas were assigned by the

state planning committee, managers of SOEs were not held accountable for the profits and losses of operations. Absence of punishment for poor business performance resulted in a rigid hierarchical ladder for administrative cadres, along which everyone moves up and nobody moves down. This was known as the 'iron chair' practice (Warner, 2003). Indeed, in the institutional practice of China's 'cadre' system, there were two distinctive career lines. One path 'emphasised expertise and education (but not politics) and led to professional / technical occupations (with little decision-making authority),' and the other 'emphasised political loyalty (but not higher education) and led to influential leadership positions' (Walder et al., 2000: 194).

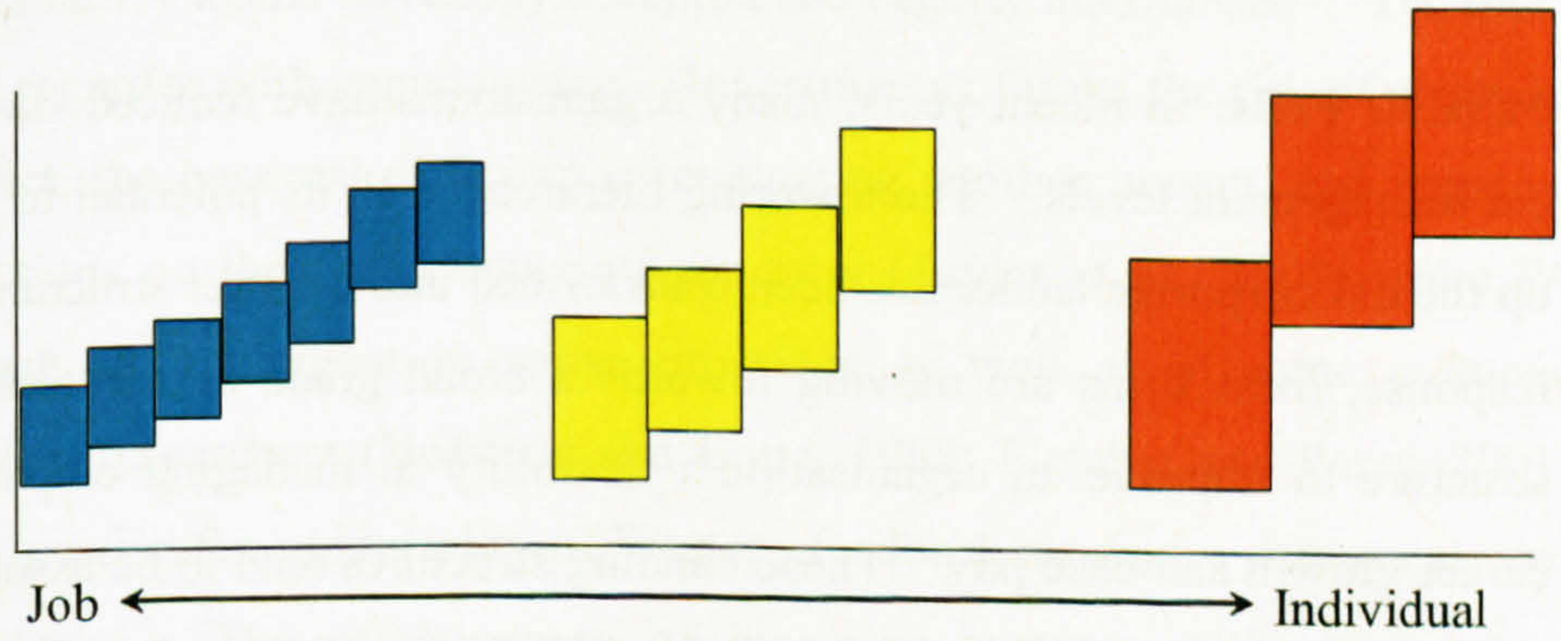
The labour reforms attempt to promote fair competition and open PA to break the status demarcation. With the reduction of the state's administrative interference, local companies could use business-related skills and abilities, rather than political and ideological qualities, as the selection criteria (Zhang and Parker, 2002). An important consequence is the introduction of market mechanisms in allocating people, and hence affecting career development of employees. To what extent have promotion patterns changed after the WTO? If significant changes have indeed occurred, what are the mechanisms and processes that generated these changes?

MNCs / FIBs: Most studies in this area find that promotions in industrialised market societies are often path dependent and regulated by organisational processes (see Section 2.3.2 for detail). A promotion decision in an organisation is mainly based on an employee's abilities and performance, rather than on factors that have no direct correlation with performance, for example age, seniority, gender, level of education and so forth. Since most FIBs come from industrialised economies, they may adopt similar promotion criteria when operating in China.

4.4.4. Pay Structure

An organisational pay structure plan is often characterised by an array of pay rates within the organisation and ranges of jobs grouped into grades (Armstrong, 1999; Milkovich and Newman, 2002). Characteristics of a particular pay structure include the number of levels in the structure, the size of the pay differentials between each level in the structure, and the rate at which employees can progress through each level in the structure (Gerhart and Milkovich, 1992). The purpose of a pay structure is to provide a fair and consistent basis for motivating and rewarding employees. The aim is to further the objectives of the organisation by having a logically designed framework within which internally equitable and externally competitive rewards and performance policies can be implemented (Armstrong, 1999).

Figure 4.4: Classification of Pay Structure



Source: developed for this research

There are three basic designs for salary structures: narrow grade, broad grade, and broad band structures (Figure 4.4). A traditional narrow grade structure has many grades (typically 20 grades or more) and a narrow salary range for each grade. The advantages include more control of variances in rates paid for jobs within the same grade and encouragement of internal equity. The disadvantages are that it makes pay for critical skills within salary ranges difficult and can cause top performers to hit the top of the pay scale too soon (Deloitte, 2005). A broad grade structure has more grades and a wider range to permit both flexibility and recognition of differing market rates of

pay based on performance, skill level, or market conditions. It also maintains control over costs and internal equity. The disadvantage is that it can require more frequent market analysis to ensure ranges are aligned with the market (Deloitte, 2005). A broad band structure typically has a few bands and may not have a salary range. Moving employees among jobs can be easier, with less focus on job grades. The disadvantages include that a band may become so wide that it is necessary to create zones within them and this requires sophisticated compensation administration (Deloitte, 2005).

Chinese Companies / LCBs: Conforming to the ideology of socialism, wage and salary are allocated on egalitarian principles, and thus a highly-differentiated pay structure may not be appropriate. This approach is reflected, to some extent, in the small pay differentials and a narrow grade structure in the organisational hierarchy (Huo and Von Glinow, 1995; Von Glinow and Teagarden, 1988).

MNCs / FIBs: In recent years, many organisations have reduced staff and cut management levels. The towering hierarchy with its potential to climb up the old corporate ladder has been transformed into a flatter structure. In response, most firms are moving towards a broad grade or a broad band structure to improve an organisation's flexibility in managing employees' career growth and base pay. These banding structures tend to be associated with North American companies' practice (HR Focus, 1995). Besides, large enterprises and institutions with formal, hierarchical organisation structures tend to prefer a conventional narrow grade structure which provides for orderly administration and ease in managing internal relativities (Armstrong, 1999).

4.4.5. Performance Appraisal (PA) Scheme

Different models of performance appraisal are found in the literature. DeNisi (2000) describes PA as a range of activities to enhance the performance of a target person or group, with the ultimate purpose of improving organisational effectiveness. Armstrong and Baron (1998) see performance management as a continuous process involving performance reviews focusing on the future rather than the past. Research indicates that linking pay with the results of performance evaluation can improve outcome expectancies for employees, which in turn improves employees' motivation and organisational effectiveness (Latham et al., 1993). Topics of investigation in PA research include the process of appraising performance (objective setting and feedback), as well as the relationship between appraisal and compensation.

Given the numerous positive outcomes and purposes ascribed to PA, it would seem that PA would be readily accepted and eagerly internalised. Yet, often PA is regarded with apprehension. Investments of time, the risk of potential conflict, the personal difficulty of evaluating another person, and negative reflections on the performance of the rater (Taylor et al., 1999) make PA difficult to implement in some situations as well as in some cultures. Besides, researchers (Hofstede and Bond, 1988; Fletcher and Perry, 2001) also question the universality of Western feedback strategies across national boundaries. The effectiveness of incentive systems with concomitant performance assessment processes is likely to vary because of cultural value differences (Hofstede, 1980).

Chinese Companies / LCBs: Previous literature showed that performance and rewards in China were based more on seniority, political orientation and moral integrity, than on performance, competence and business profitability (Von Glinow and Teagarden, 1988). Chow (1994) found that Chinese managers perceived PA as a necessary tool for the 'proper' management of personnel. Zhu and Dowling's (2002) study argued that many traditional HRM practices in China had changed and there was clear evidence that a more complex and hybrid management model was emerging as a result of increasing levels of marketisation and enterprise autonomy.

Nevertheless, several researchers (such as Warner, 1993; Zhu et al., 2005) conclude that a comprehensive, systematic PA system is difficult to implement in a collectivist society because it is hard to single out an individual who is accountable for results. For instance, according to Chow (2004), China has a far weaker tradition of evaluating performance. Chinese culture places value on harmony and face; and great differentiation between people is uncomfortable and undesirable. Giving feedback in performance review sessions and free expression of views are very hesitant in such high power distance cultures. Employees feel upset and are threatened by negative feedback and weaknesses. Work in collectivist societies does not pay attention to individual achievement but social outcomes, for example maintaining harmony within in-group relationships (Mendonca and Kanungo, 1996). Thus, cultural factors may moderate the PA system (discussion about cultural issues can be found in Section 3.2.3). Another example is that Chinese managers typically set the goals for their subordinates rather than mutually discussing with them. Such action reflects the hierarchical nature of Chinese society (Lockett, 1988), where superiors speak and inferiors listen (Gao et al., 1996).

MNCs / FIBs: What distinguishes Western performance management from the more traditional PA programme is the mutually agreed objectives and regular feedback provided by the manager to the employee (Costigan et al., 2005). Conventional PA allows for the formal exchange of performance-related information once or perhaps twice a year. Western performance management allows the employee to set self-improvement goals in a more participative way and promotes a climate of continuous employee improvement within the organisation through ongoing and accurate exchange of performance related information by the manager to the employee. Knowing how well or poorly one has performed through a feedback mechanism is the key to sustaining performance (Costigan et al., 2005). Another prominent feature of PA practiced by firms in the West is the linkage of rewards to individual performance and staff development. Employees are rewarded for goal attainment and good performance in their jobs. Lawler (2000) claims that linking financial rewards to the PA system can increase the likelihood of this process been taken seriously by the manager and the employee. Hope Hailey (1998) suggests that if the reward system and the training and development system are driven by the misaligned PA, the whole HR system becomes tied into monitoring, rewarding, and developing behaviour that is divergent from the strategy.

4.4.6. Employee Attitude Survey

The existence of a well-functioning feedback system can influence employee perceptions of how firms deal with the situation. An employee attitude survey is a technique with a particularly long history to assess employee attitudes towards management and its policies. In the literature, an employee attitude survey functions as a subtle form of communication (Jacoby, 1988) because it allows management to bypass unions to gather information and stay ahead in the competition for employee loyalty. The use of an employee attitude survey has also been found to be beneficial since using such a survey helps management understand the desires and ideas of employees (Fey and Björkman, 2001). Besides, the survey gives management negotiating advantage during the collective bargaining of salary

issues since the company can safely reject union demand which employees do not support (Jacoby, 1988).

Chinese Companies / LCBs: The employee attitude surveys rarely exist in Chinese companies. Employees' opinions and complaints are channelled through the union. Generally speaking, the participation of Chinese employees has been improved in recent years (Benson et al., 2000), but obstacles still exist in areas, such as the processing of grievances, negotiating employment contracts, and so forth.

MNCs / FIBs: The employee attitude surveys have been adopted in the West for a long time. Developed in the 1920s, attitude surveys were widely used during the late thirties and after World War II to improve employee loyalty and motivation (Jacoby, 1988). The classic example is IBM's worldwide employee attitude survey programme in 40 countries. While the technique benefits employees by bringing their problems to the attention to management, attitude surveys may be difficult to implement in high power distance situation (such as China) in which the opinions of employees may not be encouraged. As the cultural theorists argue (e.g. Bond et al., 1998; Satow and Wang, 1994), if practices and cultural values are not compatible, it is difficult for employees to understand and internalise such practices. The successful adoption of the employee attitude surveys in the banking industry in China is uncertain.

In short, the theory behind the take-up of Western practices, for instance bonus schemes, PA systems, employee attitude surveys etc., derives in part from assumptions that they are somehow 'superior' (Bae and Rowley, 2001). Rewards and performance policies and practices in China (for instance iron chair, egalitarian pay) are, to some extent, different from many Western practices (for example market driven pay, reward on performance) in previous studies. Hence it is worthwhile to further investigate if practice transfer and HRM change (both 'inter-group' change and 'across-time' change) would occur to close the gaps between LCBs and FIBs.

4.5. Training and Development

Training and development can play a crucial role in the international competitiveness (Finegold and Soskice, 1988). Systematic and well-planned training and development typically increases the firm specificity of employee skills, which not only provides the firm with productive employees, but also reduces employee turnover since employees with firm-specific skills may not be able to transfer their skills directly to other firms and be equally productive. According to Ng and Siu (2004), training objectives have three major dimensions, namely: enhancing working relationships, tackling skill deficiencies and developing new skills. After surveying 485 manufacturing firms in Shanghai, they argue that SOEs tend to focus more on skill development, while non-SOEs emphasise both working relationships and skills improvement.

The banking sector provides an interesting example as it has undergone a process of reconstruction. The forces in the world economy, technology advancement and entry of new players, have all necessitated that banks become more international and global in outlook if they are to survive in the market. These changes make HR planning difficult. With increasing cost-consciousness and staff redundancies as a result of credit crunch, banks find it difficult to coordinate the development of their existing staff. Investments in training and keeping abreast of new developments are increasingly linked to profitability and are seen as a competitive advantage (Gould, 1988). There is greater realisation that sustainable organisational competency depends upon its capacity for knowledge management (KM) through the ongoing and continuous process of learning and development (Gratton, et al., 1999; Poon and Rowley, 2008). Nevertheless, the difficulty of keeping up with the rate of change has encouraged many banks to revisit details of their training programmes in terms of what the focus of the training programme is, who the target audience are, how long the programme is, as well as the amount of training resources available.

4.5.1. Details of Training and Development Programmes

Focus: In human capital theory, the focus of training can be classified by broad and narrow training, or general and specific training (Becker, 1975). Broad training refers to the type of training that covers a wide content and scope, and as a result, raises productivity in the firm where it was provided and in the other firms. For example, management training, leadership development or team-building, etc. are examples of general training. By contrast, specific and narrow training refers to the type of training exclusive to the firm, such as technical skills training, company-specific skills. This form only raises productivity in the firm providing it. Provision of specific and narrow training can increase employee dependence on the organisation.

Target Audience: Extensive training and development covering a wider range of employees can reduce expenses associated with hiring people from external labour markets and lower risks associated with high staff turnover (Koch and McGrath, 1996). Nonetheless, providing employee development for wider audiences can be costly and bring negative returns if trainees job hop, are 'poached' or are misaligned with organisational objectives (Rowley and Poon, 2008).

Horizon of Programme: One of the dilemmas faced by organisations is the difficulty of balancing homogeneity in skills with flexibility and adaptability. Another dilemma is the difficulty of balancing autonomy and control. Both dilemmas are reflected in the various methods employed by organisations in training and development. The competing priorities that training and development activities seek to address also reflect the difficulties of balancing short-term needs with long-term requirements.

Resources for Training: Company may use training and development programmes to assist their employees in their career development. When the company provides this service, a sequence of job assignments, coupled with training programmes, will be identified to help employees gain the skills and knowledge viewed as important in the company. While long-term employee development may be an attractive option for larger corporations, not every company will have the resources to do so. Smaller companies with fewer resources may be more selective in committing their resources to developing potential employees.

4.5.2. Training and Development Programmes in China

Chinese Companies / LCBs: Research specifically focusing on training and management development usually reveals the inadequacy of Chinese enterprises' training provision. The observation is that the focus of training programmes is rather narrowly defined (Warner, 1992, 1993) and mostly covers basic skills needed for the operation of technology, but it is lacking in managerial skills training (Lu and Björkman, 1997, 1998). The content of training focuses on technical aspects of a manager's tasks, for example production, operations or quality management, and is not likely to cover people-oriented or conceptual subjects, such as organisational behaviour, strategy, etc. (Borgonjon and Vanhonacker, 1994). In some local companies, training practices are characterised by a lack of strategic planning, low priority in organisational activities and treated as non-core practices (Cooke, 2002). In recent years, managerial training and development has started to become more common in larger companies (Rowley et al., 2004). A number of large LCBs, including PBOC, have organised corporate programmes for their staff (Economics and Information, 1998) and increased training budgets. To what extent have LCBs committed to staff training and development? In what ways do the new training activities improve the inadequacy of employee skills, and thus increase the competitiveness of the banks?

MNCs / FIBs: Recruiting local workers is often an important first step in creating a qualified employee base. Due to the lack of business education in China, MNCs often provide in-house training so that their employees can be productive in a Western business environment. MNCs tackle the shortage of skilled managers by hiring on the basis of potential and then providing on-the-job training and local management development programmes, together with overseas study and assignments (Fraser, 1999; Verburg, 1996; Wong and Law, 1999). The latest development includes the formation of consortia with local universities to offer business development and management education. Since understanding Chinese customers and learning local languages are keys to business expansion in the banking industry in China, many FIBs have their training courses organised by local universities. There is tendency to customise global or regional training and development practices (or *change content*) to fit to local needs.

4.5.3. Employee Self-Development

Self-development is generally promoted as mutually beneficial for both the employee and the organisation. Based on the principles of adult learning (Knowles and Associates, 1984), self-development emphasises choice and self-direction. Aligned to the tenet of HRM, self-development concentrates on the development of the individual rather than the collective. According to Antonacopoulou (2000) and Temporal (1984), from the individual's point of view, self-development can enhance self-confidence and help develop latent abilities which would improve initiative and work performance. This can encourage individuals to be more constructive in their employment relations and motivate them. From the perspective of the organisation (Antonacopoulou, 2000; Temporal, 1984), self-development enables the organisation to keep up with the dynamics of change as it encourages managers to think about change positively and increase employees' commitment to the organisation.

Chinese Companies / LCBs: Employee self-development is a new concept in China. Typically, the training offered by Chinese companies uses traditional development methods based on instruction and systematic training intervention. Experimentation and reflection elements, elements of employee self-development, are rarely included in the learning process.

MNCs / FIBs: Other than business education and training programmes, managers are also encouraged to follow self-learning programmes in some large MNCs. As part of strategic HRM, self-development is used to assist management development and succession planning by clarifying individuals' strengths, weaknesses, expectations, ambitions, preferences and experiences. Selection and promotion decisions may also improve and be more readily accepted by individuals who have contributed towards evaluating their own achievements.

4.5.4. Knowledge Management (KM)

Knowledge is becoming one of the most valuable assets in organisation to sustain its growth. Application of KM facilitates organisations in maintaining competitive advantage through leveraging intellectual capital or knowledge residing in the mind of organisational workforce. Organisational knowledge can be thought of as intellectual capital, including human capital, social capital and corporate capital (Brooking, 1996). All three forms are essential elements of enterprise knowledge. Effective KM requires a supportive collaborative culture to transfer and apply knowledge (Rowley and Poon, 2009) and is heavily influenced by the social settings in which knowledge is embedded and subject to various interpretations based upon organisational norms and social interactions among individuals. The development of a learning culture across the organisation, the sharing of information, and the emphasis of innovation management, are all critical factors in a KM process (Poon and Rowley, 2008).

Knowledge transfer and sharing can be promoted through some HRM initiatives, such as provision of training programmes to wider organisational audiences. The widespread availability of the internet has revolutionised the way organisations train their employees, transfer knowledge, and thus foster a KM culture. Since the financial institutions are operating in a dynamic and fiercely competitive environment, their knowledge has a high rate of depreciation. Past knowledge can soon become obsolete and has limited value for future use. How to share and apply the latest knowledge in time are crucial for both LCBs and FIBs.

Chinese Companies / LCBs: Some studies highlight Chinese employees are unwilling to seek input and learn from others (Child, 1991; Glover and Siu, 2000) because many employees see information as a personal rather than a collective possession (Child, 1991, 1994). Knowledge sharing across departments (or horizontal communication) is not a common corporate culture in SOEs. Although local companies have started to adopt new practices to share knowledge, weaknesses still exist (Cooke, 2002; Lewis, 2003; Tang and Ward, 2002). Organisational inertia can act as a barrier to the full absorption of the changes in KM.

MNCs / FIBs: In the international business situation, knowledge transfer generally involves downloading of technical information from headquarters to local partners in international JVs, or some international managers sending or teaching knowledge while local managers receiving and learning knowledge (Clark and Geppert, 2002). Some forces and trends (for example globalisation, internationalisation, technological advancement) may also trigger transfer of HRM knowledge from Western developed countries to other countries, for example the Asian economies (Rowley and Poon, 2008). Knowledge transfer can be problematic when language is an issue in the international environment (Poon and Rowley, 2008).

To conclude, it is noted that many MNCs have corporate-wide standard modules which call for adherence to parent training and development policies (Ferner, 1997; Ferner et al., 2001). Therefore, it may be difficult for a FIB to tailor to China's training, development and KM needs without any influence of the parent country's systems or to transfer entire practices to local branches without any influence from local practices. To what extent have the global training and development programmes been transferred to China's subsidiaries or been modified to suit institutional needs (i.e. 'intra-group' change)? These questions are explored in this study.

4.6. Conceptual Framework

Chapter 2 has highlighted the importance of including contextual factors in the analysis of HRM study. Ignoring contextual factors may lead to specification errors in models used to predict HRM (Becker and Gerhart, 1996). The effectiveness of a HRM system depends on the extent to which HRM practices are compatible with the unique organisational characteristics.

4.6.1. Second Research Question

Therefore, the second research question is

Research Question 2: *Which contextual factors relate to change in HRM in LCBs and FIBs?*

The second question examines the *change relationship* between HRM and other factors. It is argued that institutional perspectives and cultural factors are critical in explaining why LCBs and FIBs differ in their propensity to adopt other HRM practices. The degree to which new HRM models are implanted can be constrained by the cultural heritages and institutional preconditions of Chinese organisations, reflected in the characteristics of firms (Ding et al., 2000). Of the several organisational characteristics, firm size, nationality and firm age have been empirically tested in the context of Chinese enterprises regarding the transformation of HRM practices in China (for example Ding et al., 2000; Zhu and Warner, 2004). In addition, firm ownership is likely to exert effects on management practices (see Ding and

Akhtar, 2001; Lu and Björkman, 1997; Zhang and Parker, 2002). Since all companies in the study are from the same banking industry, the variable 'industry' or 'sector' is excluded from the proposed framework. Location effect, reflected by branch network and number of branches, is controlled for company effect. Table 4.5 shows the various contextual factors and control variables relevant to HRM practices in China. The existing literature has recognised some contextual factors, but has not brought them together explicitly and modelled the influence of those factors on HRM practices transference and adoption. Shen et al. (2005) also recognise that research into HRM has tended to focus on the relationship between single factor and HRM policies and practices, without building a comprehensive and integrated model. The research contribution is, therefore, to address this gap.

Table 4.5: Recent Studies on Factors Affecting HRM Practices in China

Contextual Factors	Recent Studies on HRM Practices
Business Scope	Vanhonacker and Pan (2001)
Company Nationality	Ngo, Turban, Lau and Lui (1998) ; Yan (2003)
Culture	Vanhonacker and Pan (2001); Shen, Edwards and Lee (2005)
Firm Age	Björkman and Fan (2002); Ding and Akhtar (2001)
Firm Objective	Zhang and Parker (2002)
Firm Performance	Björkman and Fan (2002); Deng, Menguc and Benson (2003); Li (2003); Ngo, Turban, Lau and Lui (1998)
Firm Size	Björkman and Fan (2002); Ding and Akhtar (2001); Lu and Björkman (1997); Ngo, Turban, Lau and Lui (1998)
Firm Strategy	Ding and Akhtar (2001); Lu and Björkman (1997); Shen, Edwards and Lee (2005)
Location	Ding, Akhtar and Ge (2006); Vanhonacker and Pan (2001)
Firm Ownership	Ding and Akhtar (2001); Lu and Björkman (1997); Zhang and Parker (2002)
Role of Managers	Wright and Snell (1991)*

Source: developed for this research

** Not specific for China*

Figure 4.6: Conceptual Framework of the Study



Source: developed for this research

The process of transfer and adoption of HRM practices is a complicated one as it requires a balance between global integration and local customisation. A single theoretical framework may not be sufficient to explain the process, especially if the study involves a two-way comparison. An eclectic approach can overcome the drawback by integrating various theoretical approaches that indeed complement each other. As the eclectic approach enables a more detailed investigation of the process, a conceptual framework consolidating ideas from the literature and aspects of various studies is constructed (Figure 4.6). Using a conceptual framework is useful to integrate various elements and give more parsimonious explanations of HRM change and development in China.

A descriptive research design is employed for the second research question. The purposes of a descriptive study are to find out what events have occurred, describe a distribution, or make comparisons (Churchill, 1995) (see Section 5.3.1 for more discussion about descriptive research). The framework of the current study includes four elements: HRM areas (see previous Sections 4.3 to 4.5), contextual factors, control variables, and time effects. The framework is used to describe which contextual factors are related to the event, i.e. HRM change. Since the framework includes the complete system of context, HRM areas and outcome construct, analytic weaknesses inherent

in examining individual dimensions of HRM areas in isolation can be avoided (Becker and Gerhart, 1996; Judd and McClelland, 1995).

4.7. Contextual Factors

4.7.1. Firm Size

Firm size affects ownership structure and agency relationships (Aldrich, 1979) as well as capability to handle the task environment. Nevertheless, the relationship between size and structure is not linear. Size becomes less important as the organisation expands and influences structure at a diminishing degree (Robbins, 1998). According to Tannenbaum and Dupuree-Bruno (1994), size can bring economies of scale but can also be a hindrance to the firm's ability to interact with the environment.

Previous studies (e.g. Björkman and Fan, 2002; Ding and Akhtar, 2001; Ngo et al., 1998) prove that firm size relates to recruitment, rewards, training and retention. A positive relationship is found between firm size and pay levels because larger firms generally tend to have more resources and can afford to pay higher compensation offer. In addition to simply influencing the resources available for reward practices, the greater resources also suggest that larger size will allow for more extensive resourcing and retention efforts. From a resource perspective, smaller firms are more likely to mimic others rather than invest limited resources in developing different practices.

Besides affecting HRM practices, firm size can have an influence on the HRM change process. The larger the size of firm, the more cumbersome the organisational structure, and hence greater organisational inertia to change that may be encountered (Ding et al., 2000). Large SOBs are often burdened with more non-performing loans and the barriers to HRM change in large banks tend to be higher than in small banks. Small banks have strategic and operational flexibility and can adapt to new HRM practices more easily (Park and Luo, 2001).

Chinese Companies / LCBs: In China, most large firms are descendants of the old planning system. Prior to the reforms, it was the state that determined the scale of a firm. Larger firms face a more complex environment and have more functional areas and people to coordinate in order to achieve alignment (Wei and Lau, 2005). Large Chinese firms tend to lack competitive and entrepreneurial mindsets to change because of government protection.

In the banking industry, the Big Four SOBs are often burdened with a high portion of non-performing loans. Therefore, the barriers to people development and HRM change tend to be higher than in small banks. On the other hand, the Chinese government has put particular emphasis on reforming and reactivating the large banks and has listed many large SOBs and NCBs in the stock markets. In this sense, large banks tend to have more formal organisational structure, including relatively complete HRM departments that implement HRM policies and practices.

MNCs / FIBs: As discussed in Chapter 2, MNCs can use an ethnocentric, polycentric and geocentric strategy to balance global integration and local adaptation (Caligiuri and Stroch, 1995; Dowling, 1989). Sorenson and Wiechmann (1975) suggest that large MNCs are more likely to adopt a universal practice (i.e. an ethnocentric strategy) because this strategy helps them keep their competitive advantages over other MNCs and local market competitors. Small MNCs, however, may modify their HRM for the host market to avoid competition (i.e. a polycentric strategy).

The world's top five banks in 2006 were Citibank, Bank of America, HSBC, JP Morgan Chase and Mitsubishi. They were the largest ones in 2006 in terms of number of employees, market capitalisation, capital and assets size (Banker, 2006). These largest banks all have a presence in China's banking industry. The intensified competition as the result of the enhanced globalisation of the Chinese economy has created high demand for qualified managers and professionals. In competing for human talent, large banks

would leverage their resources globally to recruit, reward, train and retain locally the much needed professionals. Nevertheless, those top five banks only have small local operations in China and hence have little bargaining power with, and support from, the Chinese government (Perkins, 1994). Small size may give them some operational flexibility and allow them to be able to design a more customised HRM approach in accordance with the needs of local market.

How to Measure Firm Size: There are several ways to measure firm size, such as by asset size, headcount, turnover, etc. Ding et al. (2000) point out that the number of employees has an influence on the pace and magnitude of adoption in HRM practices and can shape the nature of the workforce. Other measures, such as asset size or turnover, do not hold any direct effect on the people factor on HRM changes. Since headcount factors can mould the nature of the workforce and management practices (Björkman and Fan, 2002; Leung and Young, 2002), number of employees working in the bank can be a good measure of firm size. The number of permanent employees in LCBs' local branches and FIBs' local branches are collected in this study.

4.7.2. Firm Nationality

The second variable is about the culture reflected in company nationality, i.e. where the bank headquarters is. The assessment of national cultural impact is in line with many previous studies (Ferner and Quintanilla, 1998; Ngo et al., 1998; Yan, 2003).

There are two main schools of thought concerning the effect of firm nationality on HRM change. Scott (1995) indicates that firm nationality can tie the company's practices to a set of international institutional expectations and regulations. Such national institutions may possess mandatory powers to enforce certain organisational arrangements that are based upon strong cultural and social values of the home country. National models of organisation emphasise that the inertia of recruitment, training and ingrained management practices are embedded within distinct business systems

(Whitley 1998, 2000) and culture (Hofstede, 1991; Yan, 2003). Therefore, the firm nationality of an organisation can impact on the available organisational choice in HRM system design. In addition, organisational members may have certain expectations about HRM practices of the firm given its firm nationality; these expectations, in turn, could influence the effectiveness of HRM in the local environment (Ngo et al., 1998).

The second school of thought stresses the idea that companies may evolve and change their characteristics from the cultural preferences and embedded institutions inherited from their home countries (Pauly and Reich, 1997). Technological development and keen competition can be the driving forces in this process. As the world economy becomes increasingly more globalised and integrated, scholars have questioned the importance of firm nationality effects for strategic choices and HRM decisions (Mayrhofer, 2004). Some researches (Ngo et al., 1998; Yan, 2003) have concentrated on how organisations transcend national boundaries and localise their technological resources and management expertise to indigenous isomorphism. The influence of firm nationality on HRM areas remains to be clarified.

How to Measure Firm Nationality: In the context of international business, firm national origin implies that business institutional foundations in different nations comprise the state, the legal governance and the financial and economic systems (Anthony and Quintanilla, 1998). The magnitude and detail of national institutional influence on MNCs can be used to predict a company's adoption of HRM practices (Gamble, 2000).

In the banking industry, banks from North America and from Japan may, for example, vary by their HRM activity. FIBs in China come from around 20 countries (for instance North America, France, Hong Kong, Japan, Taiwan, United Kingdom, etc.). To capture the effect of firm nationality, the analysis in this study groups banks into the four broad national cultural categories of American (including North American countries only), European, Asian and local Chinese (i.e. local Mainland Chinese). This firm nationality classification is based on Scott's work (Scott, 1995) which has been widely adopted by many studies. For instance, Yan (2003) uses this classification for studying JVs in China; Ngo et al. (1998) use a similar classification when reviewing MNCs' performance in Hong Kong; Faulkner et al. (2002) modify it when evaluating national HRM practices in mergers and acquisitions cases in the U.K.

The major characteristics of cultural categories and related HRM practices are as follows.

1. American business culture places a strong emphasis on the achievement of financial results (Lawrence, 1996a, 1996b). The most important criteria for resourcing and rewards in American companies are personal achievement, commitment and creativity (Ferner and Quintanilla, 1998). The use of sophisticated management and information-reporting systems is also highly accentuated and implemented by the employment of trained managers (Chandler, 1980).
2. European companies have been marked by a relatively long-term approach to business and featured long-term relations with employees, suppliers and banks (Brewster, 1995). Companies tend to look for candidates with similar traits in formal selection procedures (Barsoux and Lawrence, 1990). Technical training is strongly emphasised within all training activities (Locke, 1989).
3. Management style in Asian companies is associated with the view that employees are members of the company family. Emphasis on relationship rather than on personality assessment in formal recruitment practices has exerted considerable influence on HRM activities (Bond,

1996). Flexibility and low cost approaches mean commitment to training is invariably low (Chen, 1995; Redding, 1990).

4. Chinese corporate culture emphasises the social situation and context. Hierarchical structure, relationship interdependence and centralised party decision making have exerted considerable influence on HRM practices (Bond, 1996; Weber et al., 2004).

4.7.3. Firm Age

Firm age is also an important determinant of transfer and adoption of HRM practices. Organisational history can affect values and beliefs that have developed over time and reflect the institutional managerial attitudes and beliefs (Baker and Cullen, 1993). According to organisation ecology, inertia is a prevailing property of organisation evolution, and therefore, older organisations retain most of basic attributes of their early forms (Freeman et al., 1983) and are entrenched with bureaucratic rules and systems (Eisenhardt, 1988). When practices and policies have been used for a long time, they become path-dependent within organisations (Collis and Montgomery, 1995). Thus, the longer the practices are used, the lower the likelihood that the organisations will change the practices. This is similar to Lewin's (1947) planned model which views change process as slow, repetitive and influenced by management. In a life-cycle of an organisation, firms at the earlier stage tend to be more proactive in searching for competitive resources for their survival and growth. It takes time for an organisation to acquire institutional legitimacy among its members and become valued in its own right (Freeman et al., 1983; Kuilman and Li, 2006).

Chinese Companies / LCBs: Before the reforms, Chinese danwei provided a wide range of benefits for their employees; and lifetime employment was the dominant approach. Firm age indicates how long the organisation has provided those long-term benefits for employees. The older the organisation, the more resistance there is from employees to reducing the benefits. As mentioned in Section 3.4, SOBs had been dominating the banking industry for a long time. Besides, a long company history tends to relate to more traditional management practices and deeply embedded institutional habits, and thus greater barriers to change towards modern HRM practices (Fields et al., 2000).

MNCs / FIBs: The age of the banks is mostly correlated to ownership types. The history of FIBs (see Section 3.4.2) in the banking industry started in 1982 after China embraced its open-door policy (Kuilman and Li, 2006). These younger organisations are more flexible in choosing the modes of operations and adapting to market needs. Their main goal is maximizing profits instead of serving society, which is the goal of SOEs (Park and Luo, 2001).

How to Measure Firm Age: In this study, firm age is measured by the year of establishment of the bank in China. Similar definitions of firm age can be found in many previous research studies (for example Björkman and Fan, 2002; Ding and Akhtar, 2001). To ensure a fair comparison, in the case of FIBs the number of years is counted from the date a FIB got the license to operate in China, but the number of years operating in its home country is not included.

4.8. Control Variables

Although SOBs, NCBs and FIBs may show variations in HRM areas, they are ultimately coming from the same banking industry. To control for company effects, two control variables, branch network and firm ownership, are introduced. These control variables help interpret the results of the correlation.

4.8.1. Branch Network

Branch location and network are important contextual factors in the banking industry. The location can influence HRM practices in China because of the opportunities and constraints of the external operating environment (Ding and Akhtar, 2001). For example, the degree of openness and exposure to modern systems at different locations can affect HRM practices in terms of resourcing and rewards (Ding et al., 2000). Recruitment of skilled labour can be difficult in the cities of Shanghai and Beijing (Vanhonacker and Pan, 2001). Moreover, the attitudes of local government towards foreign investment can hamper or aid management practices (Vanhonacker and Pan, 2001).

Chinese Companies / LCBs: SOBs have a mandated obligation to provide banking services in all areas of China. Thus, they are required to operate even in unprofitable rural areas. The extensive branch network gives SOBs access to more retail customers, which is an advantage over NCBs and FIBs, which have only a limited presence in some cities.

MNCs / FIBs: FIBs can pick and locate in high profit areas (Jiang et al., 2003). Large MNCs (i.e. commercial clients) tend to concentrate their investments on coastal and southern regions. Having branches in major coastal cities can facilitate foreign trading and exchange banking services with commercial clients.

How to Measure Branch Network: Branch network is measured by the distribution pattern of branches (that is whether they are located in major cities) and the number of branches. A similar definition of location can be found in Ding et al.'s (2000) research.

4.8.2. Firm Ownership

The transfer and adoption of HRM can by affected by the ownership structure in a number of ways. The strategic orientations of the parent company (the so-called 5-P model of strategic HRM: philosophies, policies, programmes, practices and processes) (Schuler, 1992; Zhu et al., 2007) can affect the adaptation of HRM systems in the subsidiaries. Besides, institutional theory (see Section 2.2.3) predicts that as social entities seek approval for their performance, companies may use HRM practices to help them gain legitimacy and acceptance (Jackson and Schuler, 1995, 1999). In this sense, SOEs, as state representatives, are under more pressure to conform to legal regulations concerning labour relations. In addition, some studies (such as Peng and Luo, 2000) show that local firms with partial or full foreign ownership (whether in the form of JV or equity investment) focus more on firm performance than completely owned by domestic enterprises do because foreign capital is viewed as injecting efficiency and competitiveness (Liu et al., 2000). By absorbing foreign investment, local companies gain access to new capital, technology, international markets as well as foreign management practices (Peng, 2000; Walters and Zhu, 1995) and may eventually lead to change in their HRM practices.

Chinese Companies / LCBs: Recently, some NCBs have partnered with FIBs to form JSEs and started to run the companies on market mechanisms (Chen, Dietrich and Feng, 2000). Equity investments by MNCs are also found in SOBs. Firstly, the proportions of foreign stakes are increasing. In some cases, foreign stakes even touch the 25 percent ceiling. Foreign ownership would have been even higher without the regulations. Secondly, the acquisition cases involve a great variety of foreign institutions, ranging from multinational banks to specialised commercial banks or government investment institutions (Table 4.7). Thirdly, foreign equity acquisition in recent years has touched upon almost all categories of LCBs: large SOBs (the Big Four), NCBs, and city and rural banks. The sizes and geographical locations of these commercial banks differed greatly.

Furthermore, the market share of SOBs has declined because of the entry of local non-SOBs and FIBs. The Chinese government allowed public listings of three SOBs and nine NCB on the Hong Kong Exchange and the Shanghai Stock Exchange. Public listings represent a change in firm ownership. Table 3.10 in Chapter 3 highlights those listing cases. Frequent interactions with competitors and public listings facilitated LCBs (both SOBs and NCBs) to learn new management initiatives. Public listings might encourage the creation and adoption of institutional rules governing acceptable behaviour and exerting pressure.

MNCs / FIBs: Currently, all FIBs are all in the form of wholly-owned foreign enterprises (WOFEs). JV up to 33% foreign ownership were allowed after 2006 (see Table 3.7 for the WTO Agreements). No FIBs have yet applied for JV ownership. RO was also used when FIBs first registered in the banking industry. ROs provide introductions, contracts, and service promotions for the parent banks. However, ROs are prohibited from engaging in any banking services, and thus ROs are not included in the present study.

Although JV ownership has not been found in China's banking industry, equity acquisitions are becoming popular. Some FIBs use these as another way to enter the Chinese market. Compared with branch expansion, equity acquisitions have some advantages. Some large international banks have tried to gain their stronghold through their branches in leading Chinese cities and penetrating into other parts of China through equity partnerships with LCBs. They targeted LCBs which have either geographical significance or an existing degree of national coverage. FIBs benefit from a good complement of business networks, market information and public relationships. Some FIBs are also trying to participate in the management of their respective LCBs and exert influence on the business development.

Table 4.7: Foreign Equity Investments in LCBs

Ownership	Name of LCB	Year	Name of Foreign Investors	Percent of Ownership
State-owned Bank (Big Four)	Bank of China	Aug 2005	• Royal Bank of Scotland • UBS • Asia Development Bank	15.00%
	Construction Bank of China	Jun 2005	• Temasek Singapore • Bank of America	5.10% 9.10%
	Industrial and Commercial Bank	Aug 2005	• Goldman Sach Allianz • American Express	10.00%
Non State-owned Bank (National Bank)	Bank of Communications	Aug 2004	• HSBC	19.90%
	China Everbright Bank	Oct 1996	• Asia Development Bank	3.29%
	China Huaxia Bank	Sep 2005	• Deutsche Bank AG	No information
	China Minsheng Banking	Nov 2004	• Temasek Singapore • IFC	4.55% 1.08%
	Fujian Industrial Bank	Dec 2003	• Hang Seng Bank • IFC • The Government of Singapore Investment Corporation	15.98% 4.00% 5.00%
	Shanghai Pudong Development Bank	Dec 2002	• Citibank	4.62%
	Shenzhen Development Bank	Dec 2004	• Newbridge Investment	17.89%
City and Rural Bank	Bank of Beijing	Mar 2005	• ING • Deutsche Bank AG	19.90% 5.00%
	Bank of Shanghai	Sep 1999 Dec 2001	• IFC • HSBC • Shanghai Commercial Bank	7.00% 8.00% 3.00%
	Bohai Bank	Dec 2004	• Standard Chartered Bank	19.99%
	Dalian City Commercial Bank	Oct 2005	• Bank of East Asia	No information
	Haerbin City Commercial Bank	Apr 2005	• IFC	No Information
	Hangzhou City Commercial Bank	Apr 2005	• Commonwealth Bank of Australia	19.9%
	Jinan City Commercial Bank	Nov 2004	• Commonwealth Bank of Australia	11.00%
	Nanchong Commercial Bank	Jul 2005	• DEG • Germany Saving Bank	10.00% 3.30%
	Nanjing City Commercial Bank	Nov 2001	• International Finance Corporation • IFC	15.00%
	Ping An Bank	Mar 2004	• HSBC, Ping An of China	No information
	Qingdao International Bank	Oct 2003	• Hana Bank	50.00%
	Xian City Commercial Bank	Jan 2004	• IFC • Royal Bank of Canada	12.50% 12.40%

Source: García-Herrero et al., (2006), Industrial Map (2006)

How to Measure Firm Ownership: Type of owner can be classified as state / government, non state / non government, and private companies. SOBs are coded as 1, non SOBs as 2 and private-owned as 3 in the data analysis. Besides, public listing in the stock market, whether in China, Hong Kong, or overseas, is also considered.

4.8.3. Time Effect

Since HRM change is a dynamic concept as opposed to a static phenomenon, an investigation of a period of time is important to show the evolution of HRM practices and interaction with other factors. Time effect has twin elements, age effect (change over time within individuals or companies) and cohort effect (difference in individuals or companies in their baseline values) (Zeger, 2002).

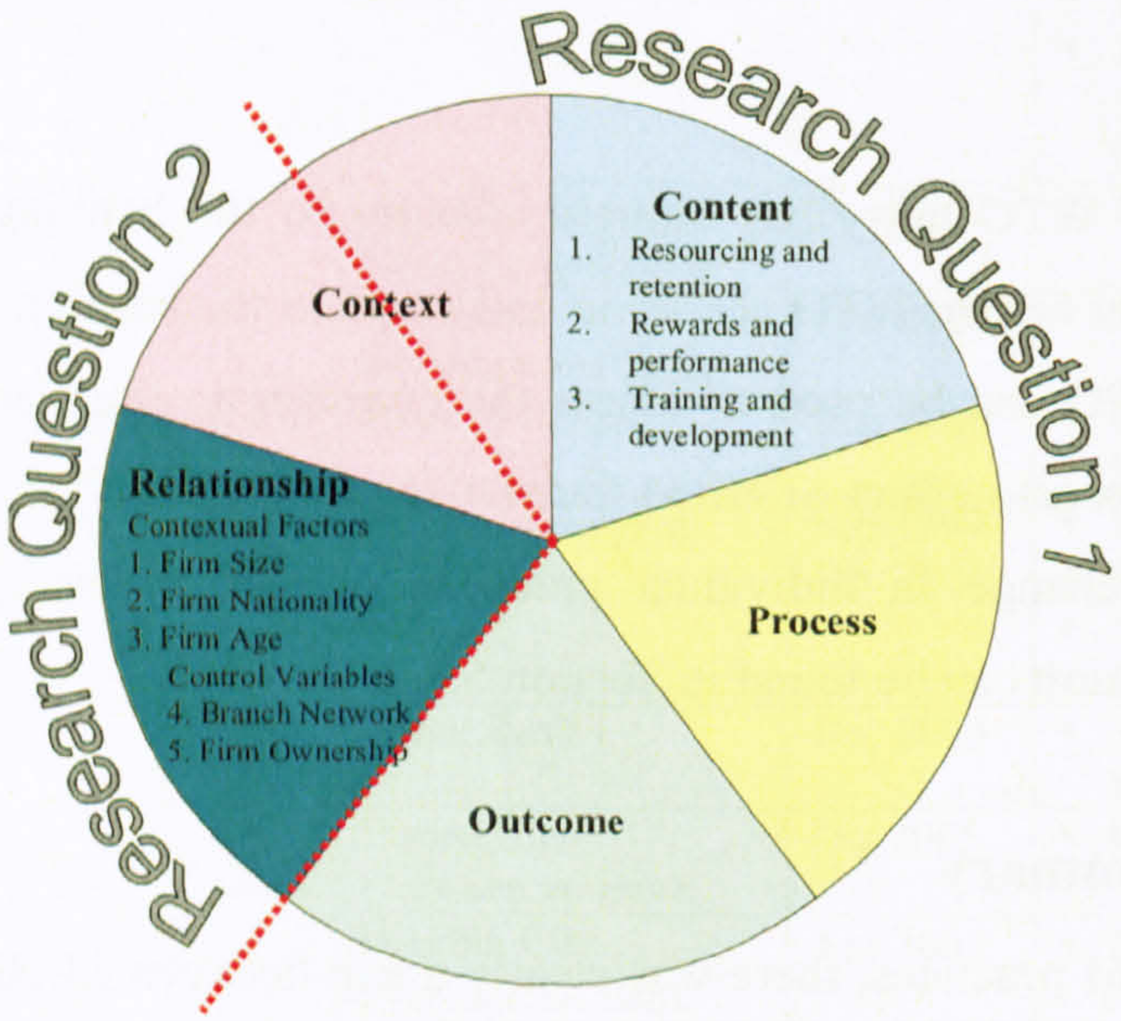
Since the impact of the WTO entry has brought changes to the banking industry in China, the year before WTO accession can be set as the baseline. The period after the WTO can be used to assess the cumulative effect in HRM change. The aggregate effect of HRM transfer for the industry as a whole as well as the change in individual practices can be precisely measured. More discussion can be found in Section 5.3.3.

4.9. Chapter Summary

Reviewing previous HRM practices, there was clearly a gap between LCBs and FIBs. The literature points out that some HRM practices are less culture-bound and exhibit little variability across countries. If this is the case, LCBs and FIBs should change their HRM practices to resemble each other. If so, which HRM areas have been transferred and adopted? Have the labour reforms and subsequent devolution of administrative power from the central government to companies given LCBs the discretion to change their HRM practices? In what ways have Westernised HRM policies brought by FIBs presented new challenges to LCBs to develop, reward, resource and retain employees? If HRM changes have indeed occurred, which contextual factors facilitated these changes?

To address these issues, this study has two research questions: to evaluate if LCBs and FIBs operating in China are changing their HRM practices towards, or from, each other, and to examine which contextual factors relate to such HRM change. These research questions consider who has initiated the change from both LCBs' and FIBs' perspectives (from different directions: inter-group, intra-group and across-time changes). This research attempts to solve the issues about what HRM areas have change occurred (*content*), why such changes have occurred (*context*) in relation to contextual factors *(relationship*), as well as to how the banks have changed their HRM practices (*process*) and the resulting direction (*outcome*) (Figure 4.8).

Table 4.8: Questions and Issues of Current Research



Source: developed for this research

The particular HRM areas under investigation are resourcing and retention, rewards and performance, and training and development. The contextual factors previously tested to be related to Chinese enterprises and included in this study are firm size, firm nationality and firm age. To control for industry effect, branch network and ownership are introduced. The next chapter explains the research design, the research strategy and the data collection methods to answer the research questions.

5. Research Design and Methodology

5.1. Chapter Introduction

The previous chapter has discussed the research questions and conceptual framework of this research. This chapter outlines the research design and data collection methods. A research design provides a framework for data collection and analysis, while a research method is a technique for collecting data. The choice in research design reflects decisions about the priority given to a range of dimensions in the research process. The research methodology is initially formed by the posed research questions, the nature of the research issues, the control the researcher has over the events and the current state of knowledge. While this research is exploratory in nature, it also seeks to describe the relationship between HRM areas and contextual factors. The research questions and issues posed in Chapter 4 form the basis upon which the research design and methodology is developed.

This chapter first describes the research paradigm of this study (Section 5.2). Further evidence is provided for supporting the appropriateness of the research design (Section 5.3). It discusses in the subsequent sections the areas of sampling strategy (Section 5.4), data collection methods (Section 5.5), data management (Section 5.6) and tests for data quality (Section 5.7). Ethical considerations are given at the end (Section 5.8).

5.2. Research Paradigm

Before talking about what research design is used in the study, it was important to understand the research paradigm on which the design is based on. A paradigm is the underlying assumptions and intellectual structure upon which a research in a field of inquiry is based (Kuhn, 1962). It contains the rules and standards for gathering knowledge and the framework which guide the researcher in the investigation processes (Guba, 1990; Perry et al., 1999). Several researchers (for example Denzin and Lincoln, 2005) have clarified the functions of a paradigm as to (a) reflect how the world works, how knowledge is extracted from this world, and the relationship between the researcher and the known (epistemology position); (b) define

the types of questions to be investigated and the methodologies to be used (ontology position); (c) structure the world with meaning and significance (methodology). In other words, the research paradigm can influence what should be studied, how research should be done, and how results should be interpreted (Bryman, 1988).

There are two major positions for a research paradigm, epistemology and ontology. In general, an epistemological position is concerned with what is regarded as acceptable knowledge in a discipline. A central issue in this position is the question of studying the social world with the same principles, procedures and ethos as those in natural science (Durkheim, 1982). An ontological position, on the other hand, is concerned with the nature of social entities: can social entities have a reality external to social actors. The research question is built up from the perceptions and ideas of the social actors (Popper, 1962). Cheng (2003) argues that there is no equivalent Chinese epistemology in precisely Western terms. Chinese philosophy differs according to the schools of thought, from epistemology in Confucianism (consisting of a unity of reality and reason, knowledge and action), to ontoepistemology in Zhouyi (having faith in a reality that preludes scepticism) and to ontocosmological in Daoism (meaning a multiple-ordered world or universe of culture and ethics). Cheng (2003) concludes that to study Chinese philosophy and management practices, Chinese epistemology, dominated by an ontoepistemology with the universe and shared experience, can provide an integrated perspective that is known as 'realism' in the West. In Western philosophy, realism stresses that through the use of appropriate data collection methods, social structures and actors can be understood. Although the structures of external reality may not be apparent in the observable pattern of events, it can still be identified through practical and theoretical research work (Bhaskar, 1989).

It is, therefore, argued that realism is a suitable research paradigm for this study of HRM changes in China. First, past studies of management in China are generally characterised by lack of Chinese theory. The trend of

forcing Western theory and paradigms to fit into the Chinese context may not be ideal (Poon and Rowley, 2007). The introduction of a Chinese research paradigm can allow broader theorisation. For example, Chinese Daoists insist that the rhythm and regularity of human community is embedded in the cadence and flow of natural environments (i.e. the reality) (Hall and Ames, 1998). Hence, any particular event or phenomenon must be understood by mapping out the most appropriate paradigm which collaborates to sponsor it. Imposition of an inappropriate paradigm can be problematic. Chinese ontoepistemology seeks to understand reality from multiple theoretical perspectives. As such, multiple data collection methods, various research approaches and several change theories are considered in the current study.

Second, many contemporary areas of international HRM, such as the transfer of global policies or adoption of practices, are complex and imprecise, with no established constructs and principles (Perry et al., 1999). Research on international HRM is often more promising when conducted under, or within, a realism paradigm (Perry et al., 1999). The Chinese ontocosmological view stresses that people are always seen in interrelation to the experiences of nature and their actions are shaped with situations. Hence, throughout the research, the information collected from participants (people) will be analysed in the context of the environment (cosmos).

Third, the degree of change in management practices is embedded in company philosophy and affected by the reality, such as cultural, economic and institutional paradigms, in which the company operates (Yin, 2003). Critical realism accommodates the analysis of such complex situations in reality when people, relationships, time and events are all involved. While HRM change is a reality, it is not simple and straightforward. Farh et al. (2000) argue that the Chinese way of change is strongly relational, or so called 'guanxi (relational networking)', and the West way is essentially analytical and synthetic. While the Western literature also acknowledges the role of social relations, the issue is whether the notion of relations carries

the same meaning in China as in the West. Relational networking based on interpersonal connections (Farh et al., 2000; Warner and Zhu, 2002; Wright et al., 2002; Xin and Pearce, 1996) can affect substance and contextual setting in the change process. The inclusion of Chinese paradigm helps this study understand the impact of the contextual factors during the change processes.

5.3. Research Design and Approach

5.3.1. Research Design: Exploratory, Descriptive and Causal

A research design is a master plan of the research strategies and methods and is used to guide the data collection and analysis tasks of the research (Zikmund, 2000). This research design ensures that a research study is relevant to the research problems. Research designs can be classified into three categories by research purpose: exploratory research, descriptive research, and causal research (Burns and Bush, 1995). These three research categories can be viewed as a continuous process (Churchill, 1995), commencing with exploratory research, then descriptive research and finally causal research (Burns and Bush, 1995).

Beall (2002: 26) defines an exploratory research design as 'potentially useful knowledge-building in a new or lonely area'. The term 'exploratory research' typically implies extending studies into uncharted ground or initiating research in novel areas, but hardly ever does this actually occur. More commonly, it refers to the research design that follows accepted paths where others have trodden and worked in popular areas (Beall, 2002). It is used when the researcher aims at gaining background information, clarifying problems, or exploring a new topic (Churchill, 1995; Zikmund, 2000).

When the researcher is interested in describing a phenomenon, measuring variables identified, or understanding their relationships, a descriptive research design is then employed (Churchill, 1995). Survey research aimed at description asks about the distribution of some phenomena in a group. Analysis stimulated by a descriptive question is meant to ascertain fact, not

to test a theory (Pinsonneault and Kraemer, 1993).

To test theory and causal relationship between variables, a causal research design is more appropriate. The central research question in a causal research design is: 'does the hypothesised causal relationship exist, and does it exist for the reasons posited?' (Pinsonneault and Kraemer, 1993). Table 5.1 summarises the key characteristics of the three categories of research design.

Table 5.1: Characteristics of Research Designs

Research Design	Key Characteristics	Main Purpose of the Research	Commonly Used Methods	Main Limitations
Exploratory Design	• Is not intended to provide conclusive information from which a particular course of action can be determined • Provide answers to 'what' and 'how' questions	• Gain background information about research problems • Explore a new topic • Define terms and concepts	• Qualitative research methods, for example focus group, interviews, ethnography	• Non-representative, non-systematic due to qualitative research
Descriptive Design	• Formal and structured studies • Help evaluate courses of actions • Provide answers to questions, such as who, what, when, where, when and how	• Describe a phenomenon • Measure variables • Identify relationships among variables	• Quantitative research methods, for example questionnaire, survey, secondary data	• Only describe but cannot explain associations among variables
Causal Design	• Formal and structured studies with the use of scientific methods • Allow researchers to investigate changes in one variable while manipulating other variables under controlled conditions • Provide answers to 'why' questions	• Explain phenomena • Know causal relationships among variables	• Quantitative research methods, especially experimental research	• Complex processes, expensive, time-consuming • Never know all the relevant information necessary to prove causal linkages

Source: Churchill (1995); Pinsonneault and Kraemer (1993); Zikmund (2000)

In this programme of research, multiple designs are used. An exploratory research design is considered appropriate for the first research question owing to the fact that there has been limited prior theory about change in HRM areas in China (see the first research question in Section 4.2.3). Exploratory research is used to discover information about the degree of change in HRM areas. A descriptive research design is then used to describe the relationship between the contextual factors and HRM areas. The descriptive research design is suitable for the second research question because the purposes of such descriptive study are to find out what events have occurred, describe a distribution, or make comparisons (see the second research question in Section 4.6.1). A causal research design is not employed as it is not the purpose to test the causal relationship between the factors and the researcher cannot manipulate the variables under controlled conditions.

5.3.2. Research Approach: Quantitative, Qualitative & Triangulation

While some researchers (Guba and Lincoln, 1994) say that research paradigms and designs, and thus research approaches, are competing and cannot be integrated, other researchers (Bryman, 2004; Burgess, 1991) view different research approaches as complementary in different situations. The two major approaches are qualitative research and quantitative research. Qualitative research usually involves an in-depth understanding of human behaviour (Bryman, 2004; Seale, 2004). By contrast, quantitative research can be construed as a research approach that emphasises quantification in the collection and analysis of data (Bryman, 2004; Seale, 2004).

Typically, an exploratory research design requires qualitative research approaches, for example, exploratory interviews, focus groups, etc. There are, however, studies that use quantitative research approaches to conduct an exploratory research. For instance, Ahlbrandt (1977) collected secondary data from mortgage loans of the banks and utilised a model to explore the phenomenon. On the other hand, a descriptive research design using quantitative data may lack the thick description to interpret the meaning of events and fail to connect to the everyday context (Bryman, 2004). It is important to realise that it is not a question of whether quantitative research is better than qualitative research or vice versa. It is which approach is more relevant to the research question and the context of investigation (Gable, 1994).

Therefore, instead of being confined to a particular research strategy related to one paradigm or research design, this study incorporates the use of both qualitative (like exploratory interviews and employee interviews) and quantitative (like archival record analysis) approaches to gather and analyse information. The justification for using both approaches is that qualitative research is more aligned with the critical realism paradigm and adopts assumptions about social life, relationships and objectives that are not precise in discrete boundaries (Neuman, 2006; Yin, 2003). Given the nature of the research question and the complex influences on HRM areas, the use of qualitative research can enable the researcher to explore the dynamics of organisational micro-politics, evaluate the influence of institutional constraints, and assess the subtle interactions among HRM, structure, strategy and culture. In additional, quantitative research is also employed because of some objectivity and rigorousness involved in the research methodologies and data collection (Denzin and Lincoln, 2005; Neuman, 2006). The analysis of quantitative statistics is useful in revealing patterns and refining research questions. In other words, a triangulation research approach is employed.

Triangulation entails more than one method or source of data in the study of social phenomena (Denzin, 1970). Patton (1987) identifies four types of triangulation in doing research: (a) data triangulation collecting multiple data sources; (b) investigator triangulation using different researchers; (c) theory triangulation applying the same data set to different perspectives; and (d) methodological triangulation employing multiple modes of methods. Triangulation enables the weakness of any one method to be compensated for by the strength of another method (Singleton, 1999), allows cross-checking of the findings using different data sources (Denzin, 1970), and facilitates comparing and contrasting conditions.

Data triangulation is achieved in this study by collecting data from multiple data sources, such as in-depth company interviews, employee interviews, census, statistics and companies' reports, while methodological triangulation is achieved by using exploratory interviews, employee interviews and archival records analysis as the modes of methods. The strengths of such an approach are in terms of having qualitative data to enrich the description and using quantitative data to refine the framework. While a triangulation approach has certain advantages, it is criticised because every method constitutes the issues it seeks to investigate in a specific way and contradictory findings are likely to emerge with each method (Silverman, 1985). Bryman (1992) also questions whether quantitative and qualitative research approaches can tap the same things even when they are examining apparently similar issues. Therefore, throughout the research process, special care is taken to re-examine combined data and assess multiple methods purposefully. More discussion can be found in Section 5.7.

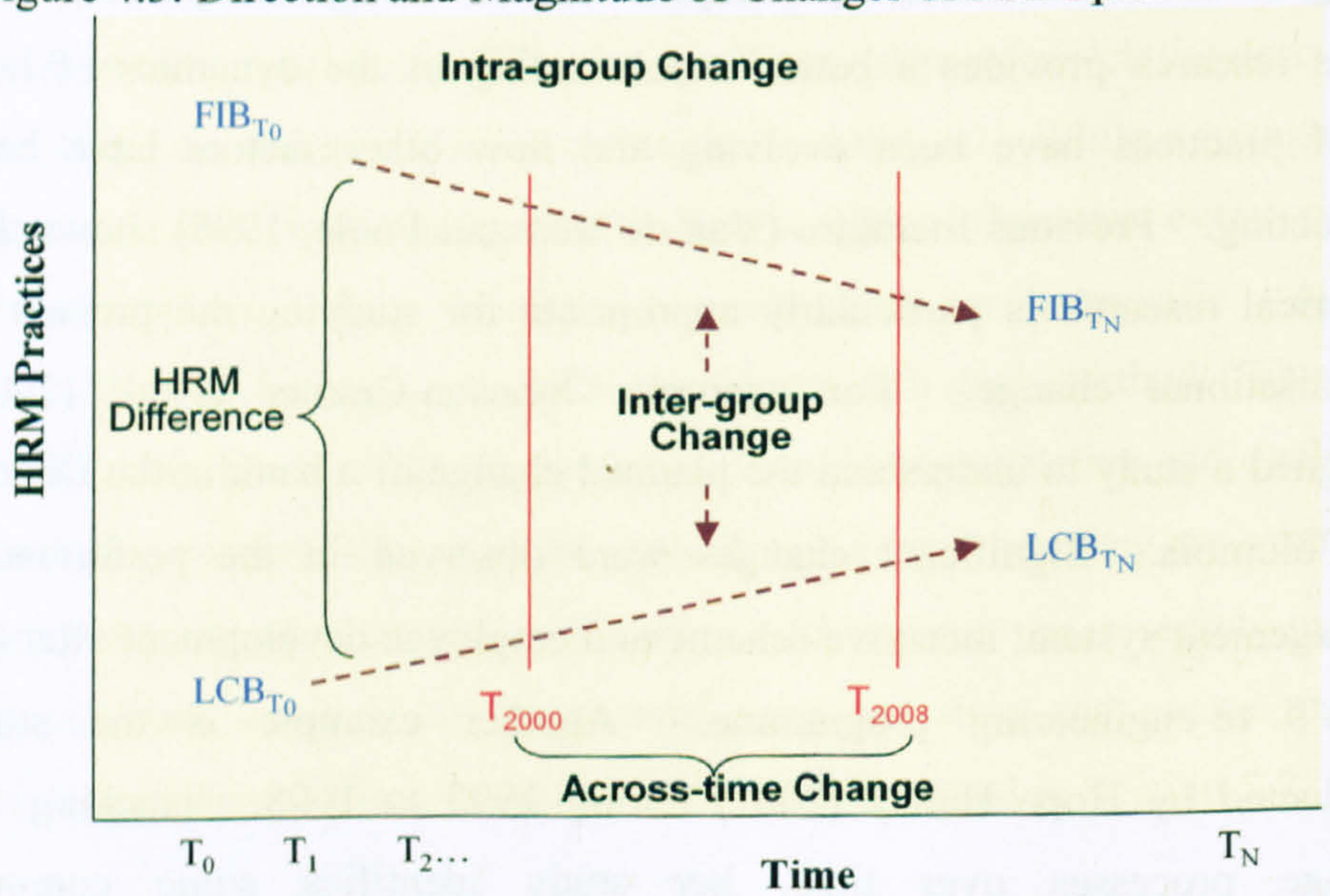
5.3.3. Historical and Comparative Approaches

The research questions are to assess the degree of HRM change in LCBs and FIBs as well as to examine the impact of contextual factors on HRM areas over time. These questions involve both historical dimension and comparative dimension of the research design.

Historical Approach: Different from a cross-sectional analysis which can only measure aggregate results, a historical retrospective approach can separate the age and cohort effects in the analyses. The age effect is the change over time within individuals or companies, whereas the cohort effect is the difference in individuals or companies in their baseline values (Zeger, 2002). The collection of comparable data from both LCBs and FIBs over a period of time allows investigation of convergence and divergence issues from a dynamic, as opposed to a static, perspective. In other words, it measures the construct over time and enables for both inter and intra changes. Because transfer and adoption can be a long term process, time series research provides a better understanding of the dynamics of how HRM practices have been evolving and how other factors have been interacting. Previous literature (Van de Ven and Poole, 1995) shows that historical research is particularly appropriate for studying the process of organisational change. For example, Johnson-Cramer et al. (2003) designed a study to understand the planned change of a bank in the District of Columbia. Significant changes were observed in the performance management system, incentive scheme and employee development after the bank's re-engineering programme. Another example is the study conducted by Hope Hailey (2001) during 1993 to 1998. Tracking the change processes over time, her study identifies some complex mircro-processes that facilitate and constrain HRM change. The long-term perspective is a particularly crucial aspect of HRM change because the time cycles for people resources are considerably longer than those for financial or technological resources (Gratton et al., 1999).

To conduct a historical study typically requires access to, and collection of, data over many years. While the availability of data is often limited, previous researchers have demonstrated the viability of using retrospective data collected post hoc. For instance, Mintzberg and his team (1976) used five years to follow up twenty-five strategic decision processes and the result was rich longitudinal data of management practices. The essential element underlying a time series study is the match between a trend of data points compared to (a) a theoretically significant trend and (b) some rival trends. As mentioned in Section 4.2.3, in this study (a) HRM practices of LCBs are compared across years (comparing LCB_{T0} and LCB_{TN}) and those of FIBs are compared across years (comparing FIB_{T0} and FIB_{TN}); and (b) HRM practices of LCBs and FIBs are compared in the baseline year (comparing LCB_{T0} and FIB_{T0}) and other years (comparing LCB_{TN} and FIB_{TN}). The figure below is a replication of Figure 4.3.

Figure 4.3: Direction and Magnitude of Changes of HRM practices



Source: developed for this research

A time series pattern can be complicated when the appropriate start and end points are not clear (Yin, 2003). To overcome this issue, a time frame is included in data collection. Since the impact of the WTO entry brought changes to the industry, year 2000 (the year before WTO accession) is set as the base year. The period from 2001 to 2008 is selected as the theoretically significant trend to assess the cumulative effect in the change of HRM practices thereafter. Data from the nine years are summed up to show the changes of HRM policies and practices on resourcing, retention, rewards, performance, training and development in banks operating in China. A 9-year span is considered to be sufficient to reduce the effects of any exceptional year (Child, 1974) and to provide indications for the rate of change, without, at the same time, extending too far back to a time when HRM might have been significantly different to those measured in the research.

A historical method is not normally employed in the field of HRM research and an analysis of changes in HRM in China over time is also rare. The fact that this study used a retrospective approach to collect panel data from both LCBs and FIBs demonstrates the creativity of research. It is argued that an examination of trends over time can provide more comprehensive empirical insights into the dynamic processes. The research findings can show both the change in individual HRM areas (Chapter 6) and the aggregate effect of HRM transfer and adoption (Section 8). The fluctuation of HRM practices and the effects of contextual factors on HRM transfer can be precisely investigated (Section 7).

Comparative Approach: A comparative study generally refers to research that involves comparing elements of two or more cases in order to illuminate existing theory or generate theoretical insights (Bryman, 2004). The term 'comparative' is also used to denote the study of different groups within the same country in order to seek explanation for similarities and differences or to gain a greater awareness and a deeper understanding of social reality in different contexts (Hantrais, 1996). Comparative study has been seemingly gaining momentum in recent years (Brewster et al., 1996; Dowling et al., 1994) as firms are entering into a more dynamic world of international business and competing in the global world arena. Both practitioners and academicians in the field of HRM have realised the need to understand managerial and employees working in different parts of the world.

Nonetheless, the methodological issues involved in comparative research are more numerous and complex than with single cases (Brewster et al., 1996; Jackson and Schuler, 1995). The problem in comparative research arises from the dilemma of choosing between (a) a quantitative approach using large amounts of data and reaching broad conclusions and (b) a qualitative approach which may be rich in insights but weak in generalisations (Redding, 2002). Besides, there is an absence of a framework for conducting comparative studies (Brewster et al., 1996; Jackson and Schuler, 1995). Lammers and Hickson (1979) attempt to suggest a constant iteration between the idiographic (a full description of a given case) and the nomothetic (a generalised understanding of a given case) modes of analysis in comparative study, but few researchers can achieve this optimum aim. In addition, the previous literature on cross-national, cross-cultural or comparative HRM studies focuses on traditional 'hard' and 'soft' models of HRM (Legge, 1995). It is, however, critical for comparative research to examine the applicability of HRM models, to assess if HRM has really become strategic in different parts of the world, and to highlight the context-specific nature of HRM practices (Jackson and Schuler, 1995).

To overcome the methodological issues while producing value to the study, the present research compares LCBs and FIBs operating in China in terms of their HRM areas and contextual factors. All the banks are operating in the same setting, that is the banking industry in China. Cross-country comparison of LCBs against some FIBs in other countries or against parent companies in home countries is not appropriate for this study because of variations in the external environment. By examining different groups of companies operating in a single country, this research design controls for contextual factors, such as workforce characteristics, labour market conditions, the legal and socio-political environments, etc., that vary by country and are likely to influence the degree to which a MNC is able to transfer the HRM system of its parent company overseas (Rosenzweig and Nohria, 1994; Taylor et al., 1999). Therefore, variability in HRM areas associated with firm nationality is attributed to the cultural influences from the headquarters to the overseas subsidiaries and/or to the similarity in cultures of the home country and the host country. Such a comparative research design has been promoted by scholars (Monks, 1996; Rosenzweig and Nohria, 1994; Yuen and Hui, 1993) interested in the study of similarities and differences in HRM of MNCs of different firm nationalities operating in a single country setting.

Other than a single country investigation, to ensure a fair comparison, two control variables are introduced, that is, branch network and ownership. Both qualitative and quantitative approaches are employed to collect data of these variables. The outcome of the comparison is meaningful in terms of understanding the theoretical arguments about the change in HRM in China.

5.4. Research Sample

5.4.1. Research Target Group

After determining the research design and approach, the next question is to decide a sampling strategy. Definition of the population for an investigation depends on the research question (Berg, 2001; Dick, 1990). China's banking industry is the broad setting to be covered in this investigation; and within this industry, there are still some variations to be clarified. This section explains the key tasks of defining the population, constructing and evaluating sampling frames, handling unexpected situations and drawing the sample for the research.

Defining Population: The study focuses on the degree LCBs' and FIBs' HRM practices convergence towards, or divergence from, each other and the factors relate to the change processes. The banking industry in China is chosen as the case. As the banking industry covers a wide range of companies, the study targets those financial institutions that offer similar products, operate in similar environments and hence face similar issues. The financial industry in China can be divided into banking related sector and non-banking related sectors (see Chapter 3). Non-bank financial companies, such as insurance, brokerage or asset management companies, are excluded because they are different from the 'bank' sector. WTO agreements have separate clauses for banks and insurance companies, for example (WTO Report, 2001).

Within the banking sector, depending on the banking services provided, there are three categories, namely (1) central and policy banks, (2) commercial banks, and (3) city and rural banks. The main functions of the central bank and policy banks are policy setting and regulation, rather than providing banking services. Since they are not run on typical business principles; they are excluded from the investigation. City and rural banks are originally from urban and rural co-operatives, provide limited banking services in one particular city and are typically owned by governments of those cities. Since most of them were established after 2000 (the baseline

of this study) plus the fact that their business scopes are limited to one city, city and rural banks are excluded from this research too.

Commercial banks include SOBs, NCBs (which can be in the form of JSBs owned by private enterprises, local government and foreign investors) and FIBs. They provide retail and commercial banking services to businesses and individual customers across the country. Since they provide the same type of service, i.e. commercial banking services, and operate across the country, the commercial banking sector is identified as the target population. Currently, all FIBs are all in the form of WOFEs. No FIBs have applied for JV ownership. ROs are prohibited from providing any banking service, and by implication, ROs do not fit with the sampling criteria of 'bank'. Consequently, FIBs in the form of WOFEs are included. Figure 3.8 in Chapter 3 circles the target group and the names of some sample banks.

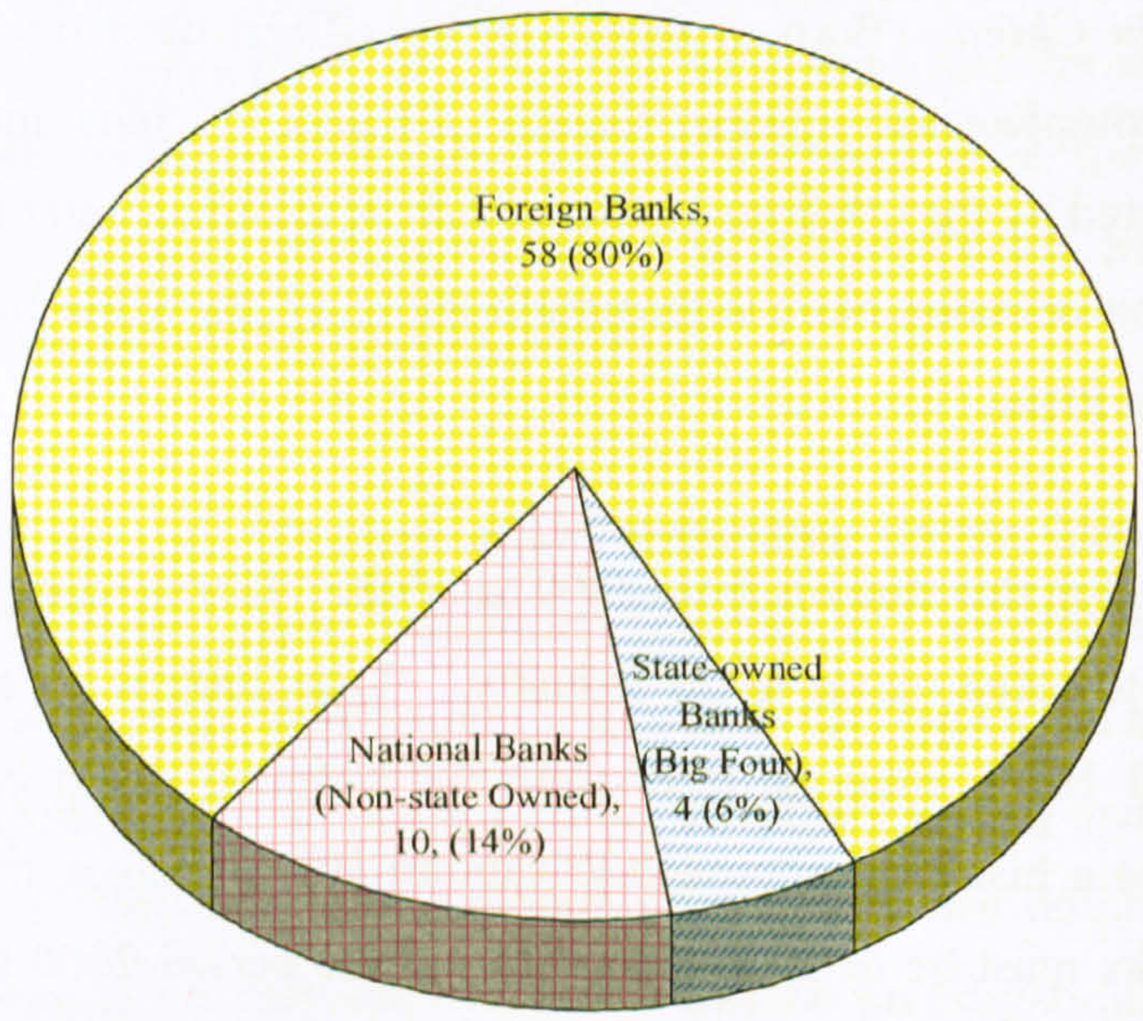
To specify the boundary of the population, a sampling frame (i.e. the name list of banks in the population from which the sample are selected) is complied. Two directories are used: *The Almanac of China's Finance and Banking* and *China Financial Guide – Directory of Local and Foreign Financial Institutions in China*. Both of them are the official directories that contain the most complete and updated records of banks in China and have been widely accepted by the other researchers (such as Kuilman and Li, 2006). The former one contains more information about LCBs while the latter one is better about FIBs.

The time period captured in this study is from 2000 to 2008. The latest data can show the most up-to-dated trends in the industry. Year 2000 is set as the reference year and HRM areas at 2000 form the baseline practices. Since this research uses a historical approach to capture HRM change, the target commercial banks must be in the industry during the period 2000 to 2008. Therefore, editions from 2000 to 2008 of the two directories have been checked to get the names of SOBs, NCBs and FIBs. There were 130 banks in China during the period, but several banks are excluded from this

study. For example, eleven Japanese banks merged to become four banks around 2002. Some banks from Sweden and Switzerland did not enter China's banking industry until 2004, and hence full information was not available for the whole period. Other examples were the acquisition or closing down of LCBs. Besides, the Chinese translated names of some FIBs were not consistent across years. After a lot of checking, reconciliation and consolidation, the final sampling frame consists of seventy two (72) banks: four (4) SOBs (i.e. the Big Four), ten (10) NCBs and fifty eight (58) FIBs. The distribution of banks is shown in Figure 5.2.

It is noted that the four SOBs are very large in size (total number of employees range from 200,000 to 550,000), and therefore, it is not possible to sample 'small' or 'medium' SOBs. On the other hand, NCBs are not as big as SOBs. The largest NCB has less than 10,000 employees. Therefore, in the sampling frame, small and medium LCBs are NCBs, while large ones are SOBs. The skewed population may pose some limitations to the findings. FIBs have more variety in size, from small, medium to large.

Figure 5.2: Distribution of Banks in Sampling Frame



Source: developed for this research

5.4.2. Multi-stage Sampling Design

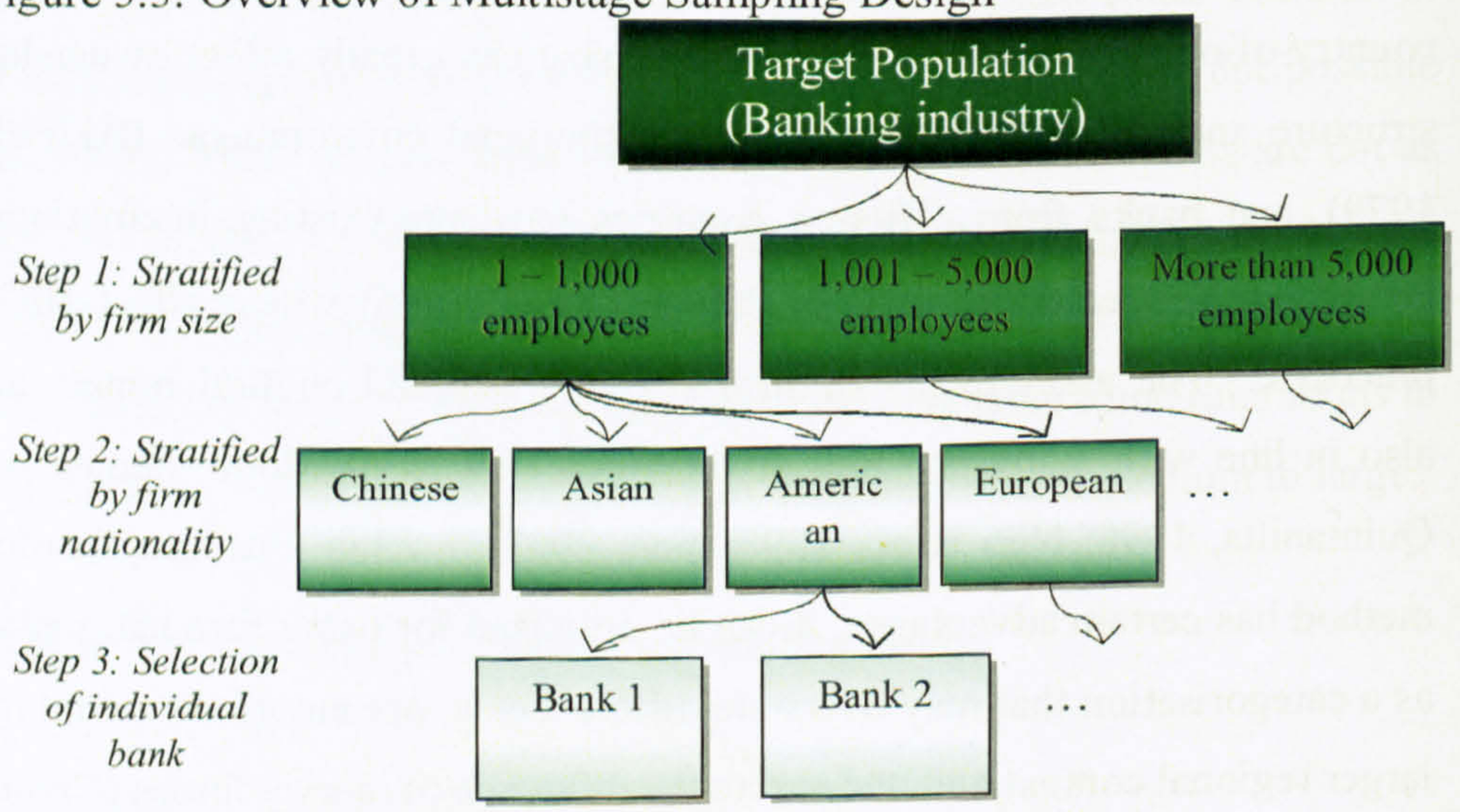
From the sampling frame, sample banks are selected for the investigation. The sampling design employed involves a multi-stage stratified design. With a multi-stage design, there are cost savings in sampling and data collection through optimal allocation (Kish, 1965). Stratified sampling allows more precise estimates and better represents the variations in the population (Fowler, 1993).

The sampling started with dividing the target banks (total 72 banks) into exhaustive, mutually exclusive strata with identifiable boundaries. Size of company based on number of employees and nationality of banks based on country-of-origin were used because firm size can greatly affect ownership structure and its capability to handle institutional environments (Aldrich, 1979), and banks from different countries have pre-existing international institutional expectations and regulations (Scott, 1995) which affect HRM practices. The assessments of firm size and national cultural impact are also in line with many previous studies (see Ding et al., 2000; Ferner and Quintanilla, 1998; Ngo et al., 1998; Yan, 2003). While this stratification method has certain advantages, it can be criticised for using firm nationality as a categorisation that may overstate differences in organisations within the larger regional context and understate the influence of market forces (Carney and Gedajlovic, 2002). Therefore, throughout the data collection process, special care is taken to revisit the sampling process regularly.

The steps for sampling design are as follows (Figure 5.3). The first step was to stratify the banks by firm size. Some researchers divided manufacturing firms in China into three to four categories, depending on nature of industry and sample firms. For example, Ding et al. (2000) grouped thirty engineering and electrical companies into three categories (fewer than 500 employees, 500 to 2,000 employees, and more than 2,000 employees); Goodall and Warner (1999) divided thirty eight manufacturing JVs into four categories (fewer than 100 employees, 100 to 499 employees, 500 to 1,499 employees, and 1,500 or more employees). There are, however,

relatively limited studies about the service industry in China and hardly any size category of service companies can be found in previous literature or government official definition. Therefore, the actual size of banks in the target population was used to divide the banks into groups. Based on the *Statistical Bulletin* published by Chinese National Bureau of Statistics, the numbers of employees of the 72 target banks in China were collected. By approximation, these banks were equally divided into three groups: few than 1,000 employees, 1,000 to 5,000 employees, and more than 5,000 employees.

Figure 5.3: Overview of Multistage Sampling Design



Source: developed for this research

Table 5.4: Possible Combinations of Sample Banks

		Firm Size		
		Small Size < 1,000 employees (S)	Medium Size 1,000 – 5,000 employees (M)	Large Size > 5,000 employees (L)
Firm Nationality	Chinese (C)			
	Asian (A)			
	America (U)			
	European (E)			

Source: developed for this research

The second step was to stratify the banks by firm nationality. Based on Scott's (1995) classification, the firm nationality (around 20 countries) was divided into four cross-national cultural groupings: Chinese, Asian, American (North American only) and European. By stratifying the population by firm size and by nationality, the investigation could get enough representation of banks from different sizes and nationalities to obtain optimum allocation (Kish, 1965). Table 5.4 shows a matrix of the combinations of the sample.

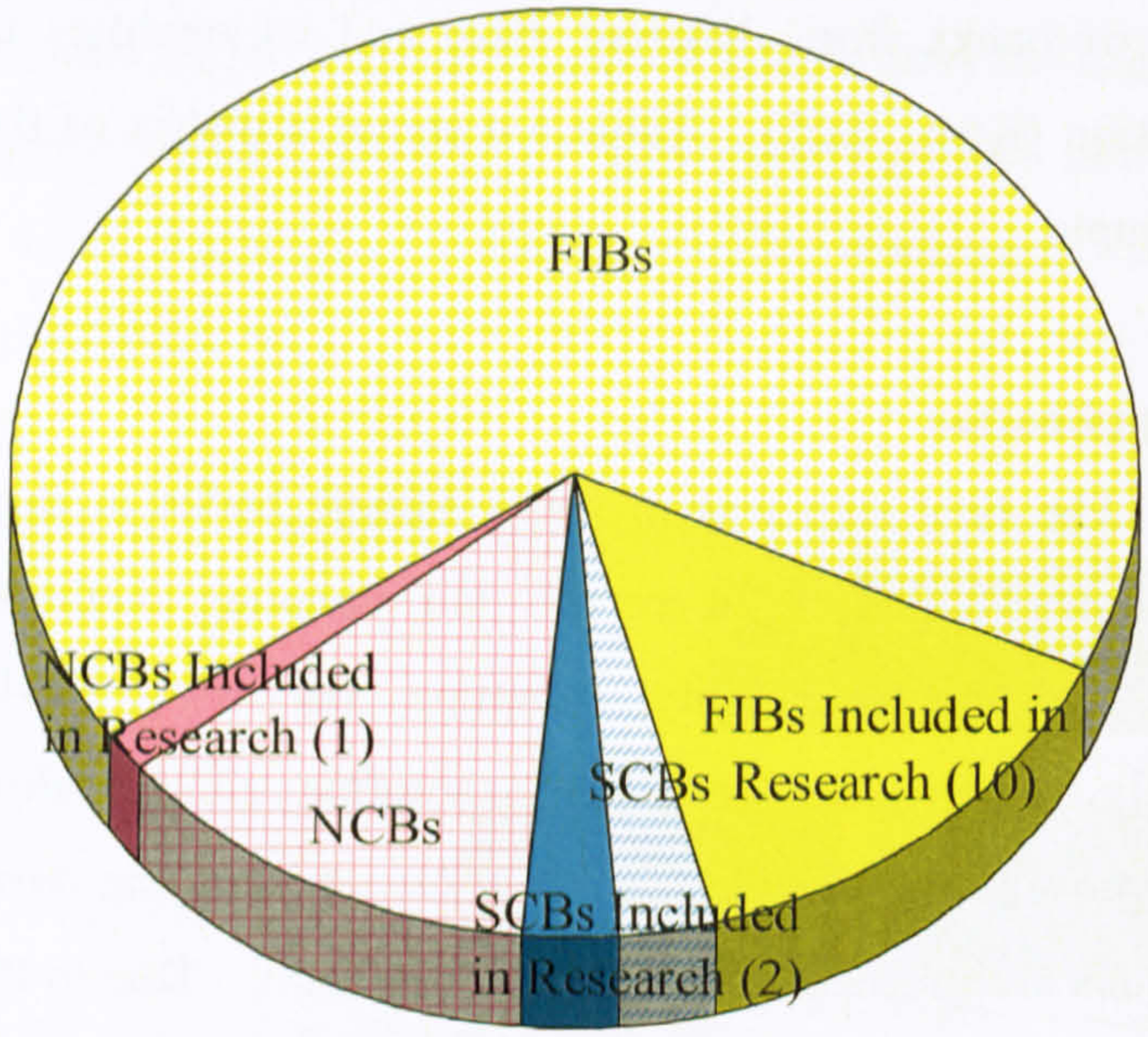
5.4.3. Sampling Application

Purposive Sampling: The final step was to select sample banks in each stratum for investigation. In general, there are two sampling methods, probability sampling and non-probability sampling (Bryman, 2004). Though it is commonly believed that probability sampling using random selection can ensure representative samples, and thus reduce sampling error, such sampling techniques are problematic in this investigation. Due to the great amount of data probability sampling would generate, the resources required to manage that data and the ability to assess the geographically dispersed banks in China, probability sampling was not employed in this study.

Non-probability sampling has been widely adopted for interviews and case studies in China as it relies on guanxi (relationships) to gain 'connections' to sampled units and is more useful for an exploratory research to understand management practice in China (Poon and Rowley, 2007). In this investigation, purposive sampling, one of the non-probability sampling techniques, was employed. Purposive sampling, by definition, is a sampling procedure in which 'the researcher samples on the basis of wanting to interview people who are relevant to the research question' (Bryman, 2004: 334). Such a sampling technique allows the researcher to pick and choose only those who meet the purpose of the study (Pizam, 1994). Nevertheless, this technique implies that some companies in the population are more likely to be selected than others and increase sampling bias

(Bryman, 2004). In this research, with the multi-stage stratified design, sampling bias could be minimised and banks with maximum variation could be sampled for analytical and general purposes (Patton, 1990).

Figure 5.5: Distribution of Banks in the Sample



Source: developed for this research

Another issue is to determine how many banks are to be sampled. The literature gives no precise guide on the size of samples. Eisenhardt (1988) states that research can assume the ideal number of sample has been reached when theoretical saturation occurs. That is, the point at which the incremental value of the information becomes minimal. This can only be considered in the field. Constraints of time and resources are also influential in determining the optimum number of the sample. Yin (2003) makes the general observation that the larger the sample size, the higher the certainty (validity) of the results, which in turn, is a function of the degree of uncertainty in the contextual setting of the investigation. As a reasonable minimum, this investigation attempts to sample at least one company per stratum. Finally, two (2) SOBs, one (1) NCB and ten (10) FIBs are selected (Figure 5.5). The selected sample represents banks of different countries and sizes. They are generally representative banks that are actively involved in the banking industry in the country. It is felt that

sufficient information richness could be gained from the data gathered from these thirteen banks.

Identifier: Pseudonyms are used to represent the participating banks so that back tracing of the identities would be impossible. The sampled banks are first coded by 'C', 'A', 'U' and 'E' (denoting Chinese, Asian, American, and European representatively) and further coded by 'S', 'M' and 'L' (denoting small, medium, and large respectively). Numbers 1 to 13 represent the thirteen banks in no particular order. For instance, 'CM1' is the code for a medium-sized LCB and 'AS4' is the code for a small Asian bank (see Table 6.1 for detail).

5.5. Research Method

This section provides an overview of the research process. It evaluates which research methods are appropriate for the investigation, describes how data gathering has been undertaken and illustrates the development of an interview guide.

5.5.1. Data Collection Methods

Yin (2003) has emphasised that the first and most important condition for deciding among the various research methods is to identify the type of research questions being asked. Which data collection methods are appropriate for this study? Table 5.6 lists the key characteristics of some data collection methods.

Table 5.6: Key Characteristics of Data Collection Methods

Data Collection Method	Key Characteristics
Mailed Survey	Individuals who are knowledgeable about a particular research problem are surveyed
Focus Group	Unstructured, free-flowing group sessions where respondents are given the opportunity to initiate the topics of discussion
Experiment	Manipulate variables and test them under artificial environment
Exploratory Interview	Unstructured or semi-structured extensive interviews to encourage respondents to talk freely and in depth about an undisguised topic
Archival Record	Existing data that predate the formulation of the research study are used to answer the research question

Source: developed for this research

A mailed self-completion questionnaire approach is not considered because this method can only be used to generate basic ideas about the research problems (Zikmund, 2000), rather than collecting the detailed information required. Besides, conducting a mailed survey faces the difficulty of low response rates and high amounts of missing information (Ngo, 1996; Redding and Pugh, 1986). It is a well-known fact that undertaking questionnaire surveys in China is always challenging because of cultural factors, including pervasive secrecy. This tendency has been reinforced recently by the government reminding firms of the need to keep enterprise information confidential (Zhang and Parker, 2002). Therefore, a low response rate from a questionnaire survey can be expected.

Focus group interviews are not deemed suitable because such interviews need to be conducted with respondents who have similar characteristics, rather than with specific knowledgeable subjects who can give the necessary information (Malhotra et al., 1996). Also, certain respondents may not feel comfortable with openly sharing their HRM practices in front of other competitors and they, in turn, may not give a true opinion on the questions investigated (Oppenheim, 1992).

Other methods used to collect primary data include experiments. These are not appropriate for this research because the researcher cannot manipulate variables nor control the research environment to measure the influence of the independent variables (contextual factors) on dependent variables (HRM areas) in this study (Cooper and Schindler, 2001).

Yin (2003) suggests that when the research goal is to explore the incidence, or describe the prevalence, of a phenomenon, that is the 'what' and 'how' questions, an inductive approach would be suitable. Since the research questions investigate 'how' change has occurred and 'what change' and 'what factors' are related to such phenomenon, the use of exploratory interviews supplemented by employee interviews and archival records analysis are justifiable. Based on Poon's and Rowley's (2007) study, around 50% of research on HRM on China in the past several years used questionnaires, 33% used interviews and the rest used archival records analysis or other methods. For research in the banking industry in general, although there is no concrete percentage, typically questionnaires and interviews are the most commonly used methods.

Exploratory interviews with HR department staff, emphasis on generality in the formulation of initial research ideas and understanding events, patterns, and forms of behaviour (Bryman, 2004), have been employed. First of all, in the realism research paradigm, events and the social world should be seen through the eyes of the people involved themselves. Interviews have a strong component of 'face-to-face' interaction with interviewees. Such interaction 'is the fullest condition of participating in the mind of another human being, and ... you must participate in the mind of another human being to acquire social knowledge' (Lofland and Lofland, 1995: 16). Such interviews can provide valuable insights into the research questions. Second, the treatment of HRM in China is a highly sensitive topic. Top managers, even from MNCs, are often reluctant to fill out questionnaires. Thus, face-to-face interviews must be conducted on conditions of anonymity. Third, interviews are less structured than surveys, allowing for an

unprompted discussion of problems and solutions as they arise. This allows for follow up questions on the topic and development of recommendations that have practical value (Frey and Oishi, 1995). Nevertheless, interviews are the most expensive and time consuming of data collection methods (Czaja and Blair, 2005). There may be risk that the interviewer affects the responses of the interviewee as well as a danger of showing subtle signs of agreement with statements and responses that are anticipated. Therefore, various measures (for example member check, cross-referencing) have been put in place to ensure that higher response rates and better data quality could be achieved in this research. Section 5.7 elaborates those measures.

The use of employee interviews facilitates the collection of data on social interactions (as in the organisational environment), on situations as they occur rather than on artificial situations (as in experimental research) or constructs of artificial situations that are provided by the researcher (as in survey interview). The value of using employee interviews lies in the opportunity that is available to collect rich, detailed data in some natural settings (Flick et al., 2004). Moreover, the researcher can obtain accounts of participants' situations and gain access to the concepts that are used in everyday life (Scale, 2004).

In order to reduce the threat of common method variance arising from a single respondent to both dependent and independent variables, different sources of information are used to evaluate these variables. Archival records analysis is ideal because such data collection method can provide additional factual information and is more cost effective and time saving to collect (Dale et al., 1988). Hard data from archival records can complement qualitative data from HR interviews and employee interviews while offering statistical evidence to support data relationships.

Based on the above arguments, exploratory interviews with HR, employee interviews and archival records analysis are deemed suitable for this study. Table 5.7 summarises the data collected by each method and the following sections detail the method.

Table 5.7: Data Sources Used in the Study

Variable		Exploratory Interview	Employee Interview	Archival Records
IIRM Areas	Resourcing & Retention	Covered	Covered	Industry reports
	Rewards & Performance			Bank's annual reports
	Training & Development			Industry reports
Contextual Factors	Firm Size	-	-	The Bankers' Almanac Statistical Bulletin
	Firm Nationality	-	-	The Bankers' Almanac
	Firm Age	Covered	-	Bank's annual reports
Control Variables	Branch Network	Covered	-	Bank's annual reports
	Firm Ownership	-	-	The Bankers' Almanac, Statistical Bulletin
Time Effect	2000 to 2008	Covered	Covered	

Source: developed for this research

Note: Factual information about contextual factors and control variables were minimised in the interviews because such data were time-consuming to collect in the interviews.

5.5.2. Exploratory Interviews

Semi-structured interviews were conducted with key HR department staff in the target banks. This section and Figure 5.8 describe the process, from questions development to actual interviews.

Question Development: The first step was to build up a list of potential interview questions from conventional theories and recent research studies which provided an extensive knowledge background on the research topic and some basic frameworks. Interview questions covered five aspects: (a) the three HRM areas, (b) HR experiences with those areas, (c) changes in areas (i.e. previous arrangements, current practices and future plans), (d) what factors influencing the use of HRM practices, and (e) background information about the interviewee and the bank. Besides interview questions, the interview guide contained a cover letter introducing this study and the statements explaining the purposes of the research. They were written in English.

Panel Review: In the second step, the interview guide, cover letter and purpose statements were assessed by an expert panel. The panel consisted of four experts, including university professors and management practitioners. The purpose of a panel review is to get feedback on individual questionnaire items from people with diverse expertise (Dillman, 1978, 2000). The experts were given the purposes of the research, the definitions of HRM areas and the interview questions. They were then asked to evaluate if the interview questions were appropriate for the research. It was believed that their expert knowledge in the area was able and efficient in identifying problems and uncovering other questionnaire flaws (Czaja and Blair, 2005). Comments and feedback from the expert panel resulted in modification of some wordings in the questions of the English interview guide.

Translation: The third step was to translate the interview guide into the Chinese language and write in suitable Chinese characters. The interview guide was first translated into Chinese and then back-translated into English to ensure consistency (Brislin, 1970). Translation and back-translation were done by two bilingual language instructors at a tertiary institution. The translators first performed their tasks independently of each other; and then solved disagreements by discussions. A discussion session between the researcher and the translators was held to ensure that the terms used in the Chinese version were consistent with current conventions and that interview questions were understood by business managers. Questions that seemed problematic were reworded and refined. The validity of this translation procedure has been established in previous management literature in cross-national settings, including those involving Chinese companies (Björkman and Fan, 2002; Deng et al., 2003; Schlevogt, 2001).

It was expected that the interview participants might include expatriates from Western countries, Hong Kong Chinese people and mainland Chinese people. Therefore, the interview guides were translated in two languages (English and Chinese) and written in three characters (English, traditional Chinese characters for Hong Kong and simplified Chinese characters for mainland China). As Hong Kong people are use to traditional Chinese characters and mainland Chinese people are more familiar with the simplified ones, both Chinese characters were included in the interview guides. The difference between these two Chinese characters is that the number of strokes in a character is fewer in a simplified Chinese character.

Pre-test: In the fourth step, the interview guide went through a rigorous field pre-testing before launching. Field pre-testing involved trying out the questionnaire on some similar companies to those who would be included in the main study. The objectives of the pre-test are to (a) test the questions' variation, meaning, difficulty and interviewees' interest; (b) examine the questionnaire as a whole about the flow of the sections, question order and timing (Converse and Presser, 1986); as well as (c) be a 'dress rehearsal' of

the questionnaire as a whole. Three companies were invited to pre-test interviews, including a small Asian company, a medium size Chinese company and a large American company. The researcher first asked the questions and noted down the answers on their HRM practices. During the pre-test interview, any interrupted questions raised by the interviewees or any hesitations were coded. After the interview, the researcher talked to the companies to get their comments on the questions and interview flow. The systematic code helped understand the root of the problems and actual interview procedures (Fowler, 1993, 1995) and helped re-evaluate the wording of the questions (Presser and Blair, 1994).

It was observed from the pre-test interviews that some factual information (such as number of employees working in the bank in the previous years, number of branches, etc.) was tedious and time-consuming to collect during the intended one-hour interview. The interviewees were able to give company website and annual reports which provided the required information. Therefore, questions relating to company background were minimised. There were some revisions to the interview guide, mainly to clarify definitions. Subsequently, the researcher added some more probing questions on this aspect. Since the changes after the pre-test were not extensive, no further rounds of pre-test were needed. The face validity and construct validity of the interview guide were well tested and at an acceptable standard. The interview guide was finalised. Appendix 1 provides the covering letter and Appendix 2 provides the interview questions and purposes statement.

Solicited Participation: Once the interview guide was finalised, in-depth interviews were conducted at the target banks drawn from the multi-stage sampling design. All interviews followed the same interview guide, which served as a common platform to ensure some consistency in data collection. As encountered by many previous researchers, obtaining good response rates to surveys in China is extremely challenging. This is in part due to deeply rooted suspicion of outsiders and political concerns about releasing company

information. Gaining cooperation is more predicated on norms of reciprocity (i.e. guanxi). Therefore, the researcher elected to utilise her extensive network in the industry to gain access to some critical contact points. After much time and persuasion, key HR personnel at target banks were finally identified; and they agreed to be the interviewees. These interviewees were deemed suitable for this survey because they (a) were familiar with their HRM policies and practices in China; (b) had been working in their banks for several years; and (c) were responsible for a HR division or whole HR department. These facts ensured that the interviewees were knowledgeable about HRM areas in their China offices, appropriate to answer the questions and representative of the target banks.

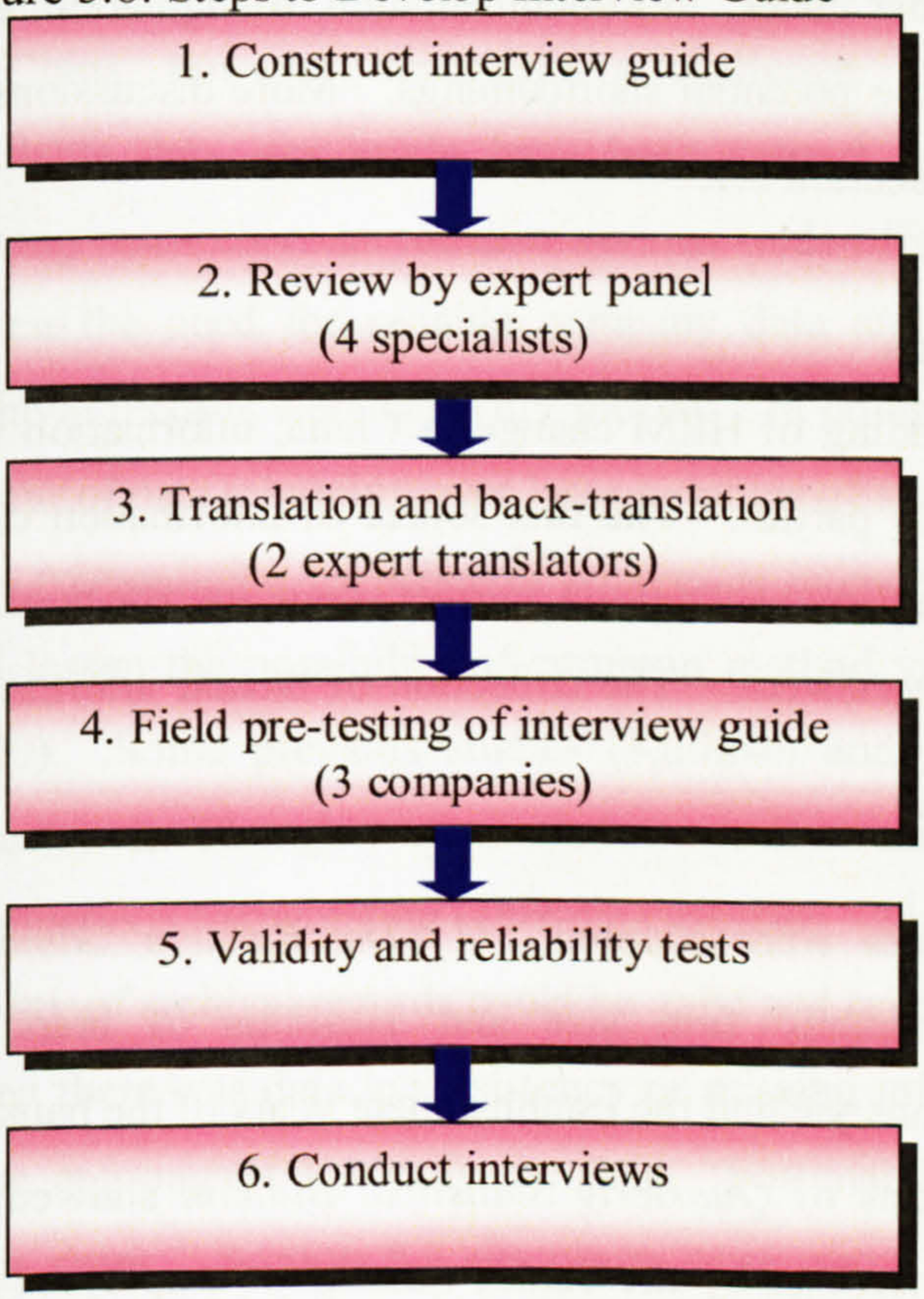
Zhu (1997: 31) finds that 'the most typical concern of Chinese respondents is that of disclosure of their views' due to past political purges. To reduce this concern and increase the participation rate, the researcher called the interviewees personally to make the appointment. Another purpose for the telephone calls was to verify that the interviewees were the most capable of responding to the interview (Dillman, 1978). The interview guide which explained the purpose of the research, the importance of their bank's participation and the reason for selecting that bank was mailed to the interviewees prior to the interviews, so that interviewees would have sufficient time comprehending the items and recalling relevant information (Czaja and Blair, 2005).

Interview Process: Semi-structured interviews were designed to be of approximately one hour duration. In practice, interviews were between 45 minutes to two hours duration. Full informed consent was obtained from the interviewees prior to the interviews. The interviewees were assured that all information provided was given on a purely voluntary basis. Moreover, they were reminded that their names would be kept strictly confidential and the names of their organisations would not be linked to specific interview responses. Only the researcher would have access to the data. Measures to ensure research ethics is further discussed in section 5.8.

The interviews started with open general questions and were followed by further probing questions and clarification ones (Perry, 1998; Zikmund, 2000). This semi-structured interview approach allowed interviewers greater freedom to express their views (Zikmund, 2000), while putting some structure on interviews to ensure cross-company comparability. New questions not included in the interview guide were asked to follow up interviewees' replies. The interviewees might have issues with recalling past events or having personal biases. To counter these issues, interviewees also had the opportunity to consult records and personal files to get accurate data during the interview.

Interview Participants: Key HR personnel of thirteen companies were interviewed in several field trips during 2005 to 2008. Interviewees included Department Head of HR, Section Head of HR (for example Vice President of Compensation and Benefits), Generalist HR Manager and Specialist HR Manager (such as Training and Development Manager). At least two interviews were conducted with each company and a total of thirty two interviews were conducted. Appendix 4 shows the list of respondents. Among the thirteen sample banks, three of them were LCBs and the rest were FIBs. The three LCBs have branches in most Chinese cities. The interviewees were located in Guangzhou. The ten FIBs have branches in several cities in China and all have regional offices in Hong Kong. Most interviewees of the FIBs stationed in Hong Kong overseeing HR functions for China. Some of them were frequent travellers to their Shanghai and Beijing branches. Since the interviewees consisted of mainland Chinese, Hong Kong people and Western expatriates, Mandarin and Cantonese were the languages of interviews with Chinese-speaking participants and English was used with Western participants. Since the researcher is fluent in these languages, the interviews were conducted in multiple languages without any interpreter. No significant difference was found between the groups of expatriate and local interviewees concerning HRM practices.

Figure 5.8: Steps to Develop Interview Guide



Source: developed for this research

Data Recording: From the pre-test interviews, it was pointed out that tape-recording was not welcome as the interviewees had concerns about releasing sensitive HR information. Therefore, detailed interview notes were taken objectively during each interview to minimise the potential biases. To facilitate note taking, a guidebook was designed (Appendix 3). In order to ensure the accuracy of the interview data, a member check was used (Lincoln and Guba, 1985) in which interview notes were verified by the interviewees at the conclusion. A full interview report was written immediately after each interview and was then transcribed and inputted into computer software, ATLAS.IT for text management (see data analysis in Section 5.6). Relevant company information, for instance annual reports, HR policies, training programmes, and employees' handbooks, were collected for triangulation purposes and verification of interview data.

It was acknowledged there were limitations in this data collection process, such as issues of controllability, repeatability and researcher bias. Various

measures, including member check, full documentation, triangulation, etc., were in place to counter the potential shortcomings. More discussions of this issue can be found in Section 5.7.

5.5.3. Archival Records

To gain a wider understanding of HRM change in China, information was also collected from various parties. The first source of information came from the interviews. Company background, current status and HR booklets were provided by the interviewees. The collection of factual information saved interview time.

Besides, other data sources were adopted. (1) *The Bankers' Almanac* contained company ownership, firm size and locations of branches. Comparing different editions yielded the establishment years of the banks in China. (2) Annual editions of *Quarterly Statistical Bulletin* showed the information of services offerings by the banks, number of employees and ownership. (3) *Country Census* detailed the growth and movement of banking industry relative to other industries. *Country Census* and *Quarterly Statistical Bulletin* are data organised by China's central government, with a high-ranking official in each province or city as the head of a local team in charge of the data collection. All enterprises in China are required by law to report accurate information about their ownership, assets, employees, performance and other information. (4) Industry reports, produced by research companies, independent third parties and banking associations, provided supplementary information on HRM patterns. (5) Newspapers and industry magazines, both in Chinese and English, for the past several years were consulted for reports on significant HRM movements, organisational changes, mergers and acquisitions, restructuring, etc. that have been undertaken in the industry. Archival records, both in paper form and web pages, were used to check facts about the industry at large and the sample banks in particular. Full informed consent was obtained from the data providers before data collection, if needed. Appendix 5 is the full list of archival records used in this study.

Collecting archival data on Chinese firms and foreign companies operating in China, however, represents a challenge. Presently, some publicly available data sets might have been marred with various compromises, forcing researchers to consider various trade-offs in selecting data sources. Given the need for reliable company data and industry information, all archival records were carefully picked. In doing so, a choice was made in favour of data reliability over large numbers of archival records. The use of data triangulation by different sources is intended to reduce potential bias and lessen the possibility of common method variance problems (Denzin, 1970). Some previous studies (Kuilman and Li, 2006) of the banking industry in Shanghai also used a similar combination of government publications triangulating other data sources. Those studies proved that the quality of archival records could be valid and reliable. In the present study, when there was data inconsistency or missing information, the target banks were approached to verify the data. Fortunately, there were only a few such cases. Section 5.7 discusses more about the steps taken to check validity and reliability.

5.5.4. Employee Interviews

How Did It Happen: Employee interviews were not in the original research design. As the researcher was in the field for several months conducting interviews and collecting archival records, she had a lot of opportunities to meet with, and talk to, people working in the target banks. Having evaluated both theoretical concepts and practical applications, using informal interviews with employees was deemed suitable for this study.

According to Hammersley and Atkinson (1983: 2), such interviews are 'watching what happens, listening to what is said, asking questions; in fact, collecting whatever data are available to throw light on the issues with which he or she is concerned'. In other words, an informal interview relies on participation and sharing of contemporary phenomenon in which the respondents share their experiences, opinions and events during conversations. Theoretically, informal interviews facilitate the collection

of data on social interaction. The value lays in the opportunity to collect rich detailed data based on conversations in natural settings. Besides, the informal conversations can be better accounts of situations in the participant's own language, which gives access to the concepts that are used in everyday life (Hammersley and Atkinson, 1983). Practically, the researcher had a number of gatherings with people working in the banks before or after the exploratory interviews with HR staff. Such gatherings provided a great deal of descriptive detail of what happened in the banks and why those practices changed. This detail was sometimes too sensitive to mention during a formal interview, but the social gathering served as a good opportunity to check things out. Hence, informal employee interviews were used to map the context in terms of how HRM philosophies and practices were discussed during the formal interviews with HR staff.

Data Collection Process: Full-scale employee interviews with all participating banks usually entail long periods of time and effort in the field. Because of the limited time and budget, a form of micro scale investigations was carried out, focusing on some aspects of the research. Unstructured interviews before and after interviews with HR staff and some other employees in social gatherings were useful to complement formal company interviews. Such tactics helped the researcher gain access to situations that through time, place, or situations were 'closed' (Burgess, 1983). Details of situations which the researcher did not witness were obtained in many such conversations.

In the literature, major distinctions have been made between active and passive roles, open and closed roles, and overt (known role) and covert (unknown role) ethnographers (Burgess, 1991). Gold (1958) distinguished four typical field roles depending on the degree of involvement in, or detachment from, the social settings. These roles were the 'complete participant', the 'participant-as-observer', the 'observer-as-participant', and the 'complete observer'. During this field research, the researcher was depicted as a PhD student conducting studies about HRM in the banking

industry. That is, an 'overt' role and a 'participant-as-observer' role were identified and the members of social settings were aware of the researcher's status as a researcher. All the respondents knew that the researcher was doing research about the banking industry. They nonetheless willingly offered insightful information.

Eight interviews from six banks were conducted and interviews typically lasted one-and-a-half to over three hours. Most 'gossip' and useful information was picked up in casual chats. An informal style was adopted and the format of the interview was flexible to create rapport and not to rush respondents into an interview situation (Adler and Adler, 2002). Therefore, the interviews were done in coffee shops and at lunch or dinner tables where the respondents seemed to speak more freely. Questions were mostly about what had happened in their jobs with the companies, current assignments and career development offered to them, etc.

Data Recording: In the interview process, the researcher used an active approach, listened carefully to what respondents said and asked them to elaborate on points significant to the study. This collaborative approach allowed more information to be elicited from the participants. Some key points were just quickly jotted down during the conversation as scribbling notes down on a continuous basis ran the risk of making people self-conscious (Bryman, 2004) and affected the quality of the observations. Full field notes were written up at the end of the day and included such details as location, people, events, conversations, etc.

It is recognised that there might be some reliance on the researcher's subjective view about what was collected and the small number of interviews might be difficult for the findings to be generalised to other settings. Therefore, the quality of informal employee interviews was evaluated against well-established criteria: scope of problems addressed, specificity of questions and depth of interview (Merton et al., 1956). Section 5.7 discusses more about tests of data veracity.

5.5.5. Operational Definitions

Since the construct in this study (HRM change) and variables (HRM areas) are not directly observable, they have to be operationalised in a way that enables the researcher to measure them. Most of the variables in this study have their operational definitions adopted from some previous studies conducted in China during the past years. The only exception is branch network, which is unique to the industry. Since there has not been equivalent study of the banking industry in China, similar operational definitions are modified from some other studies. Table 5.9 presents the operational measures used for this study and the relevant literature. Figure 5.10 presents the operational definitions of all variables in the conceptual framework.

HRM Areas: The measures of the HRM areas are as follows:

1. Resourcing and retention are operationalised to include the criteria for selection, intensity of recruitment and retention effort. The intensity of recruitment is measured by the methods used to recruit different levels of staff (from top executives to managers and graduates). The retention effort is measured by the aims and tools to keep desirable staff.
2. Rewards and performance are operationalised to measure performance-driven and market-based mechanisms. Questions include compensation components, such as performance-based bonus scheme and salary increase mechanism. The criteria for promotion, pay structure, policy for performance appraisal (PA) and procedures for employee attitude surveys are included.
3. Training and development are measured by six items. The questions relate to focus of training programmes, target audience, horizon of the programme, importance of employee self-development, training resources and knowledge management (KM).

Contextual Variables: Based on the previous literature, the following measures are used.

1. Firm size is operationalised by the number of full-time employees working in the banks in China. In addition to collecting the data as a continuous variable, the number of employees was then grouped into category to facilitate further analysis. Small size (fewer than 1,000 employees) is coded as 1, medium size (1,000 to 5,000 employees) as 2 and large size (more than 5,000 employees) as 3.
2. Firm nationality reflects the origin of the parent company and hence the national culture. The categories of the national origin classification, based on Scott's (1995) work, are local Chinese (i.e. local Mainland Chinese), Asian (for example Hong Kong, Japan, Taiwan and Singapore), American (i.e. North American) and European (for instance United Kingdom, Germany and France). Chinese is coded as 1, Asian as 2, American as 3 and European as 4.
3. Firm age is measured by the number of years of establishment in China. In case of a FIB, it is measured by the number of years that the FIB got the license to open a branch in China but the number of years operating in home countries is not counted.

Control Variables: Two control variables are included to control for the effect of individual bank.

1. Branch network shows the location effect and is measured by the distribution pattern of branches and the total number of branches and sub-branches.
2. Ownership is evaluated by type of owner. The categories used are state, non-state and private owners. The categories are coded as: 1 represents state / government as the main shareholder; 2 represents non-state / non-government as the main shareholder; and 3 represents private individual, family, or enterprise as the main shareholder. Besides, whether the company is listed in stock markets are considered.

As all banks are in the banking sector and provide retail and/or commercial banking services, it is not necessary to control for potential sub-industry or sector differences.

Time Effect: A dummy variable is used to code the period in which HRM changes occur. The base year (2000) is assigned a value of 0 and the other years (2001 to 2008) are coded accordingly. Data are collected every year in this 9-year period in the following manners.

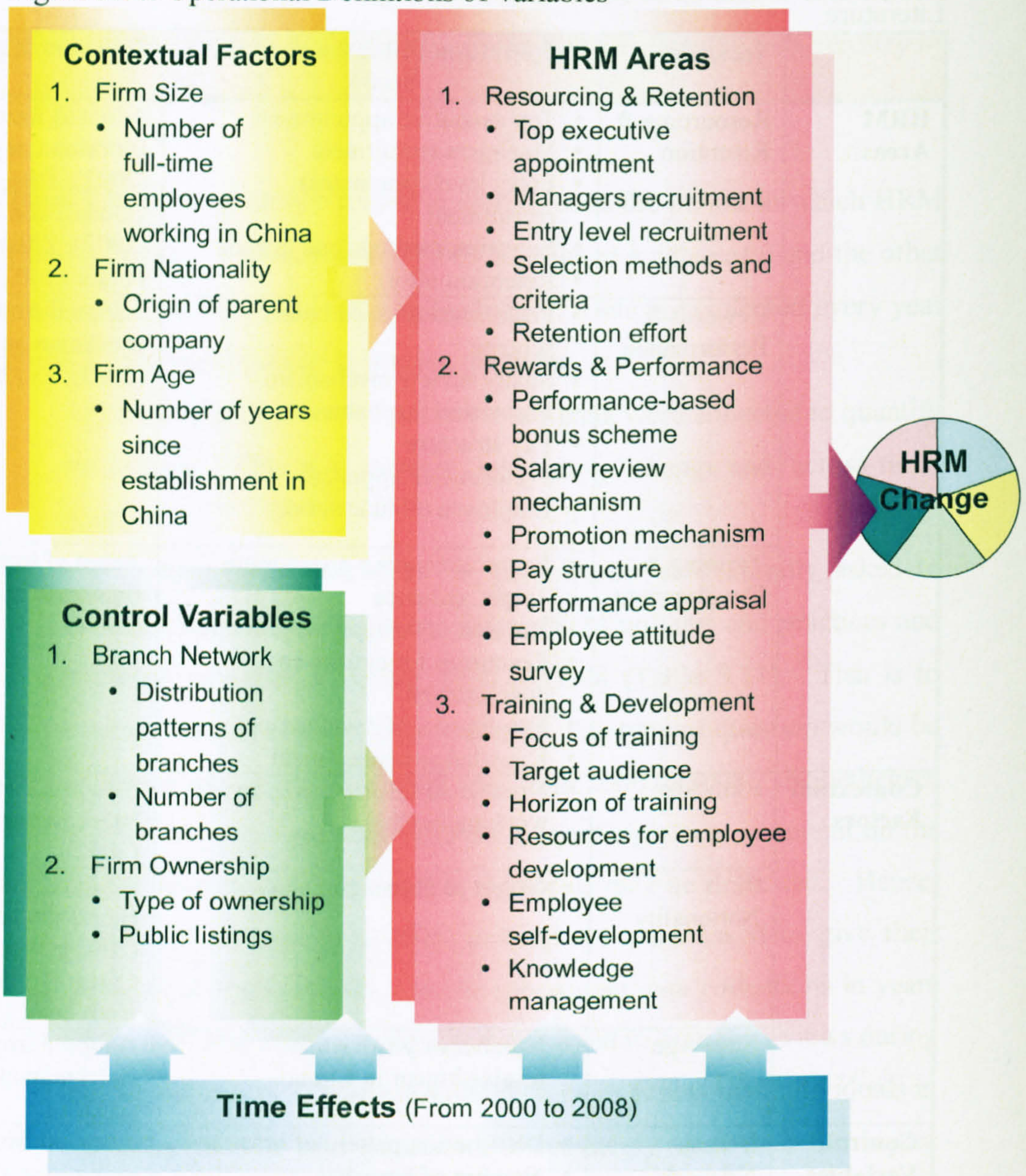
1. Archival records of each year and every bank were collected to quantify the change. This is to measure 'inter-group' change and 'across-time' change.
2. Exploratory interviews: The HR participants were initially asked to describe their past, current and future HRM policies and practices and highlight any change during 2000 to 2008 (Table 5.11). This is to evaluate 'across-time' change. Ideally, this type of question would be asked the same enterprise every year from 2000 to 2008. Nonetheless, 'clocks cannot be put back' and asking participants to comment on the past is open to the criticism that memories may be defective. Hence, in the data collection in 2005, participants were asked to give their views from 2000 to 2005. In the subsequent data collections in years 2006, 2007 and 2008, participants were asked to give their views during the current years. There are some reasons to expect that individuals in the upper echelons of organisations to accurately recall their firm's past strategies and practices (Golden, 1992). Besides, to ensure data quality, 'past' HRM practices were also verified with archival records (such as HR policy manuals) as well as some previous studies of Chinese management undertaken in the early to mid-2000s. Some previous researchers (such as Kang et al., 2007) have demonstrated the viability of using the data collected post hoc to estimate changes.
3. Employee interviews focused on the events that happened to the individuals during the researched period. This provides additional sources of information about impacts of HRM change to employees.

Table 5.9: Operational Definitions for this Study and in the Relevant Literature

	Variable	Operational Definitions in this Study	Relevant Literature
HRM Areas	Resourcing & Retention	• Top executive appointment • Managers recruitment • Entry level (graduates) recruitment • Selection methods and criteria • Retention effort	Adopted from Björkman and Fan (2002); Ding, Goodall and Warner, (2002); Zhang and Parker (2002)
	Rewards & Performance	• Performance-based bonus scheme • Salary review mechanism • Promotion mechanism • Pay structure • Performance appraisal • Employee attitude survey	Adopted from Björkman and Fan (2002); Li (2003)
	Training & Development	• Focus of training programme • Target audience • Horizon of training programme • Resources for employee development • Employee self development • Knowledge management	Adopted from Björkman and Fan (2002)
Contextual Factors	Firm Size	• Number of full-time employees working in China	Adopted from Björkman and Fan (2002)
	Firm Nationality	• Origin of parent company	Adopted from Björkman and Fan (2002); Yan (2003) Category adopted from Scott (1995)
	Firm Age	• Number of years since establishment in China	Adopted from Björkman and Fan (2002)
Control Variables	Branch Network (Location)	• Distribution pattern of branches • Number of branches	Adopted from Leung and Young (2002), Leung and Young (2005)
	Firm Ownership	• Type of ownership • Public listings	Modified from Ding and Akhtar (2001)
Time Effect		• Every year from 2000 to 2008	Not applicable

Source: developed for this research

Figure 5.10: Operational Definitions of Variables



Source: developed for this research

Table 5.11: How Comparative and Historical Data were Captured in Interviews

Area	Question	Bank		Past Practice	Present Practice	Future Practice	Why Change
Reward & Performance	Bonus Payout	FIB	Home				
			Host				
		LCB					
	Salary Increase	FIB	Home				
			Host				
		LCB					

Source: extracted from Appendix 3: Interview Guidebook

5.6. Data Management and Analysis

This section discuss the data management and analysis methods used for the study firstly by explaining the importance of the data management system, then by discussing in detail the data analysis undertaken. This section also outlines the techniques that are utilised to draw conclusions from the data.

5.6.1. Data Management

Miles and Huberman (1994) define data management as the processes for systematic and coherent data collection, storage and retrieval. They state the purposes of data management as: to access high quality data, document the analysis undertaken and manage data and analysis throughout the study. Yin (2003) highlights that data management can be through a general analytic strategy to define and test rival explanations, as well as through a descriptive framework to organise the information and identify the appropriate links. Strauss and Corbin (1990) explain that data collection, analysis and theory stand in reciprocal relation to each other. Therefore, the analytic or interpretive procedures that one used to arrive at findings for this research comprise several interactive processes. Modified from the suggestions of Miles and Huberman (1994) and Strauss and Corbin (1990), the data analysis processes used in this study include (a) data coding, (b) data reduction, (c) data display, (d) conclusion, and (e) contribution to theory.

5.6.2. Data Analysis

Data analysis has the function of interpreting the collected data to produce conclusions and evaluating alternative conclusions. It consists of 'examining, categorizing, tabulating, testing or otherwise recombining both quantitative and qualitative evidence to address the initial propositions of a study' (Yin, 2003: 109). The key focus of data analysis in this study is guided by two research questions and several research issues regarding change. The processes of codification, storage and retrieval for data analysis are established with routine processes to minimise bias (Neuman, 2006). Three sets of data are: qualitative data collected from exploratory

interviews with HR staff, qualitative data from employee interviews, and quantitative data from archival records analysis. In this data analysis process, an initial qualitative data analysis from exploratory interviews led to the identification of themes. These themes were then compared either to the quantitative data or employee interviews. Below describes the processes.

Data Coding: Data coding is the method by which raw data are organised into conceptual categories and is the basis upon which themes or concepts emerge to analyse the data (Neuman, 2006; Yin, 2003). Data from exploratory interviews and employee interviews were transcribed and uploaded into ATLAS.IT, a computer software, for text management and data coding. The use of computer software to manage qualitative data enables constant revisions of coding, facilitates movement from codes to broader categories and assists enquiry, search and reporting. An initial codebook was set up comprising the categories obtained from the literature on HRM transfer and adoption; these were then revised in the light of the participants' key points of view. For example, 'retention' was frequently mentioned and related to several passages in the text of many interviews. Accordingly, categories and sub-categories were developed and used to classify the text. Theoretical sensitivity (Glaser, 1992) was applied where actual words of the respondents were often used as category and sub-category headings (Neuman, 2006; Yin, 2003) and concepts used in the discussions were developed directly from the data.

A coding manual was then created using those category and sub-category headings so as to facilitate quantitative analysis. The coding manual 'is a set of question with which the coder addresses the materials, and to which the coder reaches answers within a predefined set of alternatives' (Bauer, 2000: 139). Content analysis method was then used to analyse the exploratory interviews concerning the three HRM areas. Content analysis is a widely used technique for making references by objectively and systematically identifying specified characteristics of messages (Holsti,

1969: 18). Bauer (2000) describes content analysis as '... a technique for making references from a focal text to its social context in an objectified manner... Content analysis often involves statistical treatment of text units. "Objectified" refers to systematic, procedurally explicit and replicable procedures' (Bauer, 2000: 133). For instance, the importance of performance on merit increase was quantified and coded as: 1 represented large impact, 2 represented moderate large impact, 3 represented medium impact, and 4 represented moderate small impact; and 5 represented small impact. Appendix 6 shows the coding manual with coding categories.

Data from archival records were quantitative data. Together with the content-analysed data, they were edited, coded and analysed using statistical analytical computer software, such as Statistical Package for the Social Science (SPSS). Dummy variables were used to transform non-interval and non-ratio contextual variables into an acceptable format that could be analysed in SPSS. Collected data was tested on normality and abnormal data were assessed.

Data Reduction: Miles and Huberman (1994) describe data reduction as focusing, simplifying, condensing and structuring the data so as to reduce the raw data to a manageable form for analysis. Such a process allows the identification of themes and patterns (Neuman, 2006; Yin 2003) and prevents data overload which can distort the validity and richness of the data gathered. The interviews were first analysed individually to identify issues relating to HRM change and transformation of policies and practices. Next, a constant comparative method was used to combine inductive category coding from interviews and simultaneously compare all units of meaning obtained (Glaser and Strauss, 1967). Cross referencing between interviews was carried out to establish connections among HRM areas and further verify the validity of these data. The connections constituted an emergent process in constructing grounded interpretations of the collected data and elicited implications on issues relevant to this research (Yin, 2003).

Quantitative data collected from archival records and content-analysed data from interviews were examined to determine whether they would be acceptable for being used in this study. The data were further checked for errors, omissions, or mistakes to ensure that collected data were accurate, complete, unambiguous, consistent with other information, and then arranged in the same format for data input. If data collected from different sources were inconsistent, the differences were reconciled either with additional sources of data or through verification with the banks. Overall, triangulation across different data sources revealed a high level of consistency.

Data Display: Data display is the step by which data are presented so that conclusions can be viewed clearly, concisely and logically (Miles and Huberman, 1994). In order to decipher a picture of HRM change, data were consolidated and displayed in several graphs. The advantage of this method was that it became possible to gain an overview of the inter-connections among the data and patterns of HRM change. The process was not straightforward, but it ensured that data were not rigidly pre-determined. From time to time the raw data were re-read to ensure accuracy of categorisation. During this re-reading process, some data that had been overlooked were highlighted and HR dimensions were subsequently modified. This task helped identify a number of associated features and descriptions of HRM change.

For the quantitative data, descriptive analysis was conducted using SPSS to gain a better understanding of the data; and this included the construction of frequency distributions and standard deviations to gain an overall view of the results (Zikmund, 2000). In addition, multi-dimensional scaling was used to plot the two-dimensional matrices and a cluster analysis was utilised to identify if there were any patterns of HRM practices across different groups (see Figure 6.6 for an example). Furthermore, various techniques were employed for different purposes. For example, chi square tests were employed to analyse HRM differences between LCBs and FIBs.

Correlation Pearson r was used to test relationships among HRM areas, contextual factors and control variables. Noting distribution patterns, seeing statistical tests and clustering, helped the researcher review what the relationships were.

Conclusion: The next step of data analysis consists of conclusion drawing and verification that develop meanings from the data displayed (Miles and Huberman, 1994). Conclusion drawing and verification took place throughout the data analysis process when both qualitative and quantitative data were consolidated, clustered, sorted and linked together to observe patterns and themes. For example, the exploratory interview data were examined by 'microscopic analysis' (Bruno, 2004) to discover the meaning between the lines, and thus uncover the structure of the social object represented in a text. With the realism research paradigm being used in this study, meanings were enriched by a very detailed or thick description (Geertz, 1973) of a setting so that patterns of relationships from the data were clearly visualised. This revealed a maximum of meaning from a minimum of data and avoided detaching oneself from the text too quickly and developing theoretical conclusions that were not grounded in the data (Bruno, 2004).

Contribution to Theory: The final phase in the data analysis process is to build conceptual and theoretical coherence through comparisons with prior theory in the existing literature as well as seek out opportunities to replicate the research findings. This will be further elaborated in Chapter 9.

5.7. Tests for Research Design and Data Quality

For any research findings to be applied to support, develop or contradict theory, there must be confidence in the data from which the conclusions are drawn. This section outlines the tests used to evaluate the veracity of the data from which conclusions were drawn.

5.7.1. Validity and Reliability

To establish and assess the quality of the research design and rigorousness of the data collection method, two prominent criteria, validity and reliability, are used. Validity refers to the truth-value or credibility of the study results (Miles and Huberman, 1994; Kirk and Miller, 1986) of a research project, or the integrity of the conclusions generated from a piece of research (Seale, 2004). The notion of validity refers to the extent of matching, congruence, or 'goodness of fit' between the indicators and the concept. The major types of validity relevant to this study are construct validity, internal validity and external validity. Reliability is concerned with the question whether the measures are consistent and whether the results of a study are repeatable (Bryman, 2004).

Neuman (2006) points out that while reliability and validity are complementary concepts, reliability is a necessary condition for validity to occur. Therefore, these criteria have been considered in each step of the research design; and various ways have been taken to ensure validity and reliability throughout the investigation (Table 5.12).

Some literature proposes that qualitative study should be judged according to different criteria from those used by quantitative research. Guba and Lincoln (1994) and Lincoln and Guba (1985) suggest four criteria for assessing a qualitative study and each of them has an equivalent one in quantitative research. They are: (1) credibility (which parallels internal validity), (2) transferability (which parallels external validity), (3) dependability (which parallels reliability) and (4) confirmability (which parallels objectivity). Since this study consisted of both qualitative and

quantitative approaches, these criteria were taken into consideration as well.

Table 5.12: Validity and Reliability for this Study

Evaluation Criteria	Key Characteristics	Ways Designed for this Study to Ensure Validity and Reliability
Internal Validity / Credibility	Cause-and-effect relationship between variables	• Have extensive engagement in the field • Conduct persistent observations • Use multiple sources of data • Present research findings for feedback • Research for negative instances
External Validity / Transferability	Generalisation of findings in the domain	• Use multi-stage sampling to draw representative banks • Compare study findings with the existing literature through analytical generalisations • Use of direct quotes and thick description when presenting findings
Construct Validity	Whether a measure reflects the concept that it is supposed to be denoting	• Check interview guide by pilot study • Use multiple sources of data • Have member check and clarification
Reliability / Dependability	Consistency of the measures and repeatability of the study	• Use multiple methods to collect data • Create database to record extensive field notes
Objectivity / Confirmability	Conduct of research in good faith	• Establish rigorous data collection procedures • Use of data triangulation and method triangulation • Have member check and clarification

Source: developed for this research

5.7.2. Ways to Check Quality

Internal Validity / Credibility: The primary concern of internal validity is the cause-and-effect relationship between variables (Yin, 2003). In qualitative research, cause-and-effect internal validity is normally not a major concern because qualitative research tries to identify what variables are involved in a phenomenon and leaves the cause-and-effect relationship between the variables to later quantitative research. Internal validity in qualitative case study research can be extended to the bigger issue of the establishment of the authenticity of the findings, that is, ensuring that research is carried out according to the canons of good practice (Lincoln and Guba, 1985). Internal validity relates to domains such as the following. Was sufficient care taken with the statements of interviewees during the research process, were the multiple constructs of participants appropriately, were they related systematically to one another, and were they tested for their validity with the participants (Steinke, 2004)?

In this study, internal validity, and thus credibility, was obtained through extensive engagement in the field, persistent observations and method triangulation. Lincoln and Guba (1985) suggest having the findings approved by the constructors of the multiple realities being studied. In the interview process, the participants were given the opportunity to raise questions for clarification and elaboration. The participants also spent time explaining their banks' operations to the researcher, which helped her understand the change issues. Credibility was also established by presenting the research findings to other researchers for comments during conferences, seminars and publications, as well as looking for negative instances or deviant data that might contradict emerging analyses and theories.

External Validity / Applicability: External validity describes the degree to which a study's findings can be generalised beyond the cases at hand (Bryman, 2004). It is usually enhanced with a greater number of representative observations or cases. Applicability refers to the concept that has a similar meaning to external validity or generalisability. Findings are more applicable when they come from several independent sources (Miles and Huberman, 1994). While quantitative research seeks statistical generalisation, qualitative research seeks analytical generalisation to some broader theory (Miles and Huberman, 1994; Yin, 2003).

In this study, multiple banks with representative characteristics were drawn through multi-stage stratified sampling. Representative banks were investigated to ensure that the settings studied were not unusual or atypical in anyway, so that what was discovered about them could hold true for others in the population. Moreover, comparing the research findings to the literature further facilitated analytical generalisations in this study. Besides, the research findings in Chapters 6, 7 and 8 produced rich accounts of the details, or thick description in Geertz's (1973) terms, for making judgements about the possible transferability of findings to other milieus. Many direct quotes from the HR staff interviewees and stories from informal interviews with employees were incorporated so that readers and future researchers interested in conducting similar research could have a clear picture of how the data were interpreted and what each concept meant in the study.

Construct Validity: Construct validity describes whether a measure that is devised from a concept really reflects the concept that is supposed to be denoting (Bryman, 2004; Yin, 2003). A central dimension involves the correspondence between theoretical ideas and researchers' observations. If the measure behaves the way it is supposed to, in a pattern of inter-correlation with a variety of other variables, there is evidence for construct validity (Zikmund, 2000).

Yin (2003) lists three tactics to increase construct validity. These are (a) triangulating data by using multiple sources of evidence, (b) establishing a chain of evidence during data collection, and (c) reviewing the research findings. During the data collection, a pilot test was carried out with several companies to examine the construct validity of the interview guide. With data triangulation, multiple sources of data generated consistent findings and provided evidence for the same phenomenon. In addition, the key informants reviewed the interview notes. Through this tactic any inconsistency or ambiguity was discussed and clarified from the very beginning, which constituted a way of enhancing the construct validity and overall quality of this study.

Reliability / Dependability: Unlike validity, reliability is concerned with the question of whether the measures are consistent and reasonably stable over time and across researchers and methods (Seale, 2004). It is the degree to which 'the finding is independent of accidental circumstances of the research' (Kirk and Miller, 1986: 20). Lincoln and Guba (1985) propose a similar concept, dependability, which means that researchers look for ways to take into account the factors of instability and the factors that produce change. To make research dependable, they adopt the concept of 'overlapping methods'.

In this study, using multiple methods facilitated the researcher to check if the themes raised from exploratory interviews remained similar to the results generated from employee interviews and archival records analysis. Besides, Kirk and Miller (1986) suggested a method of recording extensive field notes to ensure reliability in research. In the present research design, 32 exploratory interviews in 13 companies, 8 employee interviews in 6 companies and plenty of archival records were included. A database was set up and kept up to date for access.

Objectivity / Confirmability: The conventional view of objectivity rests in the ontological position that asserts social phenomena and their meanings have an existence that is independent of social actors (Bernstein, 1983). While recognizing that complete objectivity is impossible in social research such as this one has, the researcher can be shown to have acted in good faith or confirmability (Bryman, 2004). In other words, the researcher has not overtly allowed personal values or theoretical inclinations manifestly to sway the conduct of the research and findings deriving from it. This domain is sometimes labelled 'external reliability', with emphasis on the replicability of a study by others (LeCompte and Goetz, 1982).

In reaching confirmability and replicability, Lincoln and Guba (1985) propose triangulating data and keeping a journal during the research process. In this study, data and method triangulations were used. Rigorous and detailed data collection procedures were adopted. Interviews and their sequencing were audited to reflect how the research was done and whether the methodological process was conducted objectively. Objectivity was further enhanced by using member check technique (Lincoln and Guba, 1985) in which interview notes were verified by the interviewees at the conclusion.

5.8. Ethical Considerations

Ethical considerations are an integral part of academic research methodology (Miles and Huberman, 1994). Research ethics refers to the standards established for the conduct of research. Guidelines published in the *Research Studies Handbook of City University* were strictly upheld throughout the study. Other guidelines published by professional associations were taken into consideration. For example, *Statement of Ethical Practice of British Sociological Association* states the purposes as to make members be aware of ethical issues that may arise throughout the research processes and encourage them to take responsibility for their own ethical practice; and as far as possible, the research should be based on the freely given informed consent of those studied (Statement of Ethical

Practice). *The Code of Conduct, Ethical Principles, and Guidelines for British Psychological Society* emphasises that researchers should (a) anticipate and guide against consequences for the research participants which can be predicted to be harmful, and (b) consider carefully the possibility that the research experience may be a disturbing one (Code of Conduct, Ethical Principles, and Guidelines). The general principles of ethical standards cited by most literature (Bryman, 2004; Seale, 2004; Zikmund, 2000) are voluntary participation, informed consent, avoidance of harm and confidentiality. This section discusses these standards as well as the measures taken in this study to ensure high ethical standards.

Voluntary Participation: The aim is to ensure that research participants are able to decide for themselves appropriately about participation and withdrawal at any time for any reason (Seale, 2004). The ethical practice adopted for this investigation comprised of the covering letter and purposes statement included with the interview guide. These documents provided sufficient information for the participants to make an informed decision. The participants in the interviews were assured that they were not being pressured into participating.

Informed Consent: This aims at supporting the principle of individual autonomy and is widely agreed to be a safeguard for the rights of human subjects participating knowingly and voluntarily in research (Seale, 2004). During the data collection, the participants could withhold information about which they felt uncomfortable about releasing. Beside, the purposes of this study were fully explained, in both oral and written forms, to the participants and data providers in detail.

Avoidance of Harm: Ethical standards require that the participants are not put in a situation where they may be at risk as a result of their participation in the research. The issue is addressed by keeping the identities and records of individuals and companies anonymous (Bryman, 2004). Anonymity was agreed upon for all participating banks and individuals. Information that

might identify the identities of the company, HR personnel and employees was removed. Pseudonyms were used to represent the companies and participants in the report so that that back tracing of identities would be impossible.

Confidentiality: Confidentiality is required to protect the privacy of the research participants. Data collected from interviews and archival records were stored in a locked filing cabinet and could only be assessed by the relevant parties. Care and due diligence were exercised throughout all personal exchanges to respect and maintain the privacy and confidentiality of the participants.

In sum, ethical considerations were addressed and ethical standards were upheld throughout the study. This, in turn, enabled open and direct discussion during the research and contributed to valuable information.

5.9. Chapter Summary

This chapter outlines the research methodology and design used in the investigative process. This research uses multiple research designs (exploratory and descriptive research designs) and employs both qualitative and quantitative approaches in data collection and sources of data. A realism paradigm with Chinese ontoepistemology is used to facilitate the interpretation of complex constructs of transfer and adoption of HRM practices.

Field research began with multi-stage stratified sampling in which 13 banks with various sizes and nationalities were drawn. An interview guide was developed from the literature, reviewed by subject matter experts, translated by academic professionals, and tested with similar companies before launching. Exploratory interviews were conducted with key HRM staff and informal employee interviews further enriched the data. The data collection involved collecting a series of panel data from multiple archival records and capturing information on banks with different characteristics.

Triangulation from multiple interviews, data sources and methods were used to establish data reliability.

After the data were collected, interactive analytic processes, including data coding, reduction, display, conclusion and contribution to theory, were used to manage data collection, storage and retrieval. As a result, comprehensive descriptions from qualitative research significantly added value to the findings from quantitative statistical analyses. In addition, to assure a high quality data and rigorous research process, several ways were designed to check validity, reliability and objectivity. Last, but not the least, the ethical standards of voluntary participation, informed consent, avoidance of harm and confidentiality were upheld throughout the study.

Based on this research design and methodology, an investigation was conducted. The next three chapters will share the findings from this study.

6. Findings: Difference in HRM Areas

6.1. Chapter Introduction

This chapter and the next two chapters present the findings of this study. There are two research questions for this study. This chapter focuses on part of the first research question to assess if LCBs and FIBs operating in China have similar or different HRM practices. The objective is to describe and interpret data and patterns of three HRM areas in order to show the degree of change in HRM. The second research question will be dealt in Chapter 7 and the remaining issues of the first research question will be discussed in Chapter 8.

This chapter first describes the major characteristics of the sampled banks and respondents (Section 6.2). It is then followed by an analysis of the three HRM areas: resourcing and retention (Section 6.3), rewards and performance (Section 6.4), training and development (Section 6.5). Each HRM area consists of a number of HRM practices which are found relevant to this study in Chapter 4. For example, rewards and performance consist of remuneration components, such as bonus, salary, promotion, pay structure and performance appraisal. A constant comparative method is used and interpretations of the collected data are grounded to elicit the implications relevant to this research. At the end of each section, the components are consolidated into a summary table and displayed in a two-dimensional matrix. In this way, the gap in the HRM areas is recognised and the clusters of banks are grouped.

6.2. Descriptive Statistics of the Sample and Participants

As context for the following analysis, it is valuable to report some details with respect to bank characteristics and participant profiles. It should be mentioned that the names of banks and participants cannot be revealed because of research ethics of confidentiality and avoidance of harm as well as the commercial sensitivity of business plans. Pseudonyms are used to represent the banks in this study so that back tracing of the identities would be impossible. Numbers 1 to 13 represent the thirteen sampled banks in no

particular order. For instance, in Table 6.1 'CM1' is the code for a medium LCB, and 'AS4' is the code for a small Asian bank. The sample consists of banks of different firm nationalities and sizes which are typically representative banks that are actively involved in the banking industry. Representative banks were investigated to ensure that the settings studied were not unusual or atypical in anyway, so that what was discovered about them could hold true for others in the population. It is felt that sufficient information richness was gained from the data collected from these thirteen banks.

Since the sampling frame does not consist of 'small' or 'medium' SOBs, the two 'large' LCBs (CL2 and CL3) in the sample are SOBs. The medium LCB (CM1) is a NCB. The skewed population may pose a limitation during data analysis. Sampled FIBs have more variety in size, from small, medium to large.

Table 6.1: Characteristics of Sampled Banks

		Firm Size		
		Small Size < 1,000 employees (S)	Medium Size 1,000 – 5,000 employees (M)	Large Size > 5,000 employees (L)
Firm Nationality	Chinese (C)	Not applicable	CM1	CL2, CL3
	Asian (A)	AS4	AM5	AL6
	American (U)	US7	UM8, UM9	UL10
	European (E)	ES11	EM12	EL13

Note: There were 13 banks in the sample and their names were denoted by firm nationality and size. For example, CM1 was a medium-sized LCB; EL13 was a large European bank, etc.
Source: developed for this research

Exploratory interviews with Department Heads of HR, Section Heads of HR (for example Vice President of Compensation and Benefits), Generalist HR Managers and Specialist HR Managers were conducted. The years of company service of interview participants ranged from 2 to 10 years and the average was 4 years. Participants were predominately female (80 percent). Most interviewees have earned degrees either from a professional college, polytechnic, or university.

Employee interviews included participants from a variety of positions and levels, for example officers, professionals, and managers from front offices, middle offices and support functions. The majority of participants were female (60 percent). Some of them have been working in the banks for over 5 years.

6.3. Resourcing and Retention

The focus of this section is on a discussion of whether a convergence in resourcing and retention practices has occurred in China's banking industry. A number of specific questions were examined. These included: to what extent had resourcing and retention practices commonly used in the advanced Western economies, such as rigorous selection processes, graduate recruitment, multiple retention tools, been adopted by local Chinese companies? What has been the development of selection criteria in China's banking industry after the relaxation of market entry rules?

6.3.1. Top Executive: Appointment, Expatriation & Localisation

When entering into China's market, most FIBs adopted an ethnocentric approach in resourcing policy. Key top positions were being filled by expatriates from the home countries. In more recent years, a number of FIBs considered a geocentric staffing strategy to utilise the best people for the key jobs throughout the organisation, regardless of nationality. Based on archival records analysis, in the annual report of one of the FIBs, the Chairman explained:

> *'The existing talent pool within the Chinese market is not deep enough to meet future demand. Secondments and international assignments are used to bring in experienced employees from outsides those countries to help provide capacity and to share skills, ideas and experience. This is one of our advantages of being a global network'.*

Besides a geocentric approach, some FIBs considered localising part of their senior positions, a strong polycentric tendency. The trend for international assignments and localisation was primarily due to three factors: (a) cost considerations, (b) availability of local talent, and (c) fairness considerations. Secondments and international assignments have the advantage of broadening managers' experience and vision by putting them in touch with practice in other parts of the organisations (Poon, 2008). The total compensation package for an expatriate could be twice as high as an equally qualified local executive. For example, EM11 ran a Mandarin-Speakers Programme to recruit Chinese professionals all over the world who could understand the country and the Mandarin language. EM11's target was to attract and recruit high-calibre Chinese nationals graduating from overseas universities or working around the world with the desire to return to China, or 'globalised' localisation in Yeung's and Mok's (2002) terms (see Section 4.4.1. for details). With the rising educational level of local professionals plus increasing importance of the Mandarin language to expand local retail banking, geocentric and polycentric tendencies would likely be to accelerate in the years to come.

Appointment decisions for banks' senior managers and above in Chinese SOBs were largely affected by local government and less by management at bank headquarters. The strong influence meant those governments were able to exert powerful pressure on the banks on their decisions, for instance showing preference to extend loans to government, giving priority to state projects. NCBs were not immune from state interference because their major shareholders are local big institutions closely related to state. The decision to recruit senior managers was, to a certain extent, susceptible to political pressure. In spite of the fact that these three LCBs have been

publicly listed and some outward features (including position titles and job descriptions) corresponded to their Western counterparts, the chairperson and senior managers still reported to the PBOC (central bank) for examination of their credentials. It seemed that centralised appointments have not come to an end even after more than a decade of labour reforms.

6.3.2. Manager: Allocations versus Expansion

Other than top executive level, most FIBs preferred replacing expatriates in management and technical positions with local Chinese people, or 'localised' localisation in Yeung's and Mok's (2002) terms. Headquarters tended to consider localisation of mid-level managers the more culturally appropriate way to proceed. Nevertheless, the issue is that China has a large pool of unskilled and semi-skilled workers, but is short of well-trained managers and technical people (Hassard et al., 2004). Recruiting qualified managerial and technical personnel was difficult. Business expansion after WTO accession (but before 2008 credit crunch crisis) triggered off a talent war in the labour market. AL6 said it would double the number of branches in China in next few years. So, the top manager commented that:

> *'There has been always a need to recruit managers to oversee new branches and handle new services, but experienced and talent bankers are limited in the market.'*

To make recruitment in China even more challenging were the ever-growing turnover rates and demand for high salaries. '*High staff turnover is our headache*' was cited as a problem by many FIBs. Before the global financial crisis, turnover rates were around 13% to 15% in China's major cities in 2007 (WW, 2007). Turnover rates among banks and financial institutions, however, hovered over 18%. Management levels and highly educated professionals have much higher turnover rates than lower level staff (WW, 2007). Despite the fact that many FIBs trimmed their headcounts in their home countries, their recruitment policies and manpower plan in China largely remained unaffected even after the financial crisis. EL13 said there would be little impact on its growth in China despite its international workforce reduction (China Daily, 2008).

Driven more by economic than social imperatives, FIBs are more likely to strive for the best return on investment through their human assets. As recruitment and selection could influence the quality of human assets, FIBs actively extended their search efforts on acquiring the most appropriate candidates within a short period of time. Some of them, including AS4, AL6 and ES11, found a short-term solution to tackle HR shortages by seconding overseas employees to China. Some other banks, typically those with subsidiaries in the Asia Pacific, hired managers and professionals from Hong Kong, Taiwan or Singapore for linguistic and cultural reasons. Still some others looked beyond the traditional Chinese business centres (for instance Beijing and Shanghai) to seek out their employees, with intense recruitment efforts in other cities (for example Chengdu, Dalian, Tianjin, Qingdao and Chongqing).

LCBs, however, held an opposing perspective. Business expansion was less of a concern for them as their size was large and their branch network was extensive. In fact, some studies (such as Chiu and Lewis, 2006) pointed out that SOBs were actually often over-staffed. Struggling with over-staffing problems, LCBs were less likely to engage actively in recruitment of new managers. A survey undertaken by Hewitt (2009) showed that major business sectors in China, such as import/export/trading, financial services/banking, and retail sectors had close to zero new job growth following the financial crisis. The latest manpower figures also show a slowdown both in staff turnover and the pace of job creation among Chinese banks. Employers in LCBs are now becoming more prudent in creating new positions and making hiring decisions.

In fact, internal promotion, as opposed to external recruitment, was more common. Succession planning, a lifetime employment concept, was still the mentality held by SOBs and NCBs to tackle staff turnover issues. Among LCBs, the term 'succession planning' was repeatedly heard during the interviews. As a HR Manager of CL3 said:

> *'If we foresee that 5 years later, a manager will retire, we will start to identify the successor now, place the successor as the assistant and train him/her to take up the managerial position. We have a succession planning programme to solve the need of managerial recruitment.'*

Besides, LCBs were cost sensitive and often appointed people to key positions based on close relations and trust. They tended not to formalise the process of recruitment, but relied more on convenient, low-cost channels to find and select job applicants. These results were consistent with the findings of some researchers that 'recruitment practices were clearly less market-oriented in SOEs' compared with MNCs (Warner et al., 1999: 227).

6.3.3. Entry Level: College Graduate Recruitment

Other than recruiting experienced personnel, almost all FIBs had some sort of graduate recruitment programme as a long-term resourcing solution. The target candidates were graduates from universities (i.e. undergraduates, postgraduates and polytechnic graduates). The recruitment practices typically included campus talks, job postings, selection of graduates and placing new hires on some trainee programmes. Table 6.2 summarises the details of the banks' graduate recruitment programmes.

ES11, EM12 and EL13 (i.e. all European banks) extended their global graduate recruitment programmes to China and launched such programmes regularly. For example, that programme at EL13 was highly competitive. In 2005, of about 1,000 candidates who fulfilled the initial criteria, only 30 candidates (or 3%) were assessed through a series of examinations, multiple interviews and full-day assessments. The final 8 candidates (or just 0.8% of the applicants) were then sent to work in its Asia-Pacific branches for two-year training. Because the graduate programmes provided the trainees with wide exposure and extensive training, it was very popular among students. EL13 had over 3,000 employees in China in 2005 and planned to add 1,000 new employees to work in its new branches. This graduate recruitment programme assisted it to recruit graduates from top tier universities and bring sufficient new staff to support its expansion in China.

Two other American FIBs, UM9 and UL10, had an 'unofficial' graduate recruitment programme. When the banks had the headcount budget, they would conduct 'formal' campus recruitment. So far, such recruitment was not followed by the comprehensive trainee programme of EL13. How many graduates to be recruited, when and how to recruit, etc., were all subject to yearly review.

Even after the 2008 credit crunch crisis, many FIBs operating in China believed that China remains one of their top-priority markets and hence, they continued to invest, expand, hire and train people in China. Some other FIBs, such as ES11 and EM12, said they would recruit just as many graduates in 2009 as they did before. Their views were:

> '*We are taking the long-term view and believe in graduate recruitment because we are building our future leaders. It is a long-term investment.*' (BBC News, 2009)

Because of the limited budget and size, small banks could not afford to launch graduate recruitment programmes regularly. Customising its recruitment practices to such constraints, AS4 (a small Asian bank) cooperated with some Chinese universities to organise a student placement programme. The universities selected and recommended potential students who worked in AS4 on a part-time basis. After graduation, AS4 offered full-time jobs to those good performers. In this arrangement, AS4 saved the costs, money and effort of conducting full-scale campus recruitment while getting a pool of potential candidates.

LCBs introduced some sorts of graduate recruitment programmes. CM1 tried to launch campus recruitment to hire fresh graduate a few years ago (from 2001 to 2004). But, the programme was not successful. One of the reasons was that the programme was not able to attract sufficient graduates from top tier universities. Due to the response rate and the quality of new recruits, top management thought that: *'graduate recruitment was not the first priority to get new people'*. Though new recruitment practice was launched, such change could not be sustained. Employees, including top

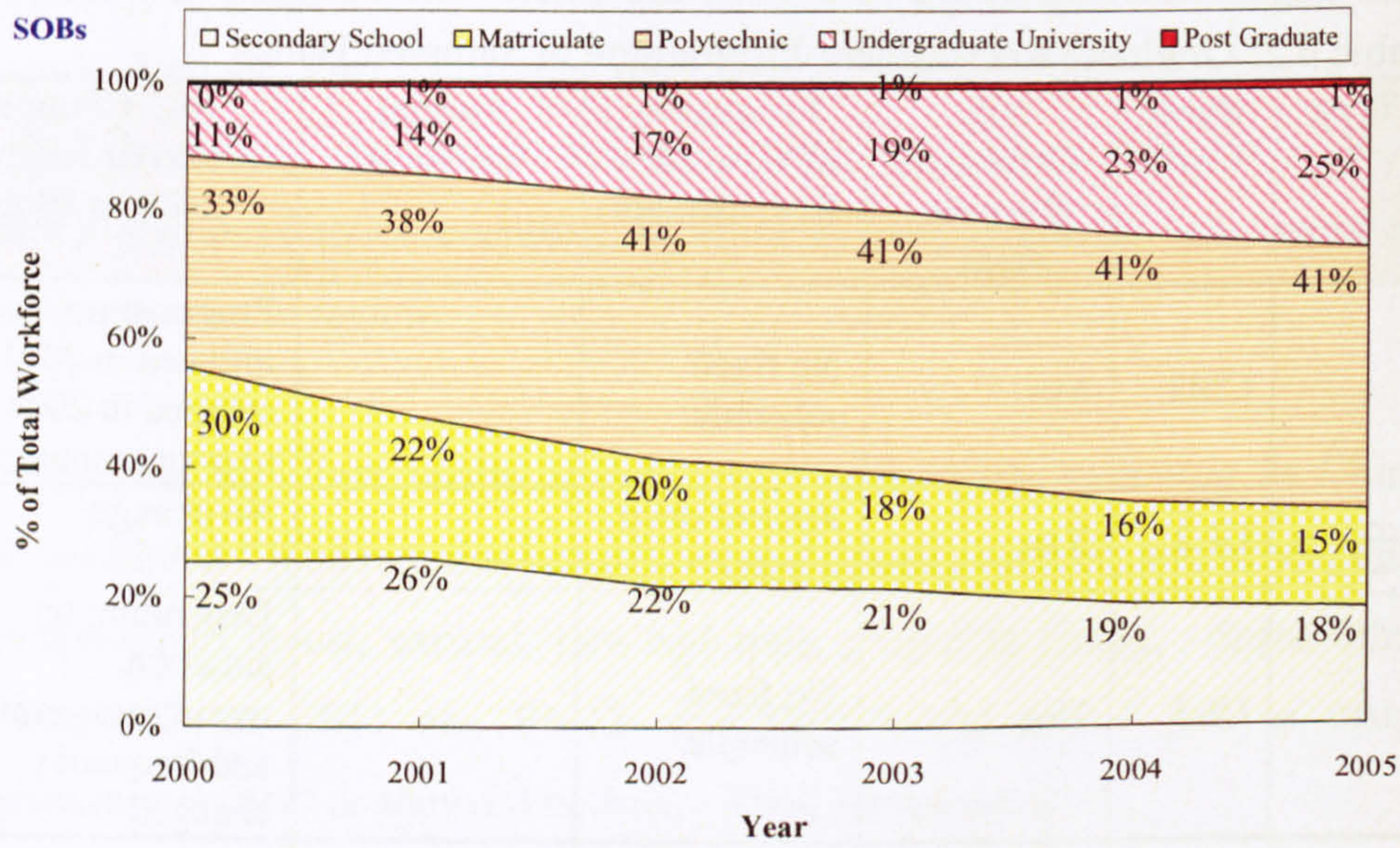
management, had not internalised the new HRM practice.

Table 6.2: Graduate Recruitment Programme in Sampled Banks

Type	Bank Code	Any Graduate Recruit-ment?	Frequency of Graduate Recruitment	Special Features	Any Change Occurred Between 2000 to 2005
LCB	CM1	Yes	No fixed schedule	-	Programme initiated in 2001 but stopped in 2004 due to poor response
	CL2	Yes	Recruit once a year	-	No change
	CL3	Yes	No fixed schedule	-	Depending on situation, recruitment number and frequency changed
FIB	AS4	Yes	Recruit once a year	Student placement	No change
	AM5	No	-	-	-
	AL6	Yes	Recruit once a year	-	No change
	US7	No	Not applicable	-	No change
	UM8	Yes	No fixed schedule	-	No change
	UM9	Yes	Recruit once a year	-	Initially, it was an unofficial programme, then stopped due to budget and restated as an official programme
	UL10	Yes	No fixed schedule	-	
	ES11	Yes	Recruit twice a year due to high staff turnover	Global recruitment, same practice as head office	No change at local branch, changes are initiated by head office
	EM12	Yes	Recruit once a year		
	EL13	Yes	Recruit once a year		

Source: from interviews

Figure 6.3: Education Background of Employees in China's Banking Industry



Source: PBOC (2008)

The implementation of graduate recruitment programmes affected the mix of employees working in the banking industry. Before the reforms, new employees were allocated by government to various SOBs who did not have any choice in the quality of new employees nor in the number of the intakes. After the reforms, SOBs were given the authority to recruit according to their business needs. Graduate programmes were introduced in some banks as a way to bring in new employees. Most of these programmes were launched in the 2000s when the industry was opened up to greater competition under the WTO agreement. Figure 6.3 shows the education background of employees working in the SOBs and NCBs. More people with university or polytechnic degrees were recruited after 2000; and the percentage of employees with such an educational background in SOBs dramatically increased from 44% in 2000 to 66% in 2005. A similar phenomenon was also observed in NCBs and the percentage of employees with university or polytechnic degrees increased from 66% in 2000 to 77% in 2005.

6.3.4. Selection Methods and Criteria

From the findings, the job interview was the most commonly used selection method in the banking industry. Selection of new employees was conducted by functional managers with the assistance of HR managers to achieve a better fit between the jobs and the candidates. The trend to delegate HR activity to individual departments with staffing needs was also observed in an earlier case of a MNC in China (Zhu, 2000) and a survey of 440 companies in three Chinese cities (Zhu and Dowling, 2002). It is argued that allowing managers from functional departments to select job candidates for positions in that department can help better achieve a good match. Besides interviews, written tests and technical skills tests were also used by SOBs, NCB and FIBs for selection.

As for selection criteria, LCBs typically assessed technical skills, language abilities (both Chinese and English languages) and political background of candidates. It was conjectured that as LCBs could not afford to provide lots of training to new candidates, they might prefer getting a ready-skilled candidate (a 'buy' staffing decision) to training a new employee (a 'make' decision).

FIBs from different countries employed a variety of selection criteria, for instance experience, work history and education of candidates, as well as culture fit with the bank. They were more ready to select candidates on the basis on potential and then train them up (a 'make' decision). In selecting the appropriate candidates, numerous tools were used, including Western-style assessment centres, multiple interviews by peers or subordinates, and hypothetical problem solving questions, etc. However, these sophisticated selection methods were found to be problematic when applied in China. First, the Chinese education system does not train students to analyse open-ended hypothetical situations. Consequently, it is hard to draw a conclusion about suitability of candidates based on their performance in problem-solving exercises (Björkman and Lu, 2001b). Second, local applicants feel uncomfortable working under intense time pressure with unfamiliar people in a leaderless group due to the hierarchical and relationship-oriented nature of Chinese culture. Third, attempting to implement standardised worldwide selection practices faces difficulties beyond the known problems of establishing some translation equivalence of test and interview questions. Applying global tools with complicated processes required modification to fit to culture.

In sum, the selection practices that work in one situation do not automatically guarantee an effective transfer and adoption in another location because such practices can be in conflict with cultural values, institutional environments and other conditions. The underlying assumptions and HRM philosophies for successful application of selection tools and methods mean that a unique HRM system may be needed.

6.3.5. Retention Effort: Talent War versus Succession Planning

Though the exploratory interviews with HR representatives did not cover specific questions about retention practices, how to retain good performers was repeatedly mentioned by a number of banks. Using discourse analysis, the interview scripts were examined in light of this HRM practice. It was found that the phases: *'retain our best people'*, *'keep the talent'*, *'reduce staff turnover rate'*, and *'provide career opportunities'* were frequently repeated by people from a number of FIBs. These phases closely related to employee retention. A further examination of these retention phases indicated that firstly, FIBs were the ones that repetitively brought up this topic; and secondly, retention efforts closely linked with recruitment, rewards and training policies. Several people from FIBs made the following comments:

- *'Turnover of managers affects our recruitment policies.'*
- *'In order to retain people, we have high salary for certain individuals, but not the company as a whole... high bonus payouts of our competitors creates a chain effect to poach our people...'*
- *'Different levels have different training programmes. For example, a junior manager may take leadership training course. Two to three years later, full leadership training, including additional features, will be provided as a career development for retention.'*

While retention was the focal point of FIBs operating in China, this topic was not mentioned by LCBs. Although 'succession planning' was frequently mentioned by LCBs, it was not sure if succession planning would be used as a tool for staff retention or a reflection of lifetime employment.

Besides, the researcher had gathered some stories from people working in the sampled banks. These stories were captured from the informal conversations in social gatherings during her research in China. The interviewees were fully aware of the researcher's role and consented to release their stories. The names and positions of the interviewees were disguised so that they remained anonymous.

Leon was a senior financial analyst working in an American bank. He had been working with the bank for 4 years and was one of the best performers in the department. He was offered by another multinational company a managerial position with higher salary. He tendered his resignation on a Friday morning. In his afternoon, his supervisor, Head of Finance, tried to persuade him to stay but did not succeed. Head of Finance then talked to Regional Head of Finance for retention suggestion. On Saturday, Regional Head of Finance, who stationed in Japan, called Leon and proposed to him with a counter-offer of a 30% salary increase. Leon was not sure and asked for some time for consideration. Regional Head then talked to Global Head of Finance about the issue of keeping a best performer. On Monday morning, Leon got a phone call from Global Head, who stationed in US head office. A counter-offer package was proposed with a 30% increase in salary, a promotion to Finance Manager (newly created position) and an opportunity to have training in other countries. Leon was very impressed by the prompt response from the Regional Head and Global Head. Finally, he decided to stay in the bank. Six months later, he was on a training programme in US office.

Peter was a Division Head working in IT department of a LCB. He had been working with the bank for 3 years. Recently, he decided to take up another IT job in a multinational company. He tendered his resignation to his Department Head. A week later, HR department talked to him about the departure arrangements and conducted an exit interview to understand the reason of departure. His Department Head told him that they had recognised a successor for his position. There was no discussion or any action to persuade Peter to stay. Finally, he left the bank.

Pauline was an Operations Manager of an Asian bank. Recently, she gave birth to a child. After she returned from maternity leave, she decided to quit the company so that she could spend more time with her child and family. The bank considered that she was a capable talent and offered her a flexible work arrangement. Instead of handing full-time operations work, Pauline changed to be a part-time employee and handled work on a project basis (which was a new arrangement in the bank). Her new working hours would be 25 hours per week and on a flexible basis, not limited to any particular day or time. Such flexible arrangement allowed Pauline to take care of her child while working. Therefore, she decided to take the new employment arrangement.

Some common themes were found in these stories. In Leon's and Pauline's cases, the two FIBs where they worked used (1) a very creative way to retain people (flexible working hours, newly created positions) and (2) a mix of techniques (including both monetary reward of salary increase and non-monetary training commitment). In the first case, the counter-offer was made quickly and by the highest authority person in the department. In Peter's case, the LCB did not use any retention tool to retain the employee. Rather, it emphasised succession planning to fill the position. Retention tools, purpose and time to take action, were all different between LCBs and FIBs.

6.3.6. Resourcing and Retention Dimensions

Resourcing and retention can reflect a company's belief about HR. In this area, five practices were reviewed, including appointment of top executives, managerial recruitment, graduate recruitment programmes, selection methods and criteria, and retention effort. Qualitative research from exploratory interviews with HR staff and interviews with employees provided an in-depth understanding of the dynamics of organisational micro-politics and meaning of events. In order to reveal patterns of HRM change and test the rigorousness of research methodologies, qualitative data from interviews were quantified or content-analysed. As previously explained in Section 5.6.2., data from interviews were first transcribed and then categorised by headings to classify the text. A coding manual was created using those category and sub-category headings. Content analysis techniques were then used to analyse interviews data by objectively and systematically identifying specified characteristics of messages (Holsti, 1969). For instance, the intensity of recruitment effort was quantified and coded as: 1 represented very high effort, 2 represented high effort, 3 represented some effort, and 4 represented low effort, and 5 represented very low effort. Appendix 6 details the coding manual with coding categories. As a result, some recruitment and resourcing practices were quantified into numbers.

The quantified data was used in two ways. First, to test if LCBs and FIBs had similar resourcing and retention practices, a chi square test was employed. Chi square is a powerful test widely used in the behavioural sciences and organisation research (Pagano, 2004) and is objective and rigorous in revealing pattern. Chi square test result was significant (χ^2 = 8.444, $p < 0.05$). This showed that FIBs adopted different resourcing and retention policies and practices from their local counterparts. It is, therefore, interesting to evaluate at which staff level, top executives, managers, or graduate trainees, resourcing and retention practices differed.

Table 6.4 is a summary table of resourcing and retention in the banks. Depending on cost, time and resources, a bank faces a staffing decision to 'buy' from the labour market (recruit experienced employees) or 'make' in-house (recruit inexperienced people and train them up). The effort a firm spent on resourcing, hiring, selecting, recruiting and retaining the best people can also vary. Therefore, the second way to use quantified data was by a multi-dimensional scaling technique. Resourcing and retention practices were scaled down into two dimensions: a 'buy' versus a 'make' resourcing decision, and a high-low resourcing and retention effort. A two-dimensional graph is used to conceptualise these dimensions and the practices of the sampled banks are plotted in Figure 6.5.

In general, LCBs continued with more 'traditional' employment practices, for instance placing emphasis on political background of candidates in selection. Although the degree of government control had gradually diminished since the reforms, government influence on recruitment had not vanished. LCBs tended to adopt 'buying' experienced employees from the labour market. Resourcing and retention effort was relatively limited. Some 'inter-group' changes were observed, but most new practices could not be sustained (i.e. 'across-time' change was minimal). The pace, magnitude, and direction of such HRM change will further be examined in Chapter 8.

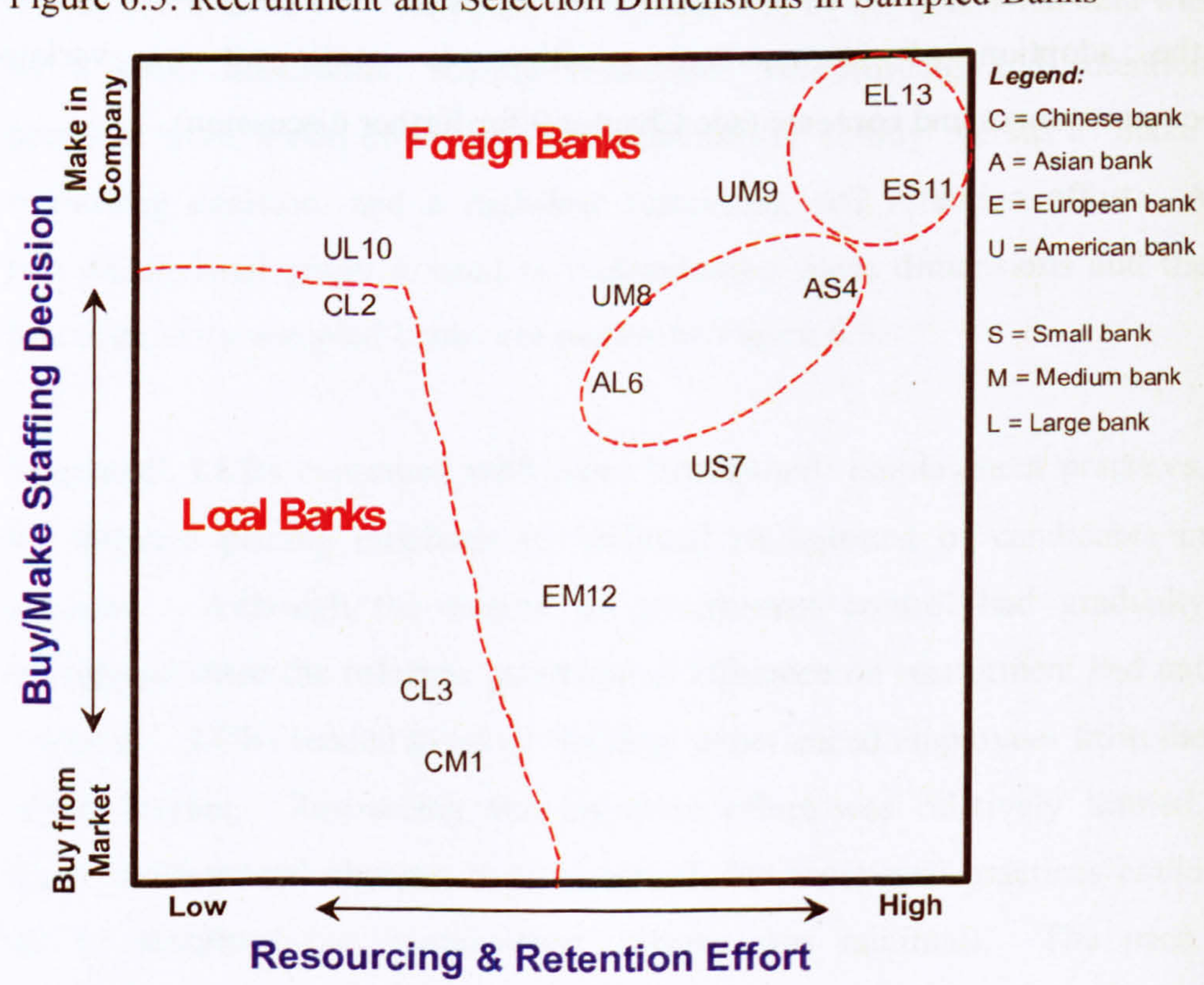
On the contrary, FIBs had more autonomy in their resourcing decisions. It appears that banks from the same firm nationality have similar recruitment practice, but firm size was less a factor influencing the decisions. Asian banks were willing to take a flexible approach to tackle staff shortages by use of some short-term assignments or student placement programmes. European banks tended to spend a lot of recruitment effort on making and developing young graduates with some customisation in the recruitment area. Both European and Asian banks spent the most effort on resourcing and retention using various retention tools and selection techniques. With business expansion, North American banks rolled out their standard recruitment programmes and global selection processes to China. Changes in recruitment and selection were limited. In fact, North American banks showed more similarity in their staffing philosophy compared to their parent in the Western markets (i.e. 'intra-group' change was not significant). It seems that not all recruitment and retention practices are changed with equal speed or in a similar fashion. Such multidimensional perspectives suggest the adoption of management practices is contingent on various circumstances and contexts (see Chapter 9 for further discussion).

Table 6.4: Summary of Resourcing and Retention Area in Sampled Banks

Type	Bank Code	Recruitment	Graduate Recruitment	Selection	Retention
LCB	CM1 CL2 CL3	Internal promotion with government allocation	Programme was stopped	'Bought' skilled candidates from market	Limited retention effort and tools
FIB	AS4 AL6	Short-term secondment to solve staff turnover	Student placement programme	'Bought' skilled candidates from market	Moderate to vigorous retention effort
	US7 UM8 UM9 UL10	Business expansion	Unofficial programme with no fixed hiring schedule	Insisted on rigorous and lengthy selection	Some retention effort but a passive approach
	ES11 EM12 EL13	Business expansion	Global graduate recruitment programme	Adapted to local constraints	Vigorous retention effort and various tools

Source: developed for this research

Figure 6.5: Recruitment and Selection Dimensions in Sampled Banks



Note: No information for AM5
Source: developed for this research

6.4. Rewards and Performance

The focus of this section is on a discussion of the rewards and performance area of LCBs and FIBs. Salary increase and bonus payment are the most important compensation components in retaining and motivating employees in China (Chu and Luk, 2002). A number of interview questions were around these components. In addition, information about promotion, pay structure, performance appraisal (PA) and employee attitude surveys were collected.

6.4.1. Bonus Scheme: Performance-based

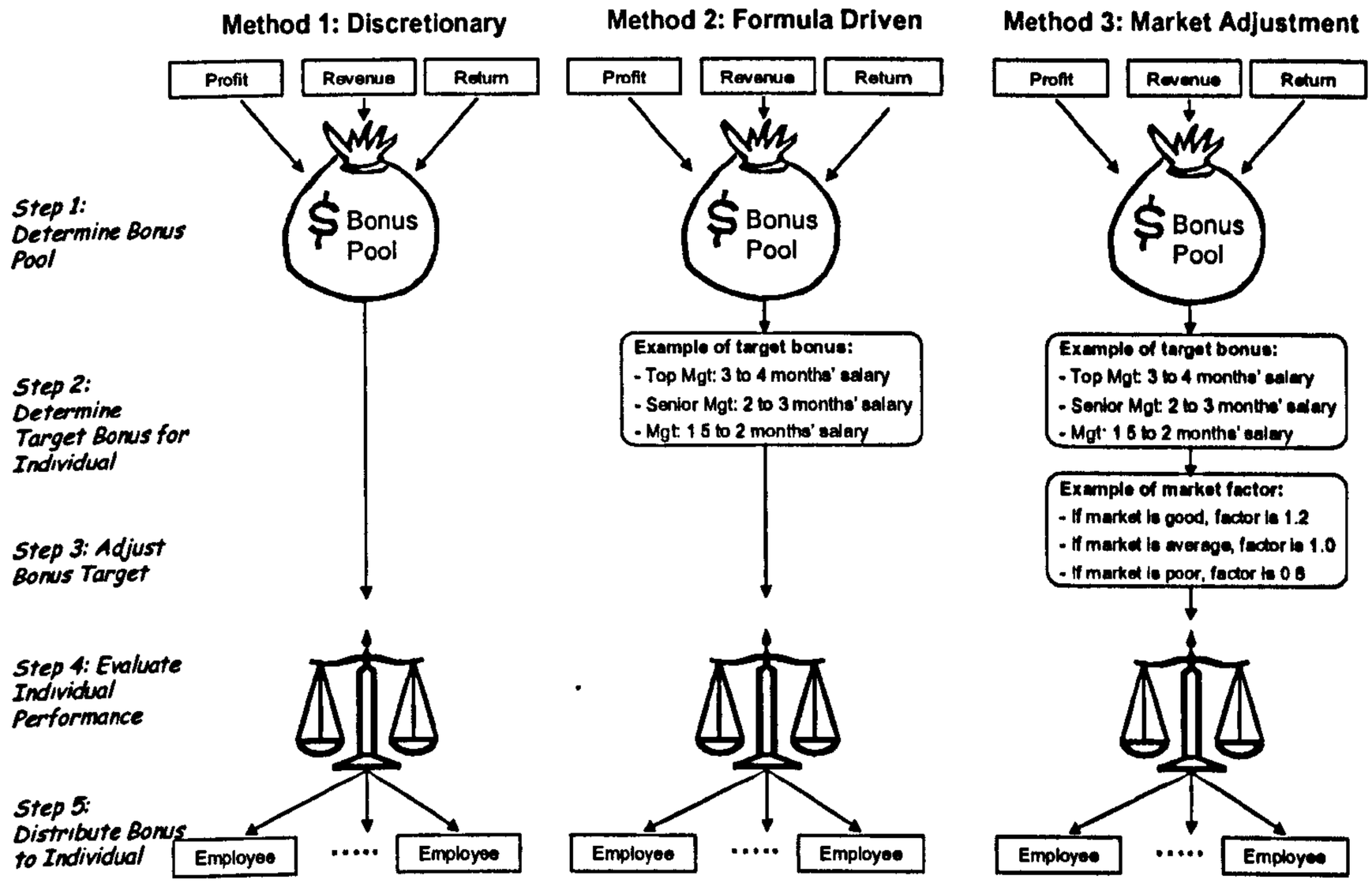
In China's banking industry there are three common bonus schemes being used: namely a discretionary approach; a formulae-driven design and a market adjustment factor. This section and Figure 6.6 describe each bonus scheme and highlight which banks use those schemes.

In a discretionary bonus scheme, a bonus pool is determined based on company performance (for instance profit after tax, revenue, return on investment, etc.). Individual employees are evaluated using some sort of performance evaluation tools, i.e. PA. More discussion on PA can be found in Section 6.4.5. Bonuses are distributed according to individual performance. For example, employees with excellent performance may get 2 to 3 months' salary; good performance may get 1 to 2 months' salary, and so forth. Such schemes have a pay-for-performance element. The bonus amount can vary from year to year depending on company performance. This plan works well in focusing employees on the company's bottom line. The trouble is that employees generally do not perceive a link between their rewards and their individual efforts, especially in large companies or when certain factors that are out of the control of employees still affect profits (Dzamba, 2001). This is similar to the issues of 'line of sight' proposed by Lawler (Lawler, 2000).

In a formula driven bonus scheme, there is a target bonus for each employee based on his / her grade, position, or department. Typically, top management has the highest target bonus because it is believed that performance and decisions made by top management can greatly influence company performance. In the banking industry, it is also common to use different target bonuses for front office, middle office and back office departments. Front office departments (for example relationship management, financial advisory services) are the sources of profit generation and hence have higher bonus targets than middle office (for example treasury) or back office (for example loan processing and settlement) departments.

Besides, some bonus schemes have a pay-for-performance element as well as a market adjustment factor to take into account external competitiveness. For example, assume the target bonus for top management is 3 to 4 months' salary. When the market is good, there is an upward adjustment of 1.2 times and the target then becomes 3.6 to 4.8 months' salary. In a formula driven bonus scheme, once the target bonus is determined, the company cannot adjust it. In the face of keen competition for key staff, a market adjustment bonus scheme allows the company to modify its bonus target to retain top performers. Nevertheless, how to estimate an accurate market adjustment factor is problematic.

Figure 6.6: Common Bonus Scheme in Sampled Banks



Source: developed for this research

Table 6.7: Bonus Scheme Used by Sampled Banks

Type	Bank Code	Method 1: Discretionary	Method 2: Formula Driven	Method 3: Market Adjustment
LCB	CM1		Scheme used	
	CL2	Previous scheme →	→	New scheme was introduced in 2002
	CL3	No upper limit for bonus payout		
FIB	AS4		Same as head office	
	AM5		Same as head office	
	AL6			Same as head office
	US7		Same as head office	
	UM8	Local scheme used in China ←	Scheme used in head office	
	UM9		Same as head office	
	UL10		Same as head office	
	ES11	Same scheme as head office		
	EM12		Same as head office	
	EL13			Same as head office

Source: from interviews

Which banks use which bonus schemes? Table 6.7 summarises the bonus schemes used by the sampled banks. After the reforms in the 1980s, LCBs commenced some form of performance-based bonus scheme which was mostly discretionary and not systematically developed. For example, CL3 (SOB) introduced a discretionary bonus scheme to pay for performance; but in practice, it paid similar amounts of bonuses to all employees in a given job grade or department in order to keep everyone happy. CL2 (another SOB) also adopted a similar approach. After company restructuring in the early 2000s, CL2 brought in external consultants to revisit its rewards philosophy and redesign its bonus scheme. The calculation of the bonus pool was based on company performance and market adjustment factor, while distribution of the bonus was based on some formulae. A remuneration committee was set up to monitor the whole process. The Division Head believed that the new bonus scheme: '*is above market and helps maintain the competitiveness of its rewards package*'.

Most of the FIBs had chosen an ethnocentric approach and their bonus schemes were inherited from their head offices. This finding was similar to some other studies (for instance Caligiuri and Stroh, 1995; Dowling, 1989) that standardised bonus schemes were being practised across overseas subsidiaries without local adaptation. The customisation of bonus schemes in China was not a common practice because modification required approval from the global offices, rather than from subsidiaries. The only exception was UM8 which employed a polycentric approach and introduced a discretionary bonus scheme for its indigenous employees. The reason for this was that its business scale in China was so small that performance was difficult to measure by its global bonus scheme. These performance-based bonus schemes were usually linked to employee performance and business profitability and used quantitative measures to determine bonus amounts.

Nevertheless, transferring global practice without any adaptation to the local market was not without problems. A performance-based bonus scheme, theoretically, allows the company to match its bonus target with market movements and hence better tackle competition. In practice, it might be difficult to implement it in China. As a Department Manager of EL13 commented:

> *'Our bonus scheme is globally used. In China, we use the same mechanism. The difficulty is that there is no reliable market data available in China to determine bonus adjustment factor. We can only use some internal relativity to draw a reference figure. But, the Chinese market is so volatile...'*

It is observed that some changes in bonus schemes have occurred ('across-time' change). LCBs re-evaluated performance-based rewards to provide new bonus schemes in light of market competition ('inter-group' change). However, customisation to local contingencies was rarely made by FIBs (limited 'intra-group' change).

6.4.2. Salary Review: Internal Equity vs. External Competitiveness

Besides incentive bonuses, salary increase is another component in rewards. With China's accession to the WTO, the Chinese economy has further integrated into the global market and more FDI has poured into China, especially into the newly opened banking industry. The intensified competition as the result of the enhanced globalisation of the Chinese economy has created high demand for qualified managers and professionals. In competing for human talent, compensation has been increasingly used as an effective means to recruit, motivate and retain the much needed professionals. According to the salary survey conducted by Watson Wyatt (WW, 2008), average annual salary increases in China in 2007 and 2008 were around 7% for most industries (for instance high technology, manufacturing, consumer products, etc.). Financial institutions (including banks and asset management firms) witnessed the biggest jumps, over 9% in both 2007 and 2008.

There is always upward pressure on compensation and benefits for managerial personnel and professionals. For example, monthly salary before tax for tellers at LCBs is between RMB2,000 to RMB4,000 per month (or GBP130 to GBP 270). FIBs pay a teller RMB3,000 to RMB5,000 per month (or GBP200 to GBP340) and a client relationship manager up to RMB15,000 to RMB18,000 per month (or GBP1,000 to GBP1,200). There is an abundant supply of migrants from inland China who swarm into cities searching for jobs. Hiring is tougher in the experienced middle and upper levels. Therefore, big LCBs can offer as high as RMB67,000 to RMB83,000 per month (or GBP4,500 to GBP5,500) for experienced staff (SCMP, 2007). The salary offered by FIBs can be even higher.

As far as an annual salary increase was concerned, FIBs, on one side of the coin, claimed that they collected market information on salary increase percentages, staff turnover rates, inflation, etc. when preparing salary guidelines. Some FIBs specifically targeted a few key competitors when setting their salary increase budgets. Local subsidiaries were responsible for gathering market information and management would then determine salary budgets. On some occasions, further approval was sought from Asia Pacific regional offices, but normally local management had the authority to make the decision. Benchmarking salaries to the external market helped maintain the competitiveness of the company and ensure the attractiveness of its remuneration package. In general, FIBs offered more attractive pay packages, which instigated the well-known syndrome of a 'brain drain' from local companies to them.

On the other side of the coin, all LCBs (SOBs and NCB alike) did not use market information. Top management of the banks determined salary budgets based on the company's previous performance and affordability. On some occasions, the government set salary increases and minimum wages so that SOBs did not have the autonomy to determine their pay to match their business needs. CL2 had recently made an effort to get market

references for its salary review, but top management still preserved the view of maintaining internal equity. The egalitarian philosophy limited change in salary mechanisms and rigidity of adjustment processes in LCBs further led to job hopping to FIBs.

6.4.3. Promotion Mechanism: Seniority versus Performance

A big gap was noticed in promotion criteria and career development in different types of banks. Promotions at LCBs were based more on seniority (age / tenure), political orientation and interpersonal skills. Those at FIBs were based on performance, competency and business profitability. Limited changes were observed in the promotion criteria. As a Division Head of CL2 (a Big Four bank) commented:

> *'There is no official guideline for promotion. It depends on department recommendations. As long as the department can manage its budget, it can recommend promotion. Seniority and qualifications are considered. We hope to formalise the promotion mechanism in future.'*

It was speculated that LCBs followed a different promotion mechanism because of some structural issues and historical reasons. First, their organisation levels were organised according to the government administrative division, i.e. head office located at Beijing, first-level branch at province, second-level branch at county, third-level branch at city, fourth-level sub-branch at town. Neither moving to other branches nor promotion across cities was common. Second, appointments and promotions of senior managers and above were determined by local governments before the reforms. Although interference from governments had been reduced since the 1990s, political and ideological qualities still remained as one of the promotion criteria and such qualities caused inertia in changing promotion philosophy.

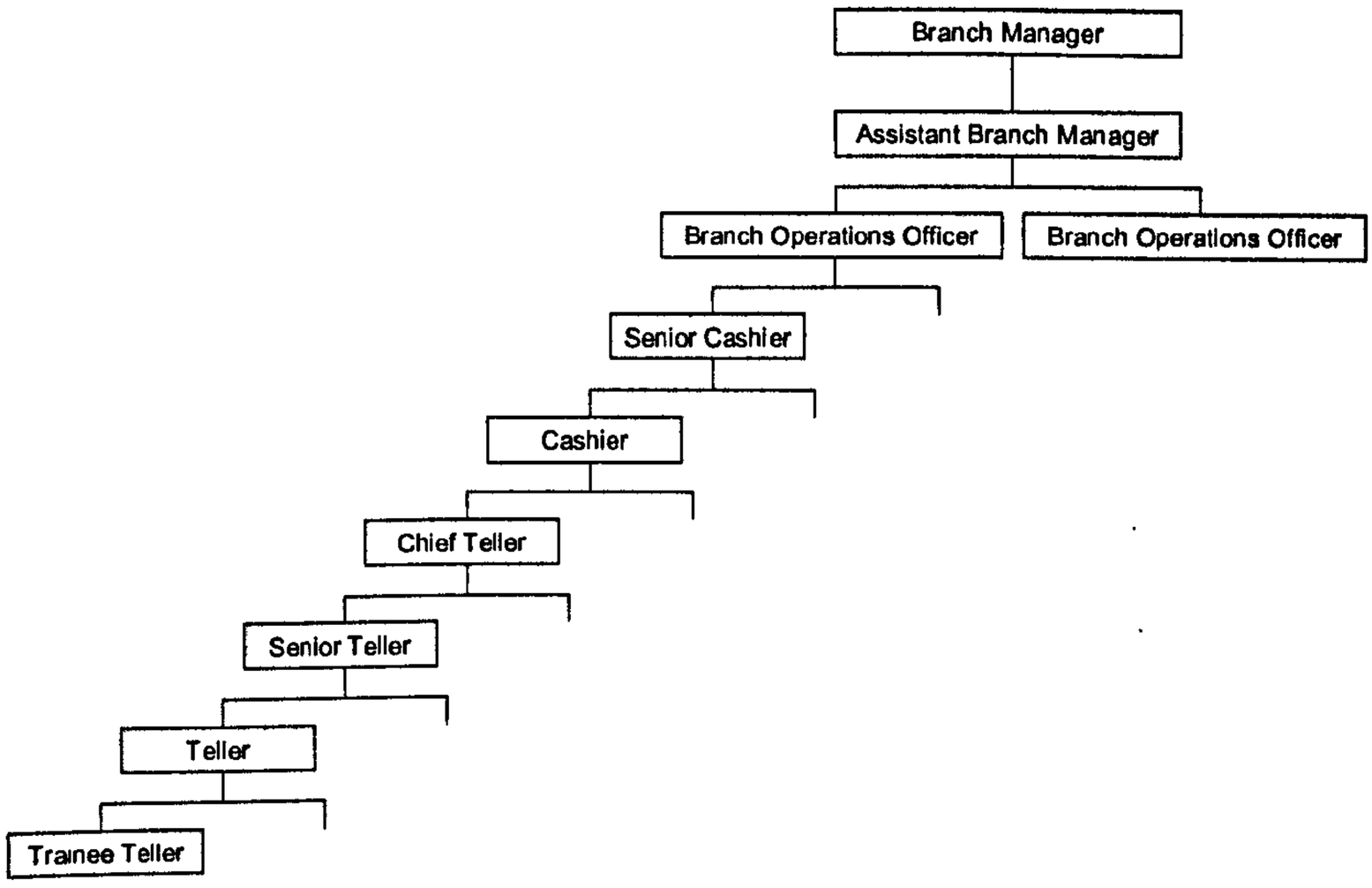
In terms of career development, FIBs tended to be more flexible. Greater options for career advancement were offered by larger banks which operated in multiple countries. They used the vacant positions of various locations to move high calibre staff around geographically. Horizontal movements to other locations, as opposed to vertical promotions within the same location, were offered to good performers as a career development opportunity. This career arrangement in network organisations is similar to the 'boundaryless career', which is characterised by movements across hierarchical reporting and advancement principles (Arthur and Rousseau, 1996; Poon, 2008). It was believed that in countries where the subsidiary had a small operation and limited senior positions, lateral moves to network organisations in other countries could motivate and retain good performers. As a HR Manager of AM5 (a medium Asian bank) recalled:

> *'Promotion is based on performance and business need. Seniority is not considered. If there is no vacant position for a good candidate, we will move him around to other countries to find a suitable position. So, promotion is not necessary vertical within the same stream; it is common to have a lateral move.'*

6.4.4. Pay Structure: Global Band versus Local Grade

All three LCBs had a traditional narrow pay structure. Using the retail branch as an illustration, the pay structure of a LCB could be as complex as the one shown in Table 6.8. From entry trainee teller to branch manager, there were 9 grades. Each grade had its own approval level and endorsement limit. For example, a loan application was required to roll up from one grade to another upper grade in order to be approved. This approval process could be complicated and lengthy. From an employee interview, a Branch Manager of CM1 shared her view that the approval process could not be done electronically. The loan application document was physically passed from one grade to another for checking, validation and approval. The lengthy process decreased efficiency and increased the possibility of human error. Since there were many grades, employees expected to get a promotion every 2 to 3 years. Such an automatic promotion mentality had undermined the performance-driven culture.

Table 6.8: Typical Grading Structure at a Retail Branch



Source: developed for this research

Several FIBs had localised their pay structure. A global pay structure was used as a framework with some adjustments according to local needs. For example, AM5, UM9 and ES11 designed a broad band structure for their subsidiaries in Asian countries and China's branches. A conversion table was designed to link the local grade to the pay structure used in the head office. Other banks (for example EL13) modified their global broad grade structure and added a few more grades for subsidiaries in Asia. Pay structure was one of the rewards areas that a lot of local customisation was observed.

Asian banks shared similar cultural and philosophical values as LCBs. More changes were found in their pay structure practice, including having more pay grades in their Chinese branches, giving frequent but small promotions. A Department Head of an Asian bank explained the reason for designing a local pay structure:

> *'We have more levels and hierarchies in Asia. China has around 15 grades and our counterparts in Europe and Middle East have around 10 grades. The different pay structures can cater for different local needs. Asian people would like to have promotion every 2 years. If there is no promotion, people will leave. Competition for people is keen in this market.'*

Still, some FIBs applied their global pay structure to the China market. US7 had a broad band structure which consisted of 6 bands, namely Vice President, Director, Manager, Professional, Officer and Clerical. Each band had a wide salary range. To go from one band to another might take more than 5 years. Some good performers could not earn a promotion quickly and needed to stay in the same band for many years. As a result, high staff turnover was found, particularly at the Professional band.

6.4.5. PA: Traditional Appraisal versus Western Schemes

Questions about performance appraisal (PA) schemes were not about the design of PA or the details of the scheme, but to understand if a performance-driven culture was part of the rewards philosophy in the bank. So, the questions were about if a PA scheme was successfully implemented to evaluate performance and its linkage to rewards.

It was found that many FIBs brought very sophisticated PA schemes into China. Management-by-objectives (MBO), balanced scorecard, competency evaluation and development tool, and so forth, were transferred from home to the host country. The implementation of standardised performance measures suggested that the head office was concerned with consistent HR policies across its overseas operations, and that it was interested in having the ability to compare managerial performance across countries (Poon et al., 2009). While advanced PA models attracted a lot of attention at the beginning, these 'standardised' global PA schemes were not easily implemented in China. This was because there were at least two concerns. First, a PA scheme was difficult to implement in the Chinese context. ES11 attributed the problem to the fact that its PA scheme was not well documented and supervisors were not well trained. UM9 believed that the performance review was done but it was argued that the scheme was: *'not seriously'* carried out in China because the supervisors viewed the PA scheme as: *'something irrelevant'*. UM8 made an even more serious comment:

'There is no official performance evaluation meeting. Each department has its own practice. It is not sure whether the department heads have actually conducted the appraisal. When we (HR) request for the written documentation of performance evaluation, the departments will give one to us. Otherwise, they will not submit the documentation... We can only trust that the departments have done PA. This is the way of doing business in China.'

Second, the result of the PA was not clearly linked to rewards (Table 6.10). Questions were asked if performance evaluation results had an impact on bonus, salary increase and promotion. Surprisingly, three out of ten FIBs (30%) thought that evaluation results had no impact on rewards and another 20% said there was only some impact but the linkage: '*was too long*'. The missing linkage between evaluation and rewards (Lawler, 2000) undermined the effectiveness of PA schemes and affected the installation of a performance-driven culture.

Performance evaluation in LCBs differed from that in FIBs in both substance and process. Some form of PA was used in LCBs. Typically, there was a self evaluation and an appraisal by direct supervisor and department head. Appraisal results were not communicated to employees. From the informal interviews, a Settlement Supervisor in NCB explained that giving negative feedback: *'caused individuals to lose face'* and *'hurt the harmonious work relationship'*.

In the early 2000s, CL2 shifted from a traditional PA to a Westernised scheme which included an objective setting meeting, a mid-year review and a year-end evaluation. Evaluation was not only on individual performance, but also on competency (for example, interpersonal skills, decision making, etc.). A competency model was established to link performance evaluation results to rewards. However, a few years after implementing the new scheme, several issues emerged. CL2 commented that at the surface level, the new appraisal forms and evaluation methods were used; but at the deeper level, supervisors became confused as to why the bank had changed to the new scheme and employees had no commitment to the new scheme.

For instance, according to the policy, supervisors were required to hold mid-term review meetings with their employees during which they were asked to discuss mid-year progress. Nonetheless, in practice, most supervisors did not follow the guidelines and ignored the meetings. The problem was that policies were formulated at top management level in isolation and then cascaded down to each bank branch, so trying to attain a uniformity of objectives. Employees could not approach their HR department directly and were not encouraged to provide feedback in the process of implementation process. A gap between policy formulation and practice implementation was apparent. The HR department had continuously spent a lot of time and effort on pushing forward the new scheme, but with little success.

The purposes of PA are generally twofold: evaluation and development. The aim of the former is to establish the relative worth of each employee's contribution and encourage good performance and the latter is to develop employees' skills and improve their performance. Nevertheless, PA has not established its position in LCBs corporate culture in comparison to Chinese culture in general. In many cases, the evaluation has not been conducted on a systematic basis or the development has not received any employees' support. These could reduce the accuracy and significance of PA.

6.4.6. Employee Attitude Survey: Global versus Local

In the past, it was uncommon to have an employee attitude survey to formally collect feedback from employees in the Chinese companies in general and SOBs in particular. Recently, there was a change. The information was from CL2's company website. CL2 formed a strategic alliance with a FIB which had equity investment in CL2 and a senior executive attending CL2's board meetings. That FIB worked with CL2 to introduce some HRM practices, such as the introduction of an employee attitude survey. This survey covered many aspects, for example management, company culture, compensation, benefits, etc. The imitation

of a Western practice demonstrated that an 'inter-group' change had occurred. The new practice, however, was not implemented successfully. Employees were not familiar with sharing their opinions or making suggestions to the company in a formal way. The Division Head of HR described this experience:

> *'We have tried the employee's attitude survey for 1-2 years and it was then stopped. So, it is not a regular practice... A suggestion box is then put in all branches. An employee can give an anonymous suggestion. This is more effective to understand employees' voice. So, we are not sure if we would want to make the employee survey a formal practice.'*

The top management of CL2 was not sure if it would conduct the survey in the future or make it a regular practice. Consequently, it changed its collection method by using a suggestion box in the branches. An employee could make an anonymous suggestion. Management claimed that the suggestion box was more effective in understanding employees' voice dealing with performance issues, though this was not 100% feedback.

Among FIBs it was found that the employee attitude surveys were initiated by head office, with the questionnaires designed by global HR with limited local adaptation, and administrated by global teams. In North American banks the surveys were administrated every year or twice a year. Much effort was put in to understand employee's opinion of the company. The survey results were communicated back to all employees in the North American banks. The management believed that the surveys could promote an open corporate culture to discuss issues and problems. Moreover, working groups were formed to analyse the results and come up with action plans for improvement. For instance, US7 explained one of its previous action plans on working life balance. From the surveys, employees did not want to stay late. Subsequently, the suggestion was: *'no meeting after 4 o'clock in the afternoon'*. This suggestion was widely welcomed by the employees. The existence of a well-functioning feedback system can influence employee perceptions of how firms deal with performance issues.

Among European banks, only EL13 conducted employee attitude surveys every year to cover every employee, communicated the results widely to all employees and discussed the results in the review sessions. All other European banks did not run the surveys as frequently as American counterparts. European banks also hesitated to communicate the survey results back to employees. The survey results were shared among top management or department head levels, with no further communication cascading to lower levels. Table 6.9 summarises the banks' practices of employee attitude surveys.

There may be two reasons for different practices in employee attitude surveys. First, according to the literature, family type working environments (Hofstede and Bond, 1998), harmonious relationships (Bond et al., 1998) and avoidance of open conflict (Tjosvold et al., 2001) are expected in Chinese companies. Thus, employee attitude surveys would be difficult to implement in the Chinese context. Second, the proportion of local Chinese employees in the total workforce is not high in FIBs. The number of local Chinese staff working is less than 20%. FIBs still employ a lot of foreign employees or expatriates. Therefore, an 'American style' or 'Western culture' prevails in FIBs. Chinese culture, for instance not being willing to express one's own opinion in public, is not strongly felt in those banks. With China's entry to the WTO, FIBs will expand their business. Some FIBs have already announced a desire to increase the number of local employees as their businesses in China develop. With the increasing number of Chinese employees leaving the state sector and working in FIBs, the employer-employee relationship prevalent in SOEs may be brought to FIBs as well. It is not sure if the current practice of widely communicating the results and actively discussing in review sessions can still be feasible in the future. Change in employee attitude surveys may occur in FIBs.

Table 6.9: Employee Attitude Survey Used by Sampled Banks

Type	Bank Code	Survey Target	Frequency of Survey	Design of Survey	Communication of Result
LCB	CM1	No such survey	-	-	-
	CL2	Try but fail	-	-	-
	CL3	No such survey	-	-	-
FIB	AS4	No such survey	-	-	-
	AM5	All employees	Once a year	Follow global practice	To all employees
	AL6		Every 2-3 years		To top management
	US7		Twice a year		To all employees
	UM8	No such survey	-	-	-
	UM9	All employees	Once a year	Follow global practice	To all employees
	UL10		Once a year		To all employees
	ES11		Every 2-3 years		To top management
	EM12		Every 2-3 years		To all employees
	EL13		Once a year		To all employees

Source: from Interview

6.4.7. Rewards and Performance Dimensions

In the rewards and performance area, six practices were reviewed, namely bonus, salary, promotion, pay structure, PA and employee attitude surveys. Similar to the recruitment and resourcing area, qualitative information from interviews were presented to understand the difference between LCBs and FIBs. The data were then quantified and content-analysed.

The quantified data was used in two ways: to test if LCBs and FIBs had similar practices, and to display the patterns of HRM change diagrammatically. First, to test if LCBs and FIBs had similar rewards and performance practices, a chi square was employed using the quantified data. The result of chi square was significant ($\chi^2 = 6.240$, $p < 0.10$). This means LCBs and FIBs were different in the area of rewards and performance.

Table 6.10 is a summary table of rewards and performance. Some reward policies and practices had a strong relation to monetary reward or career opportunities, while some had a discretionary approach and the line of sight was not clear. A focus on the market competitiveness was clearly a feature in certain rewards practices, while an emphasis on internal equity (such as seniority) was also common. Therefore, the second way to use quantified data was by a multi-dimensional scaling technique. Rewards and performance practices were scaled down into two dimensions. The first dimension is a high-low performance-driven rewards philosophy and the second one is a focus on internal equity versus external competitiveness. A two-dimensional graph is used to conceptualise these two rewards dimensions and the rewards practices of individual banks are plotted in Figure 6.11.

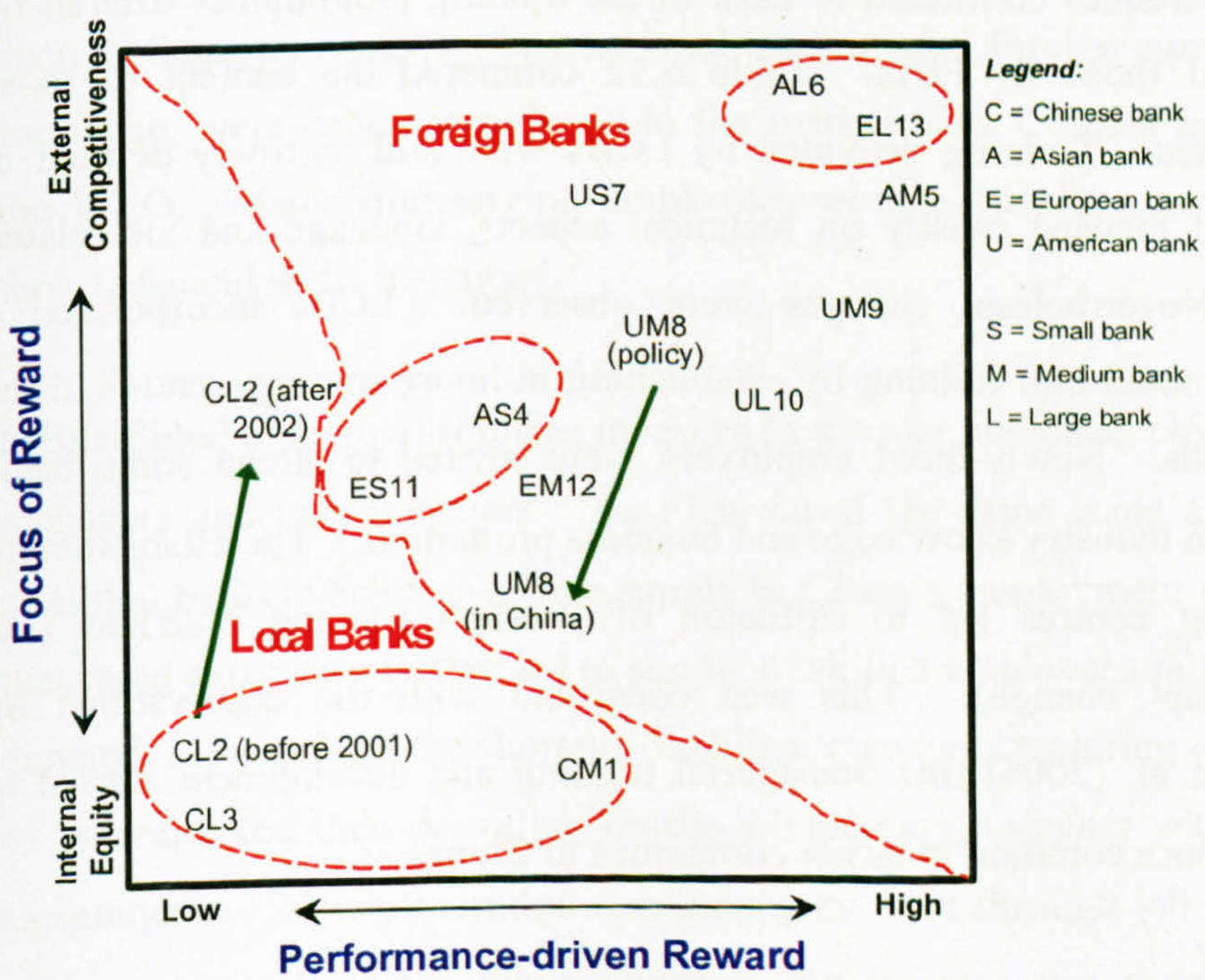
Generally speaking, all LCBs (both SOBs and NCBs) clustered at the bottom left hand corner (i.e. low performance-driven and internal equity focus), whereas all FIBs clustered at the top right hand corner (i.e. high performance-driven and external competitiveness focus). CL2 changed its bonus scheme, salary increases mechanism and PA scheme, and thus its position substantially moved up ('across-time' change was recorded). UM7 had different bonus and PA schemes for its subsidiaries and hence its local position differed from its global policy ('intra-group' change has occurred). Chapter 8 will examine such change process in detail. Among FIBs, some larger ones (for example AL6 and EL13) were at the far right hand corner. These banks were keen to maintain their market competitiveness and drive for high performance. It was suspected that large banks could afford to pay more to keep their employees and their global network allowed them to offer better career opportunities to high potential staff. Besides, two small banks (AS4 and ES11) were not paying as aggressively as large banks. Relationships between rewards, firm size and nationality will be examined in Chapter 7.

Table 6.10: Summary of Rewards and Performance Area in Sampled Banks

Type	Bank Code	Bonus Scheme	Salary Increase Mechan-ism	Promotio n	Impact of PM on Reward	Effect-iveness of PM	Employee Attitude Survey
LCB	CM1	Formula based	Internal decide	Seniority and political back-ground	Medium	Medium	No
	CL2	Refer to market	Refer to market		Great	Low	Try but fail
	CL3	Discretionary	Internal decide		Little	Low	No
FIB	AS4	Formula based	Refer to market	Perform-ance	Medium	High	No
	AM5	Formula based			Great	High	High
	AL6	Refer to market			Great	High	Low
	US7	Formula based			Great	Low	Medium
	UM8	Discretionary			Little	Medium	No
	UM9	Formula based			Great	Medium	High
	UL10	Formula based			Medium	High	High
	ES11	Discretionary			Little	Low	Low
	EM12	Formula based			Little	High	Medium
	EL13	Refer to market			Great	High	High

Source: developed for this research

Figure 6.11: Rewards and Performance Dimensions of Sampled Banks



Source: developed for this research

6.5. Training and Development

Training and development is an important investment in human capital to upgrade skill levels. The serious shortage of experienced managers and skilled professionals in China to support the drive to building the bank competitiveness and business expansion means that training and development is an even more valuable tool to close the gap. As discussed in Section 4.5, previous studies in several industries showed that the training programmes offered by SOEs in manufacturing industries were different from those offered by MNCs in the past. Training provided by SOEs tended to be narrow in focus, technical skills oriented and limited provision. Are such features also prevalent in LCBs? Has HRM change occurred? If so, which training and development policies and practices have been changed?

6.5.1. Focus of Training Programme: Broad versus Narrow

Great differences continued to exist in the training programmes offered by LCBs and those by FIBs. Table 6.12 compared the content of those programmes. Training provided by LCBs were still narrowly defined in scope and focused mostly on technical aspects, language and job-related skills. Nevertheless, changes were observed. LCBs incorporated a Western model into training by establishing in-house training centres in the early 2000s. Newly-hired employees were invited to attend some basic training on industry knowledge and business promotion. The establishment of training centres led to diffusion of Western training practices (i.e. 'inter-group' change). This was consistent with the observations by Rowley et al. (2004) that managerial training and development started to become more common in larger companies in China.

Similarly to the findings of Borgonjon and Vanhonacker (1994), training programmes offered by LCBs were not likely to cover people-oriented or conceptual subjects, such as organisational behaviour, leadership, etc. Zhu (1997) provided a more in-depth study of training in companies in China. From a sample of 44 companies of various ownership types in Shanghai, Zhu found that training and development emphasised more job-related skills and improvement of employee productivity. Technical training remained the standard practice, while behavioural training in areas, for example team-building and interpersonal skills, was limited. Similar findings were observed in the banking industry. It was speculated that the reason for having a narrow training focus among LCBs was that new employees did not come from the banking industry and had limited knowledge of banking products and the industry. Therefore, training in product and industry knowledge was their priority. Furthermore, in the past, the banking services offered by SOBs and NCBs were limited and simple (for example commercial loans processing and deposit taking). More advanced services, such as financial advisory, international banking and foreign currency swap exchange, were newly introduced to the market after China's accession to the WTO. Many long-serving employees would, therefore, need to have their technical skills re-trained.

FIBs offered a range of training modules to a wider audience, covering both managers and non-managers. As FIBs faced the same issue as LCBs of qualified bankers being in scarce supply in China's employment market and that rapid expansion further led to supply of skilled employees falling behind demand, FIBs tackled the shortage of skilled managers by hiring on the basis of potential and then providing on-the-job training, together with overseas assignments. Newly recruited non-managers went through job shadowing with counterparts in the other countries and training was about technical skills and job-related expertise. In addition to technical skills and management development, company culture familiarisation was included in the syllabus. Senior managers were sent to head office for three- to six-month training (EL13) or attended global training workshops (AM5).

In some cases (AL6 and US7), online e-training with multiple modules was available to all employees. More discussion on e-training and knowledge management can be found in Section 6.5.6.

Table 6.12: Comparison of Training Programmes Offered by Sampled Banks

LCB	FIB	
Offered to All Employees	**Offered to Manager**	**Offered to Non-Manager**
• Language and writing skills • Customer service • How to promote new services • Product sales • Banking industry knowledge	• Leadership • Communication • Coaching • Performance Management • Presentation	• How to promote new services • Computer skills • Financial analytical tools • Supervisory skills

Source: from interviews and archival records

6.5.2. Target Audience: Limited versus Diversified

For the question about who was being trained, the interview questions covered four target groups, i.e. newly recruited managers, existing managers, newly recruited non-managers, and existing non-managers. Interview results were summarised in Table 6.13. The three LCBs incorporated some aspects of Western models to run their training centres. Orientation, typically a one-day programme, was offered at the training centres to all newly recruited employees, both managers and non-managers alike. Additionally, new managers were invited to attend some basic training, like banking industry knowledge, new business promotion, etc. On an on-going basis, existing managers could enrol in refresher courses about technical skills. Since LCBs were still experimenting with new training practices, programmes offered were limited and priority was given to managers. Existing non-managers were rarely covered.

Table 6.13: Target Audience of Training Programmes Offered by LCBs and FIBs

LCB

	Existing	Newly recruited
Manager	✓ • Technical training	✓✓ • Orientation • Training at training centre
Non-manager	? • Limited	✓ • Orientation

FIB

	Existing	Newly recruited
Manager	✓✓ • Attend regional and local training • Managerial training • Online training	✓✓✓ • Company culture orientation • Training at head office • Attend global training
Non-manager	✓ • Technical training • On-the-job training • Online training	✓✓ • Orientation • Job shadowing

Legend: ✓ indicates the degree training programmes were used (maximum is ✓✓✓) ? Limited use

Source: from interviews and archival records

Training provided by FIBs covered a broad target and was more diversified. Orientation, typically a one-day to a few-days programme, was offered to all newly recruited employees. Company culture familiarisation was included in the syllabus for managerial orientation. Senior managers might be sent to head office for familiarisation (EL13) and went through a series of training workshops (AM5). Newly recruited non-managers had job shadowing of their counterparts in other countries, such as working in Hong Kong as an option (more discussion in section 6.5.4). After the employees were on board for 6 to 12 months, FIBs would arrange follow-up training courses. The training schedule at AL6 was that those managers with 1 to 2 years' company service would attend fundamental management skills, and managers with 3 to 5 years' company service would attend advanced management skills. These training programmes were organised by regional or local training teams. Similarly, technical training programmes were offered to non-managers on an ongoing basis. In addition, online e-training was made available to all employees in AL6 and US7.

6.5.3. Horizon: Long-term versus Short-term

The frequency of training programmes reflects the company's perspective on people development and knowledge management, this can be whether the company has a long-term or short-term horizon. It was originally conjectured that local companies which had been established in the industry for a long term should have a long-term plan to develop their people, while FIBs, newly entered in the market, might not be able to afford to have long-term investment in their people.

Table 6.14 summarised the frequency of training programmes offered by the various banks. Different from the previous speculation, FIBs tended to provide on-going programmes to train up their people. The possible explanation was that most of the FIBs in China were well-established key players in the global banking industry. Their strong financial background and market position meant they could afford to make a long-term investment in employee development. A typical example was given by UM9, which designed different training modules to its employees. The modules, ranging in frequency from every 6 to 12 months, started with fundamental courses, then intermediate level and advanced level. Besides, AM5 changed its programme from irregular provision to regular ones and organised a dedicated training department in China because top management at AM5 believed that: *'more training programmes can be designed to fit local needs... with a regular schedule.'* In fact, AM5 had announced to increase the number of new staff. The 'across-time' change in HRM practice tied in with its business expansion in China.

Table 6.14: Frequency of Training Programme in Sampled Banks

Type	Bank Code	Frequency of Training Programme	Details
LCB	CM1	Not frequent	-
	CL2	On-going	Changed from not frequent to on-going since opening of training centre
	CL3	Not frequent	-
FIB	AS4	On-going	-
	AM5	On-going	Changed from not frequent to on-going starting 2005
	AL6	On-going	-
	US7	On-going	-
	UM8	On-going	-
	UM9	On-going	-
	UL10	On-going	-
	ES11	Not frequent	No fixed schedule to offer training
	EM12	Not frequent	No plan to offer on-going training
	EL13	On-going	-

Source: from interviews

Employee development is a new practice in LCBs. In some local companies, training practices were characterised by lack of strategic planning, low priority in organisational activities and non-core business. It was found that two LCBs in the sample did not have a regular training programme offered and held a short-term horizon in employee development. While new training centres were established to experiment with training practices, regular training programmes had not yet been offered.

6.5.4. Resources for Employee Development: Limited versus High

Employee development can be very costly, especially during the start up phase of the business or when staff turnover is high in the industry. For a company with high commitment, it is expected that it will have dedicated training departments or training teams to organise on-going training programmes covering most of the employees and have support from the regional or global offices. Overall speaking, LCBs have limited commitment to training resources, large banks have higher commitment, and small and medium banks were in between.

LCBs generally spent less money and put less effort in training. While the focus, coverage and frequency of training were improved, resources for employee development were still limited. Some LCBs had overseas branches or subsidiaries in Hong Kong, Asian countries and Europe. Exchange programmes and experience sharing sessions for employees working in China and in Hong Kong were organised. Hong Kong was chosen because its banking industry was well established and banking services were sophisticated. Due to the geographical proximity and language similarity, domestic employees were sent to work in Hong Kong branches for a few months and senior managers working in Hong Kong would conduct seminars in their Chinese branches. It was expected that regional educational exchange could help distribution and application of new knowledge and normative forces might promote transfers and ideas of managerial practices seen as prevalent in Western countries.

More resources, in terms of training budgets and staff, for employee development were found in large FIBs. This was consistent with findings from previous research (for example Fraser, 1999; Verburg, 1996; Wong and Law, 1999). Company commitment to employment development requires an approach which integrates training with other HRM activities. For example, EL13 used post training evaluation to follow-up on training quality. AL6 actually rewarded employees for taking development programmes. Employee development could not be considered in isolation from the context in which it took place, nor could it be treated as an isolated activity. As the Head of HR at EL13 explained:

'Our company has committed to training and development of our employees. The content and structure of programmes are reviewed every year. Post training evaluation is critical to ensure our training delivers values to our employees... Even in cost cutting period, our training budget was not cut back.'

Similarly, another FIB, AL6, described the resources it put into employee development:

> *'The training programmes are offered to every employee. If there is no training suitable for a particular business line, we will ask the training centre to tailor make one for that business... We are serious in keeping training record. Employees have to reach certain training hours every year to ensure they are well-developed. We will reward employees if they can complete their target training hours.'*

Small and medium banks have moderate amounts of training resources. With rapid business expansion in China and more localisation of employees, these banks put more emphasis on developing locally recruited people. For example, AM5 and UM9 had recently formed training teams dedicated for indigenous subsidiaries and customised their programmes to fit to local needs. Unlike the giant banks, they had relatively limited resources and training budgets, so a flexible approach was employed. Training offered by the Hong Kong office was shared with the China office. Instead of secondment to head office, job shadowing was offered in which local employees were sent to work in Hong Kong branches. Job shadowing involved placing a new or inexperienced employee for a while with someone who performed well; and this created an opportunity for observation and learning on the job. In case small and medium banks could not afford to develop a customised programme, employees were sent to external training institutions and were reimbursed for training.

6.5.5. Employee Self-development: Learning Culture versus Cost

Self-development emphasises the whole person and development is meaningful to the individual when personally significant goals are being pursed. Pedler and Boydell (1980: 71) point out that 'self-development takes place when the individual finds significance and personal meaning from particular events or experiences resulting from their actual or symbolic interaction with some part of their environment'. Therefore, the development process requires integration of the specific knowledge and skill relevant to the particular role and action of the individual.

Four FIBs had employee self-development practices through e-learning or online training programmes. US7 extended its e-learning website from its head office to its China subsidiary. Instead of sending people to attend instructor-led training courses, employees would actively seek more self-development and take responsibility for it. The main motive which had led to the introduction of self-development in US7 was cost reduction. In EL13, self-development was intended to support building a 'learning culture' which tied in with its other training initiatives. AL6 and UL10 launched online training and learning resource centres which enabled employees to have access to learning materials and packages. Managers at UL10 said that the use of more flexible development methods was expected to provide: '*a wider choice in development opportunities for employees*'. HRM practices through training and development can be considered as the first step in building organisational learning capabilities. When people have the ability to learn within an organisational setting, this will in turn enable organisations to adapt more quickly to environmental changes than their competitors (Poon, 2008).

Employee self-development is a new concept in China. The training offered by SOBs or NCB was based on traditional development methods. Elements of employee self-development were rarely included in the learning process.

6.5.6. Knowledge Management (KM): Transfer and Sharing

The widespread availability of the internet has revolutionised the way organisations train their employees and transfer knowledge, and hence promote learning. More traditional ways are written notices posted on boards and instructor-led training sessions. The most advanced approaches are company intranets and e-channels. Technology makes it possible to facilitate traditional training tools, combine learning methods and share knowledge in an integrated knowledge management system. Table 6.15 summarises ways to transfer organisational knowledge in the banking industry in China.

First, there was a gap in how knowledge was transferred and shared. This ranged from using a single method (CM1 used only written notices) to employing multiple methods (such as AL6 and EL13). The second gap was what methods were to be used. LCBs chose to use more traditional methods, for example instructor-led training sessions. Email and the intranet, the more advanced technology, were not used because not everyone had access to email and the intranet. The penetration rate of internet application was still low in Chinese enterprises. On the other hand, email and the intranet were widely used by FIBs. For example, AS4 disseminated new knowledge through emails, posted detailed information on the company intranet, and uploaded training materials on the HR system, and so on. The use of advanced technology enabled more employees to access knowledge in a convenient manner. This would speed up knowledge dissemination within large corporations, ensuring consistency of presentation and allowing flexibility in delivery, pace and distribution of learning.

Table 6.15: Ways to Transfer Organisational Knowledge in Sampled Banks

Type	Bank Code	Written Notice	Email	Post on Intra-net	Training by HR	Training by Depart-ment	HR Hot-line	Other
LCB	CM1	✓		?				
	CL2	✓			✓	✓		HR maga-zine
	CL3	✓				✓		
FIB	AS4		✓	✓				
	AM5		✓			✓	✓	
	AL6		✓	✓	✓	✓		
	US7			?		✓	✓	
	UM8		✓	✓				
	UM9		✓	✓	✓			
	UL10		✓	✓				
	ES11		✓	✓	✓			
	EM12		✓	✓				
	EL13		✓	✓	✓	✓		Gift

Legend: ✓Had used ? Had tried to use but no success
Source: from Interview and archival records

The third issue was about the employee's role during the KM process. Instructor-led briefing sessions were sometimes used to share knowledge with employees. Such employee involvement could lead to positive outcomes. Research in some Australian banks indicated that getting employee involvement and empowerment had a favourable effect on productivity, performance and service quality (Geralis and Terziovski, 2003). More involved teams were found to be more proactive and had higher levels of customer service, job satisfaction and organisational commitment (Kirkman and Rosen, 1999). But, it was noted that as the size of the company increased and branches got dispersed, massive training sessions involving every employee would be time-consuming and costly to organise.

As far as the KM system was concerned, there were two interesting observations. The first one was about the use of the company intranet in US7. US7 planned to build some structured databases to store and retrieve knowledge. However, such electronic databases were not well constructed in its China's office and were treated by line managers as '*document dumps*' with little direct relevance to their business and did not have any proper way to retrieve and transfer knowledge. Firstly, not everyone in its branches had computers or had a computer that had access to the databases. In some small bank branches there was only one computer which was shared by all the tellers and customer service officers in the branch. Instead of retrieving information online, most materials had to be printed out and stored physically. Secondly, language was an issue. Information from the global offices was uploaded to the databases. Yet, not everyone had a good understanding of English. For example, while US7 had tried to encourage e-learning or e-HR initiatives which were widely applied in its head office, little success could be made in China because of the language barrier. Practices associated with a KM system were in place, but making them effective would be another thing.

The second observation was the development of the HRM system in CM1. After restructuring in the early 2000s, CM1 had started to set up its own KM system. Having learnt from the foreign counterparts, CM1 designed a very sophisticated system to store, retrieve and post company policies and practices. Nonetheless, information sharing across departments (i.e. horizontal communication) was not a common corporate culture. As noted by Clark and Geppert (2002), attitudes towards knowledge sharing in some communist nations (such as China) might differ greatly from capitalist societies because of different processes and organisations operation in a state of ambiguity due to political and socio-economic flux. HRM information posted on the intranet in CM1 could not be viewed by other departments. As a line manager commented:

> *'The bank has no control of what information is stored in the system...so we don't want to make our knowledge viewed by the other departments.'*

The organisational culture was not yet ready to support the KM process. In addition to the limitations of hardware and physical equipment (for example no computer), 'software' norms and values (like reluctance to share information) might discourage disruption to the routines and made the HRM change process formidable (Rowley and Poon, 2009). The application of technology to facilitate knowledge transfer and deliver training programmes was hampered.

6.5.7. Training and Development Dimensions

Substantial and continuous investment in employee development plays a crucial role in the international competitiveness (Finegold and Soskice, 1988). Training and development facilitates organisations to maintain competitive advantage through leveraging intellectual capital and managing knowledge residing in the mind of individual employees and organisation memory (Poon and Rowley, 2008). Yet, a high level of training investment may generate negative returns if trainees job hop or are 'poached' (Rowley and Poon, 2008). As such, the questions of how much to commit to employee development and what to focus on become important in the training and development area. Six training and development practices were reviewed to ask these questions. These were: focus of training, target audience, horizon of programme, resources for training, employee self-development, and KM.

Similar to the rewards and performance area, qualitative information from interviews were presented to help understand the differences between LCBs and FIBs. The data were then quantified and content-analysed. To test if LCBs and FIBs have similar training and development, a chi square test is employed. The result of chi square test is significant ($\chi^2 = 8.453$, $p < 0.05$). This means LCBs and FIBs are different in this area.

Table 6.16 lists the main practices in the training and development area. These six practices were scaled down into two dimensions. The first one is high-low commitment to employee development (reflected by importance and frequency of training effectiveness and usage of KM) and the second one is broad-narrow focus on training (indicated by target audience and coverage of training programme). A two-dimensional graph is used to conceptualise these dimensions and the practices of the sampled banks are plotted in Figure 6.17.

Generally speaking, all LCBs in the sample clustered at the far bottom left hand corner (i.e. low commitment to employee development and narrow focus). With the opening of training centres and introduction of new training features, their training practices shifted from a narrow-focus, low-commitment approach to catch up with some foreign counterparts. For example, CM1 built its electronic learning communication channels and tried to use the intranet to transfer and share knowledge. Although investment and commitment was still limited, training focus became more diversified. The processes of such 'inter-group' change and 'across-time' change will be further elaborated in Chapter 8.

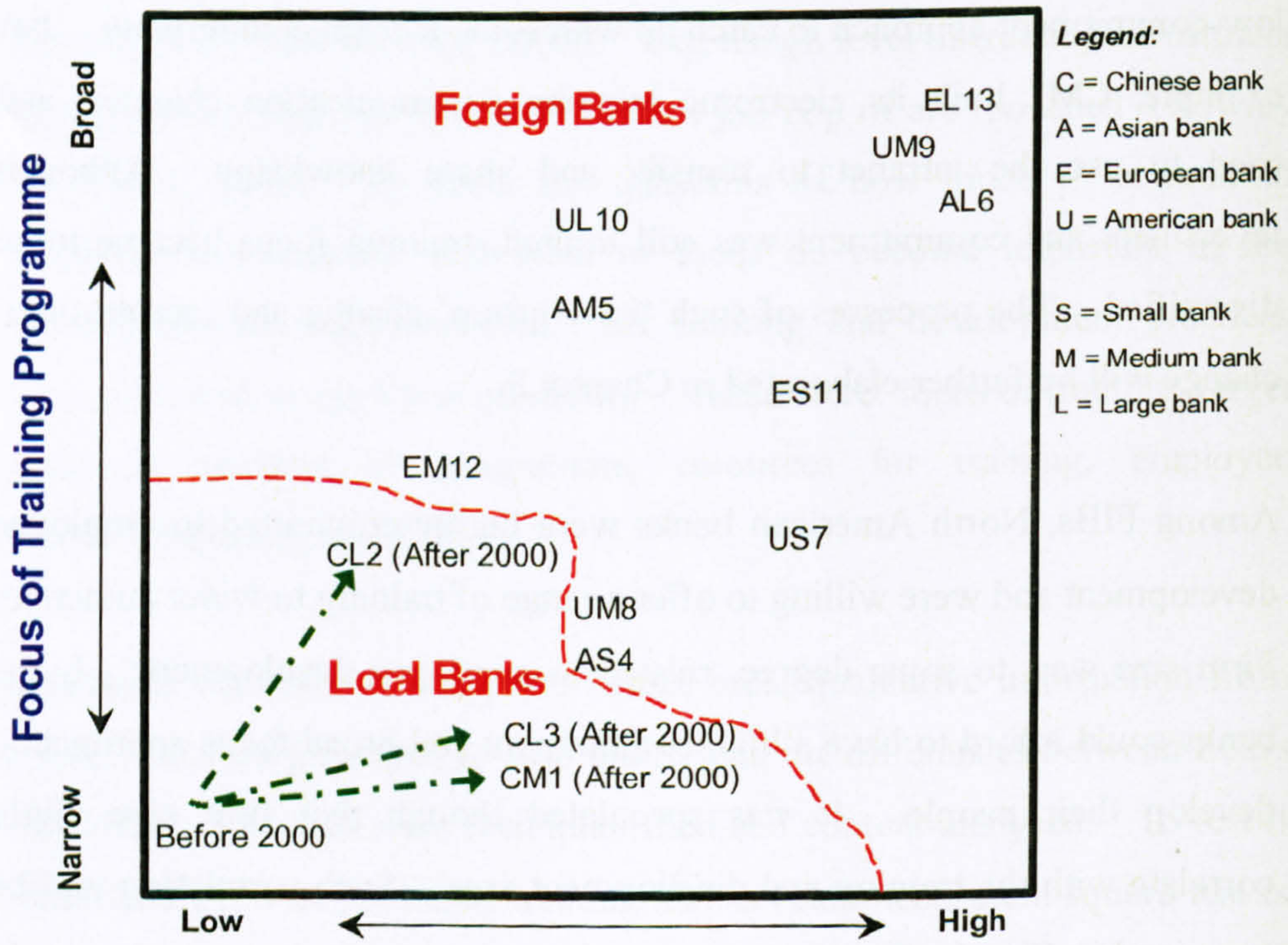
Among FIBs, North American banks were highly committed to employee development and were willing to offer a range of training to wider audiences. Firm size was, to some degree, related to employee development. Large banks could afford to have a high commitment and broad focus approach to develop their people. It was speculated though that firm size might correlate with the training and development area. Such correlation will be examined in Chapter 7.

Table 6.16: Summary of Training and Development Area in Sampled Banks

Type	Bank Code	Frequency of Training	Dedicated Training Team	Importance of Training Effectiveness	Coverage of Training	Support by Regional or Global
LCB	CM1	Not frequent	Newly set up	Not important	Limited	Regional support
	CL2	On-going				
	CL3	Not frequent				No
FIB	AS4	On-going	Dedicated team	Not important	Some	Regional and / or global support
	AM5		Newly set up	Important	Some	
	AL6		Dedicated team	Very important	Broad	
	US7			Important	Limited	
	UM8		Newly set up	Important	Broad	
	UM9		Dedicated team	Very important	Broad	
	UL10	Not frequent		Important	Broad	
	ES11	On-going		Important	Some	
	EM12	Not frequent		Not important	Limited	
	EL13	On-going		Very important	Broad	

Source: developed for this research

Figure 6.17: Training and Development Dimensions in Sampled Banks



Source: developed for this research

6.6. Chapter Summary

This chapter, using an exploratory research design, clarifies part of the first research question and explores the gap between LCBs and FIBs in three HRM areas (resourcing and retention, rewards and performance, as well as training and development).

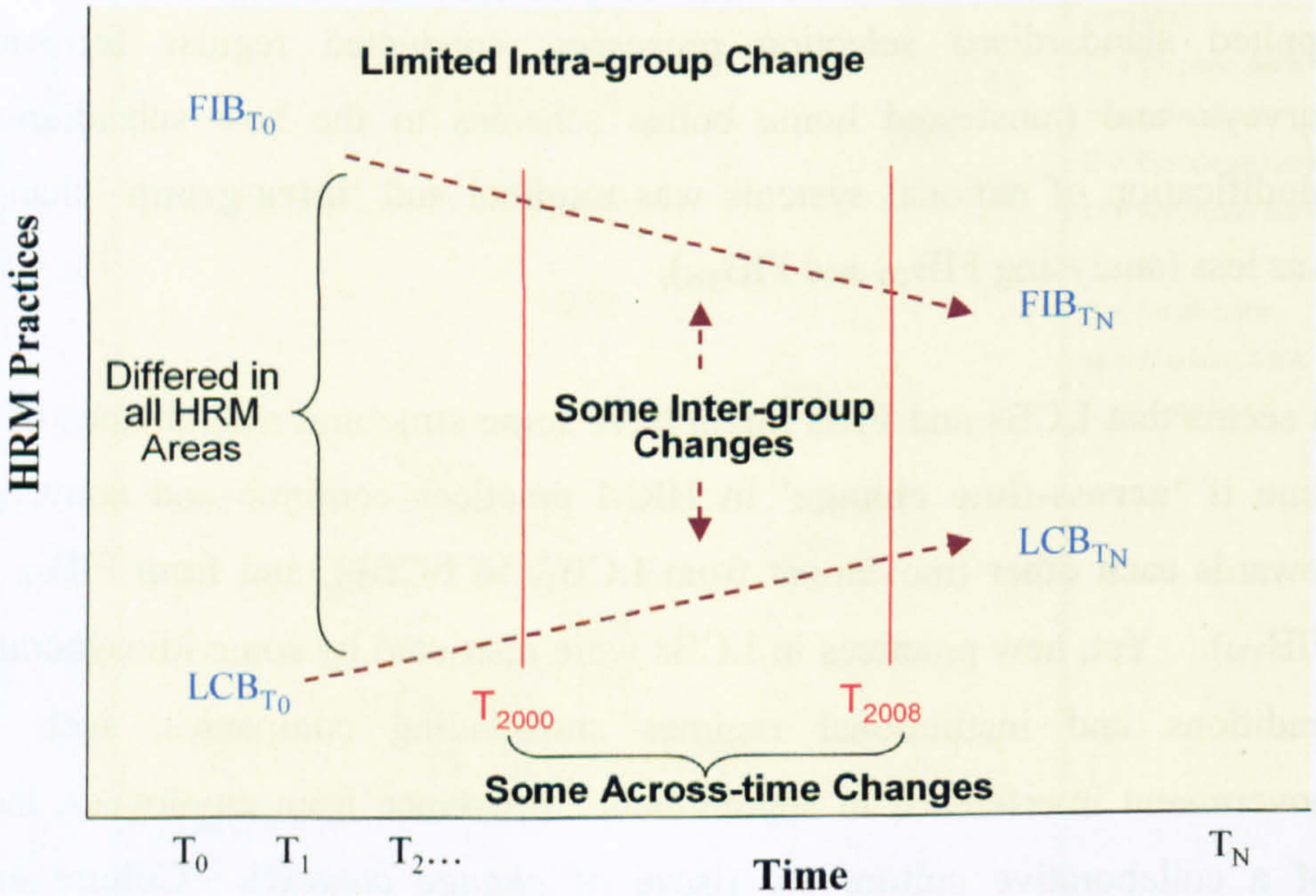
Data from the exploratory interviews, employee interviews and archival records supported the findings that LCBs and FIBs were significantly different in these areas (or different in *change content*). In LCBs, market-driven Western practices were experimented with, for instance, new PM systems, graduate recruitment schemes, training centres, employee attitude surveys, etc. **'Inter-group'** change was observed (comparing LCB_{T0} and FIB_{T0}, and LCB_{TN} and FIB_{TN} in Figure 6.18). On the other hand, FIBs operating in China extended global training programmes, applied standardised selection processes, conducted regular feedback surveys, and transferred home bonus schemes to the host subsidiaries. Modification of national systems was minimal and **'intra-group'** change was less (analysing FIB_{T0} and FIB_{TN}).

It seems that LCBs and FIBs might have some structural resemblance over time if **'across-time change'** in HRM practices continue and converge towards each other (movement from LCB_{T0} to LCB_{TN}, and from FIB_{T0} to FIB_{TN}). Yet, new practices in LCBs were restricted by some idiosyncratic traditions and institutional regimes surrounding companies, such as government interference in appointments, resistance from employees, lack of a collaborative culture etc (issue of *change context*). Culture and institutions could render the Chinese conception of HRM different from the Western conception and whether *change outcome* would be something similar to the original Western practices would be questionable. Additionally, the financial crisis brought changes in the management model in China. Such changes occur in a variety of ways, at a variety of levels, and towards a variety of directions. This means that change in Chinese bank management will be a complex *change process* and that more indirect

influences may have greater and far-reaching effect to the industry.

On the other hand, global practices from home countries could not be fully tailored to local situations or be institutionalised. Many of HRM changes in FIBs existed only at the nominal surface level. Contextual factors, for example the size effect, firm nationality, number of years of operations, etc. can further widen the differences and affect *change relationship*. The next chapter (Chapter 7) will evaluate if any contextual variables relate with the HRM areas and hence contribute to explain the gap among banks. While some changes have been observed in certain HRM areas and levels, how did HRM change process, at what pace, magnitude and direction? Chapter 8 will deal with the remaining HRM change issues.

Figure 6.18: Results of Direction and Magnitude of HRM Change



Source: developed for this research

7. Findings: Contextual Factors and HRM Areas

7.1. Chapter Introduction

This chapter focuses on the second research question and discusses the relationship among HRM areas, contextual factors and control variables. The contingency perspective suggests that no HRM policy and practice (or set of policies and practices) is likely to be equally effective under all sets of conditions. Some programmes and organisational factors are likely to be more congruent than others. The identification of contextual factors helps discriminate between situations in which HRM practices will be effective and those in which they will not be, and consequently leading to, or hindering, change in HRM areas.

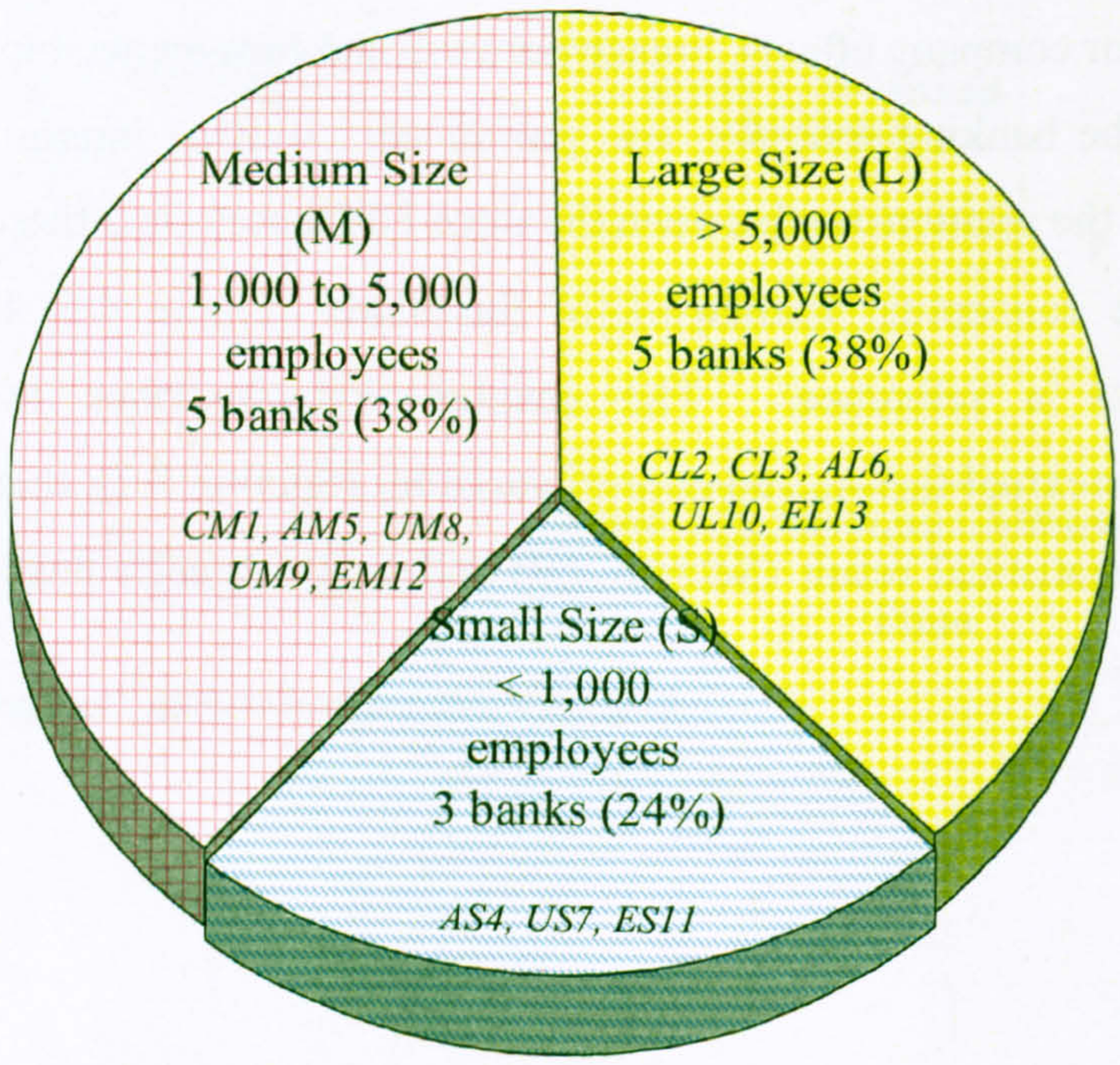
The degree to which new HRM models are transferred can be constrained by cultural and institutional heritages of an organisation, reflected in its characteristics. Of the several organisational characteristics, those of firm size, firm nationality and firm age have been empirically tested in the context of Chinese enterprises regarding the transformation of HRM practices in China. To control for company effects, branch network and firm ownership, factors specific to the banking industry, are introduced. It is of interest, therefore, to explore the relationship between the three HRM areas and these five variables. The conceptual framework of this study (Figure 4.6) is replicated below as a reference. The chapter first describes the characteristics of contextual factors and control variables (Section 7.2), then presents an overall statistical result (Section 7.3) and analyses each factor (Sections 7.4 to 7.8).

7.2. Descriptive Statistics of Contextual and Control Variables

7.2.1. Firm Size of Sample

Given time and resource constraints, this study attempts to draw a sample of banks of various sizes. The number of permanent employees in Chinese branches and FIBs' local branches are collected. In addition to collecting the data as a continuous variable, the number of employees is grouped into categories to facilitate further analysis. Based on the *Statistical Bulletin* published by China's National Bureau of Statistics, the numbers of employees of 72 target banks in China were collected. The size of banks in China ranged from 50 employees to nearly 500,000 employees and most banks had around 5,000 to 10,000 employees. By approximation, these banks were equally divided into three groups: fewer than 1,000 employees, 1,000 to 5,000 employees, and more than to 5,000 employees (as previously discussed in Section 5.4.2.). For the purpose of data input, these three groups were coded as 1, 2 and 3 respectively.

Figure 7.1: Firm Size of Sampled Banks



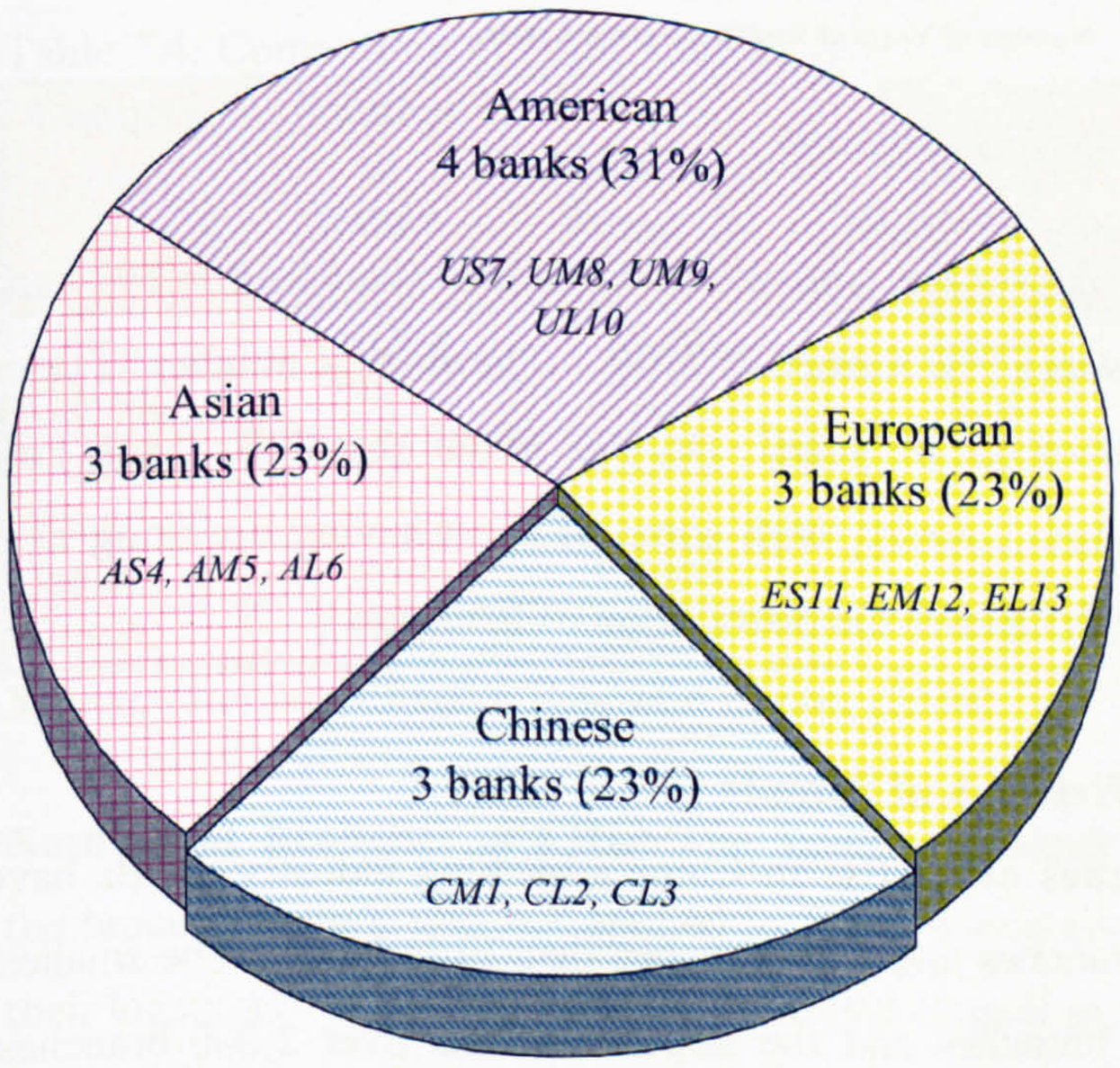
Source: developed for this research

Of the thirteen sampled banks, there are three small, five medium and five large banks (Figure 7.1). The use of a multi-stage design and purposive sampling avoided over-sampling of a particular type of bank. Size distribution of LCBs is negatively skewed as the smallest LCB has over 8,000 employees. No LCB falls into the category of 'small size'. While the skewed population may cause some limitation, the findings can still be representative to show the key issues in HRM change.

7.2.2. Firm Nationality of Sample

The sample banks come from seven countries. The categories of the national origin classification used are local Chinese (i.e. local Mainland Chinese), Asian (for example Hong Kong, Japan, Taiwan, Singapore), America (for example United States of America), and European (for example United Kingdom, Germany, France). For the purpose of data input, LCB is coded as 1, Asian as 2, American as 3, and European as 4. When grouping into the four nationality categories, three are LCBs, three Asian banks, four American banks and three European banks (Figure 7.2).

Figure 7.2: Firm Nationality of Sampled Banks

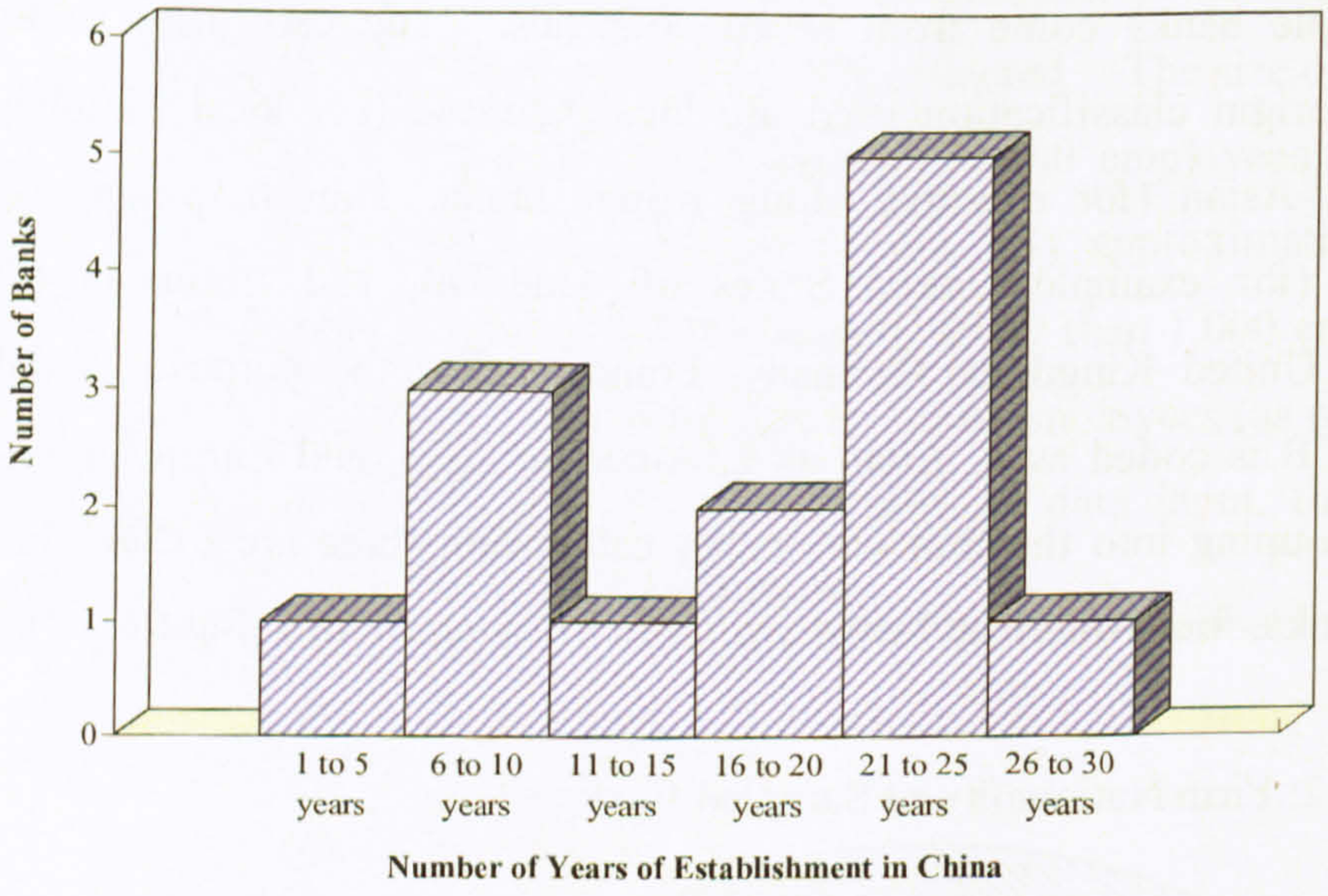


Source: developed for this research

7.2.3. Age of Firms of Sample

All the banks were established or re-established after China's economy reform in 1979. SOBs were established between 1979 and 1984 while NCBs were set up between 1986 and 1993. The average firm age of LCBs in the industry is over 20 years. The first FIB established its branch in China's market in 1981. The average number of years of operations in China is 13 years.

Figure 7.3: Age of Sampled Banks



Source: developed for this research

In this sample, the oldest bank was one of the SOBs established in 1979 and the youngest bank was a FIB formed in 2000. The average number of years of Chinese operations is 18 years. It was noted that FIBs have long histories in their home country, with some of them having operating over 100 years. Figure 7.3 shows the distribution of firm age.

7.2.4. Branch Network of Sample

Number of Branches of LCBs: In China's banking industry, LCBs have more number of branches and sub-branches than FIBs have. The smallest LCB has over 20 branches and the largest one has over 2,000 branches. SOBs have the most number of branches because they were required by government to operate in all cities and provide banking services even in

unprofitable rural areas. In fact, the total number of branches and network coverage of LCBs had kept on growing since the economic reforms in the 1980s. Compared to other banks in the world (see Table 7.4), the average number of branches per LCB is huge (more than 3,800 branches per bank), although each Chinese branch serves for fewer customers (around 420,000 customers per branch).

In April 2002, the PBOC promulgated the *Notification Regarding Problems Relating to the Management of the Entry of New Chinese Commercial Banks into the Market.* This Notification required all SOBs and NCBs to gradually reduce the number of different levels of branches and upgrade their branches' functions. Thereafter, the PBOC would no longer accept applications for the establishment of branches at lower than county government level (see Figure 7.6) and hence SOBs and NCBs had to adjust their branch structure within the same city, between different cities and in the same province (Chen and Shih, 2004). Since then, the number of branches of LCBs has remained unchanged. For the research period 2000 to 2008, there was no change in the number of branches in SOBs and NCBs.

Table 7.4: Comparison of Branch Network

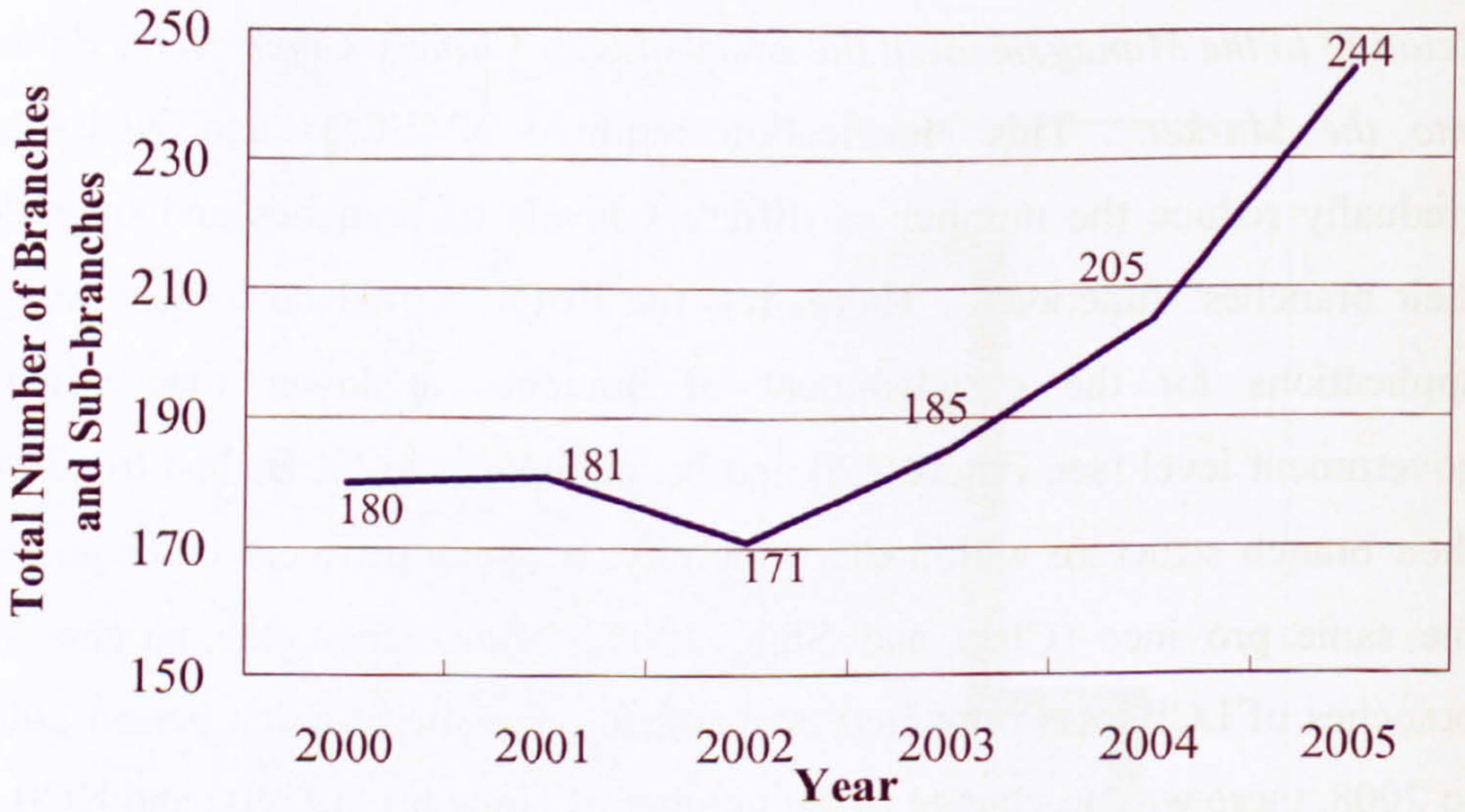
Country	Number of Banks	Total Number of Branches	Average Number of Branches Per Bank	Number of Customers Served by Branch
China	4 SOBs	155,200	3,880	421,833
Canada	11	7,414	674	2,221,636
United Kingdom	35	13,965	399	1,601,914
Japan	86	13,334	155	137,825
U.S.A.	14,451	39,285	2.7	15,676

Source: Han-nan Finance Research Centre (2000)

Number of Branches of FIBs: The mandatory requirement of restricting the branch network was not applied to FIBs, which could pick and choose their locations. The smallest FIB had only 1 branch and the largest one had 20 branches and the average was 2 to 3 branches per FIB. With the relaxation of regional restrictions under the WTO Agreement, FIBs were

allowed to open more than one branch per year and in more locations. Hence, the total number of branches increased from 180 in 2000 to 244 in 2005, a 36% increase (Figure 7.5). Through there have been a substantial number of new openings of FIBs' branches, most of them are those from FIBs based in Asian economies, such as Hong Kong.

Figure 7.5: Number of Branches and Sub-branches of FIBs in China

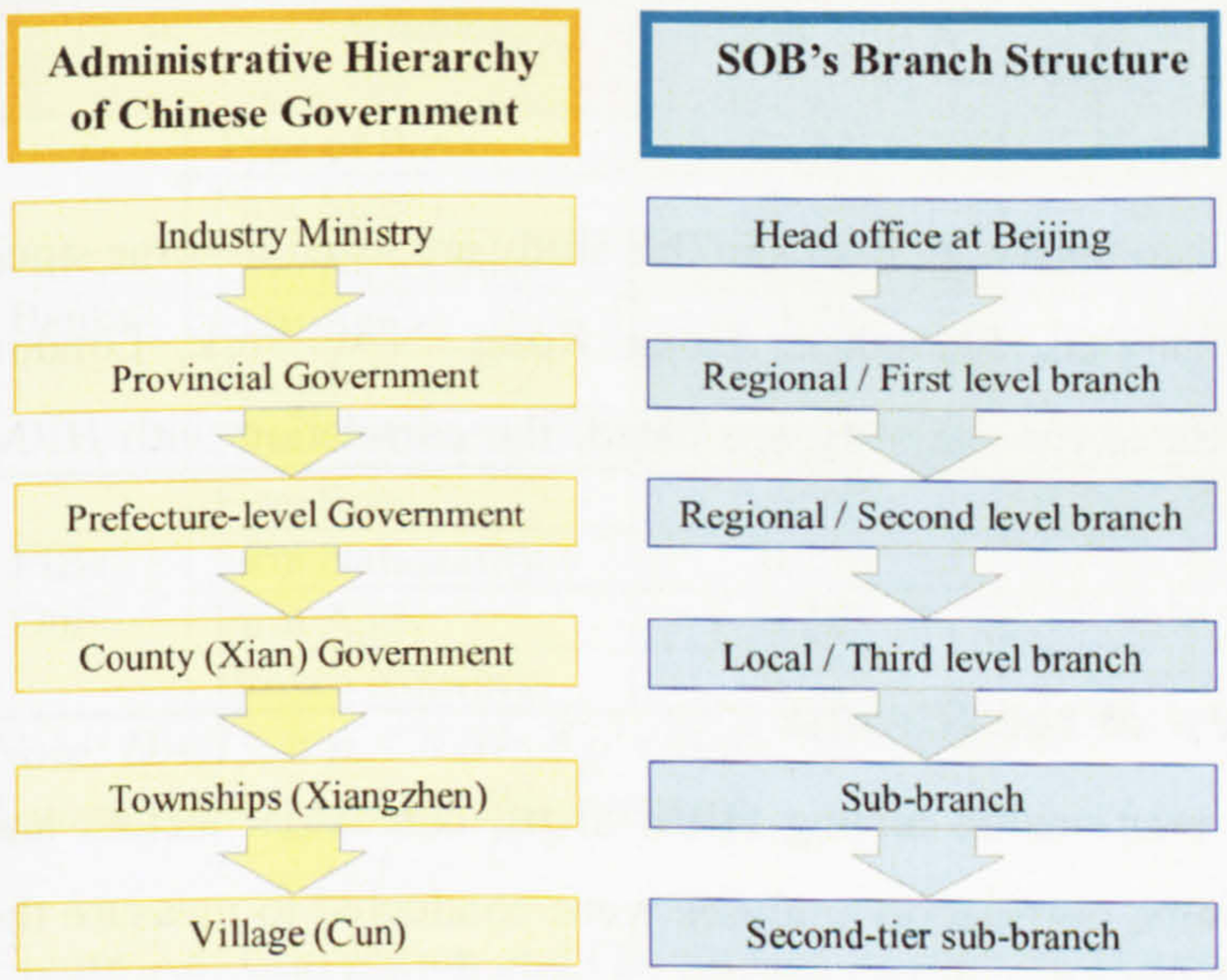


Source: PBOC (2008)

Distribution Pattern of LCBs: Besides, the distribution pattern of branches of LCBs closely relates to the administrative hierarchy of the Chinese government. LCBs used to establish their branches alongside the country's administrative structure, with branches in every province, city and county. They operated branches at every government level, for instance a first level branch at every province, second level branch at every prefecture, etc. (see Figure 7.6). Since there are 30 provinces and over 330 prefectures in China, the number of branches quickly multiplies. While an extensive network offers access to more retail customers, such a bank structure can become cumbersome and can also affect rewards practices and performance evaluation (discussed in later sections). Indeed, several researchers indicate that SOBs are operating below their efficient scales (Huang, 1998; Wei and Wang, 2000). The PBOC's *Notification* made a strict requirement that LCBs should aim at establishing an organisation based on a three-level

hierarchy (i.e. head office, regional branches, local branches), streamlining their branch structure, and establishing and adjusting branches in line with the needs of economic development and the market, including making the best use of their own management and control capabilities. Yet, this change of bank structure has rarely occurred.

Figure 7.6: Branch Network of LCBs



Source: developed for this research

Distribution Patterns of FIBs: Although new FIBs' branches are increasing every year, the number is by no means significant compared to LCBs. Besides, over 80% of FIBs locate their branches along the coastal commercial cities. Shanghai is the most popular city; this is followed by Beijing, Shenzhen, Guangzhou and Tianjian. When FIBs open a new sub-branch, most of them still choose these cities. They base their decision as to where to open branches on an analysis of profitability and customer distributions and therefore, usually pick the most profitable customers. The largest FIBs (such as AL6, UL10 and EL13) tend to be aggressive and expand their location coverage to second-tier cities as well. It is obvious that FIBs have a preference for locating in large coastal cities, which may also imply that they are still hesitant to expand into the interior regions.

7.2.5. Firm Ownership of Sample

Ownership is evaluated by type of ownership and public listings in stock markets. Of the three target LCBs, two of them have state governments as owners. In the 2000s, these LCBs absorbed equity investments and were partly owned by foreign investors. NCBs in the sample are mainly owned by non-state Chinese enterprises and partly owned by foreign investors. All FIBs have private enterprises, families or individuals as owners and none of them is owned by the governments.

Besides, except for two banks, all banks in this study are listed in some stock exchanges (like Shanghai, Shenzhen, Hong Kong, New York, London exchanges, etc.). Since the majority are listed, the correlation with HRM areas is minimal.

7.3. Overview of the Results

To understand the relationship among HRM areas, contextual factors and control variables, some correlation analyses were conducted to measure the relationship. As explained in Chapter 5, data from interviews were coded, categorised and content-analysed, while data from archival records were quantitative data. The data were further checked for errors, omissions, or mistakes to ensure that collected data were accurate, complete, consistent with other information, and then arranged in the same format for data input and statistical analysis.

The next step was to conduct a correlation test in all HRM areas, contextual factors and control variables. Pearson correlation r was used to measure such correlation. Pearson r is a good indicator of the extent to which variables occupy the same or opposite positions within their own distribution. The value of r is between -1 to +1. A perfect positive correlation gives the value of +1 and a perfect negative correlation gives the value of -1. If there is no correlation, the value is 0 (Pagano, 2004). Correlation results do not imply causal relationships between variables.

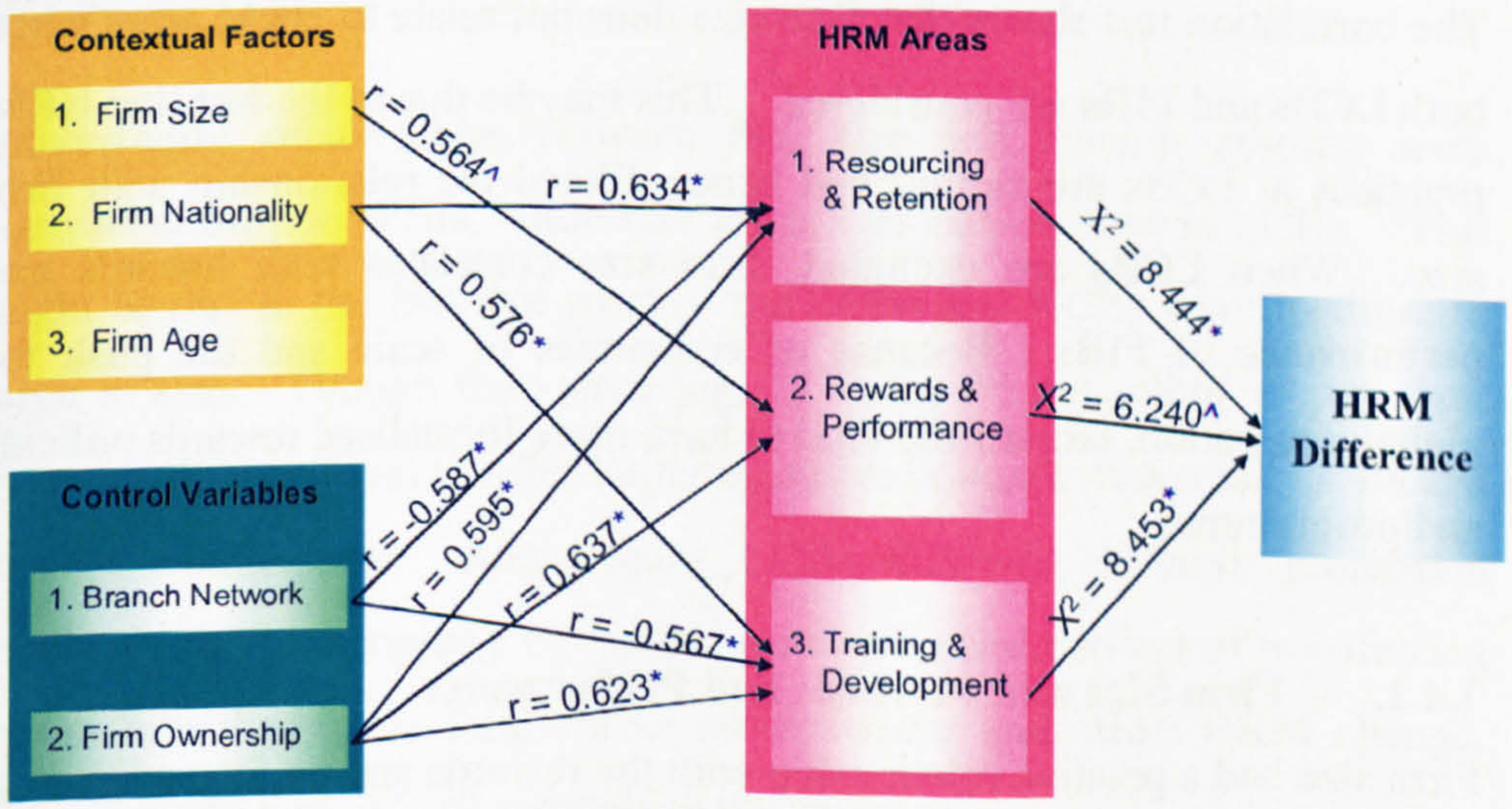
Besides, it was suspected that there may be difference between LCBs and FIBs in terms of their relationship with contextual factors and control variables. Therefore, separate correlation test was run for LCBs only and FIBs only. When LCBs were excluded, the effect of firm size and branch network on FIBs' HRM became obvious.

Table 7.7: Correlation Results of Key Variables

	Variables	Resourcing & Retention	Rewards & Performance	Training & Development
All Banks	Type of Bank	0.651*	0.618*	0.688#
	Firm Size	-0.372	0.100	0.108
	Firm Nationality	0.634*	0.316	0.576*
	Firm Age	-0.183	-0.134	-0.047
	Branch Network	-0.587*	-0.402	-0.567*
	Firm Ownership	0.595*	0.637*	0.623*
FIBs Only	Firm Size	-0.242	0.564^	0.535
	Firm Nationality	0.235	-0.353	0.089
	Firm Age	0.200	0.355	0.598
	Branch Network	0.038	0.346	0.589^

*Note: N= 13, # p < 0.01; * p < 0.05; ^p < 0.10*
Source: developed for this research

Figure 7.8: Correlation and Chi Square Results on Conceptual Framework



*Note: N= 13, # p < 0.01; * p < 0.05; ^p < 0.10*
Source: developed for this research

The final step was to consolidate those significant correlation results into a table (Table 7.7). Among the contextual variables, firm size correlated with rewards and performance of FIBs only, but not all LCBs and FIBs (see Section 7.4). Firm nationality correlated with both resourcing and retention,

and training and development for all banks (see Section 7.5). Firm age did not have significant correlation with any HRM areas (see Section 7.6). When control factors were considered, branch network moderated the relationship of training and development (see Section 7.7). Firm ownership, in terms of type of ownership (i.e. state-owned, non state-owned, and private-owned), moderated the relationship of all HRM areas (see Section 7.8). Ownership, in terms of public listings, did not have any relationship either. Since the majority of banks were listed, the correlation of public listings and HRM areas was insignificant and subsequent analysis did not include this variable. Besides, chi square tests were also run to analyse if there was any difference between LCBs and FIBs in the three HRM areas. The chi square tests showed that LCBs and FIBs were significantly different in all HRM areas; and these chi square results were consistent with the findings presented in Chapter 6. Figure 7.8 presents the statistical results on the conceptual framework of this research.

7.4. Firm Size and HRM Areas

The correlation test shows that firm size does not relate to HRM areas when both LCBs and FIBs are considered. This may be due to the fact that HRM practices at LCBs are similar and hence diluted the relationship with firm size. When LCBs are excluded, firm size correlates with rewards and performance of FIBs. Because of economies of scale and the push for global integration, larger FIBs tend to have more formalised rewards policies and programmes.

7.4.1. Firm Size and Rewards and Performance

Firm size had a positive relationship with the rewards and performance area. Specifically, there were three rewards and performance practices that distinguish the banks. First of all, managers in larger banks had salaries and bonus levels that were significantly higher than those in smaller banks. Possible explanations for this result were that the larger the firm, the more resources there were, and therefore, the higher compensation could be offered. Larger FIBs (e.g. AL6, UL10) tended to benchmark their bonus

and salary levels tied to the external market more closely than the smaller banks. Findings from some prior studies (see Lu and Björkman, 1997) also supported this positive relationship.

Second, larger banks, in general, offered greater options for career advancement to their employees. Promotions were predominantly based on individual performance and the effectiveness of PA systems was high. Wider global networks allowed large banks to offer either vertical, horizontal or lateral movements to high performers (AM5). Idson (1989) gave another explanation, or argued that large companies had more positions to be filled than small ones, and thus had better career development.

The third practice related to the pay structure. In this study, most of the large FIBs (such as AM5, UM9, EL13) modified their global pay structures and added more levels in China. It seemed that large enterprises with formal, hierarchical organisation structures tended to prefer conventional graded structures which could provide for orderly administration and ease in managing internal relativities.

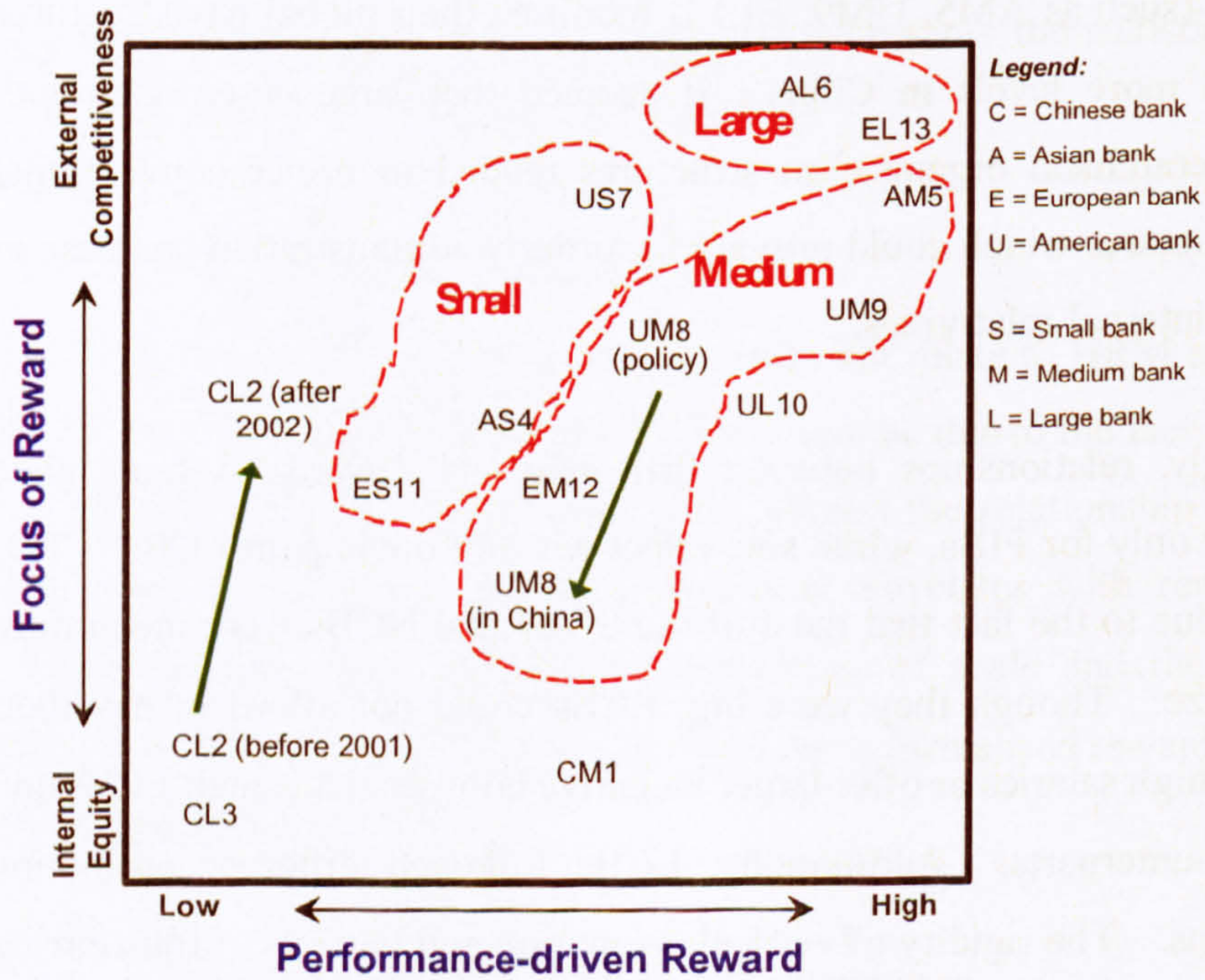
Interestingly, relationships between firm size and rewards systems were significant only for FIBs, while size effect was not obvious in LCBs. This might be due to the fact that most of the SOBs and NCBs were medium to large in size. Though they were big, LCBs could not afford to pay their managers high salaries or offer larger incentive bonuses than small LCBs and foreign counterparts. Additionally, LCBs followed different promotion mechanisms. The rigidity of vertical promotion and barriers of transferring across branches could limit career advancement and affect HRM change. Table 7.9 and Figure 7.10 summarise the findings.

Table 7.9: Summary of Rewards and Performance Area by Size of Sampled Banks

Type	Firm Size	Bonus Scheme	Salary Increase	Promotion	Impact of PA Result	Effective-ness of PA
LCB	Medium	Formula based	Internal decide	Seniority, political background	Medium impact	Medium
	Large	Various schemes	Mainly internal decide		Various impacts	Low
FIB	Small	Discretion-ary or formula based	Refer to market	Performance	Various impacts	Low
	Medium					Medium to high
	Large	Refer to market			Medium to great	High

Source: developed for this research

Figure 7.10: Rewards and Performance Dimensions by Size of Sampled Banks



Source: developed for this research

7.5. Firm Nationality and HRM Areas

In this study, rewards and performance (like bonus schemes, promotion) exhibited little variability across firm nationality. In other words, companies' national cultural identity did not seem to have development of different rewards and performance practices in the banking industry in China. This was not to say that there was little national cultural influence from the parent firm to its affiliates. There might be some possible reasons accounting for this result.

In general, North American banks showed more consistency in their rewards policies (market driven and performance-based). Asian banks shared similar cultural and philosophical values as Chinese ones and hence more local adaptation was found in their practices. European banks tended to have a diversity of approaches in rewards systems. The structural and institutional barriers prevented full transferability of HRM systems to other countries. Consequently, the effect of firm nationality was not significant. LCBs introduced a number of new initiatives, including new performance bonuses, more sophisticated PA systems, etc. Some traditional practices, such as seniority-based promotions, job-based pay structures, were still prevalent. The mixture of China's historical legacy and cultural heritage with market-oriented new practices affected the correlation results.

7.5.1. Firm Nationality and Resourcing and Retention

While rewards and performance used in different countries did not show significant correlations, national cultures continued to impact on staffing decisions. The correlation result indicated that banks of different firm nationalities adopted various practices in their resourcing and retention areas. Specifically, firm nationality strongly correlated with selection methods and selection criteria (See Table 7.11 and Figure 7.12).

Asian banks looked at candidates' education and work history as key selection criteria. They used interviews to choose the appropriate candidates. European banks thought that relevant experience was the most important factor in China. However, given institutional constraints in sourcing qualified bankers, European banks changed their standard selection processes and adopted a more customised approach. Because there were fewer qualified candidates than positions available, valuable employees changed jobs frequently in order to gain the best benefits, financially and professionally. FIBs would suffer if their staffing strategy was not one step ahead of this volatile recruitment game. As staff in two European banks, ES11 and EL13, recalled:

> *'In China, there are not many candidates that can fulfil our requirements. Keen competition keeps pushing demand up. Therefore, we need to recruit whichever candidates are available.'*

> *'Recruitment in PRC is complicated. There may not be enough time to shortlist the best people or do a proper selection process. If we react slowly, the candidates may be recruited by the other companies. So, our recruitment process is being cut short.'*

Generally, the legacy of firm nationality tends to diminish as a firm operates longer at the international level. While the firm nationality effect creates a distinctively national flavour to certain HRM practices, it does not close off the possibility for MNCs to learn from other business systems in which they operate. In other words, FIBs in China (in particular European banks) might not possess a fixed and rigid national identity; rather, firm nationality would shape and constrain the actions of these actors, but critically leave scope for them to draw on practices operating in other countries (Edwards and Ferner, 2002).

The approach of taking up local practices and sacrificing rigorous selection processes to short-term results was not shared by North American banks. Their processes followed the global model with a series of tests, multiple interviews with direct supervisors and peers, and assessment centres. Such selection was lengthy and time consuming. Strong emphasis was given on

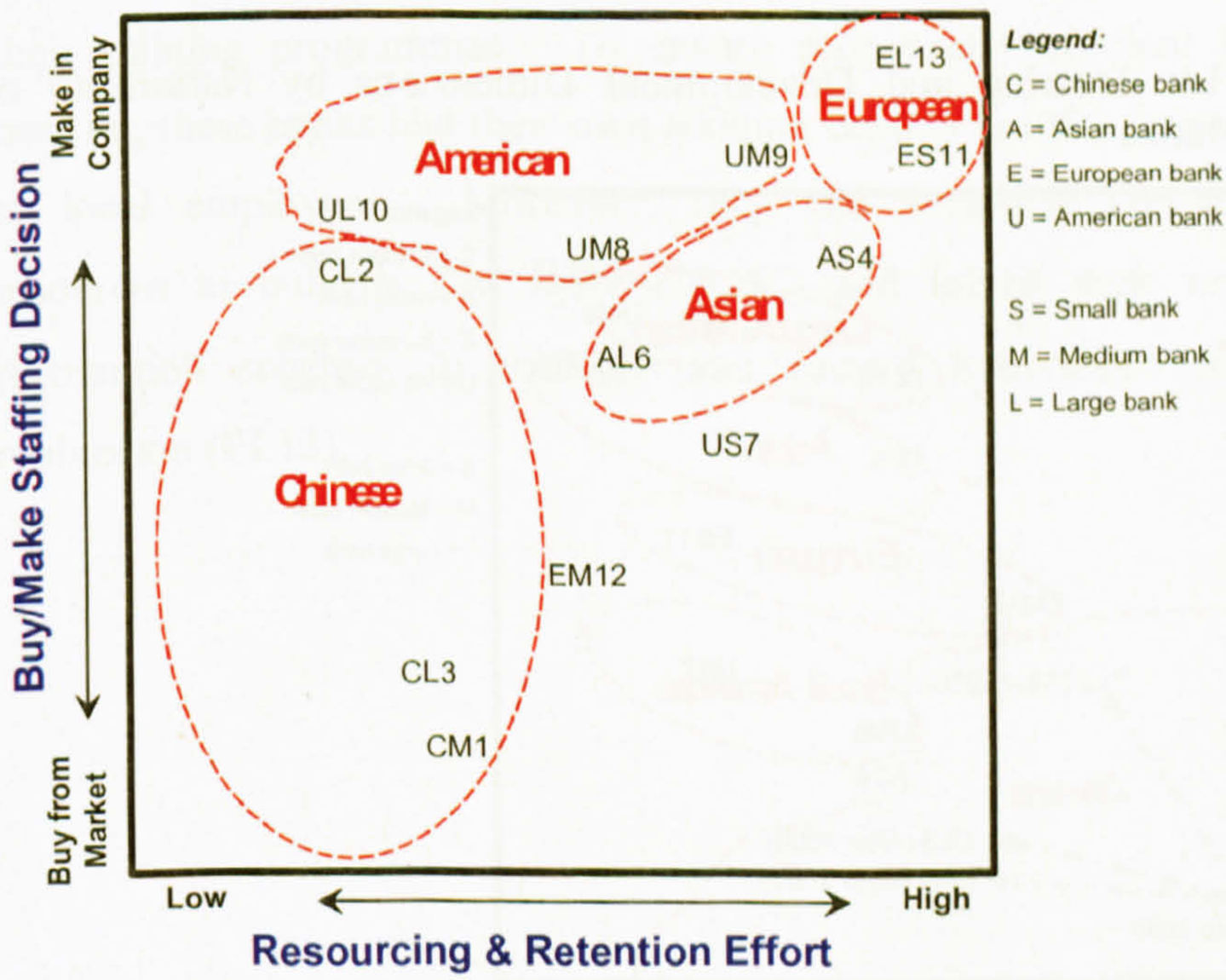
the fit of the candidates with the company culture as well as the competency of the candidates. Selection criteria, interview questions and tests came from their home country models.

Table 7.11: Summary of Resourcing and Retention Area by Nationality of Sampled Banks

Type	Firm Nationality	Recruitment	Selection Method	Selection Criteria
LCB	Chinese	Internal promotion with government allocation	Used interviews	Technical skills, language abilities and political background
FIB	Asian	Short-term secondment to solve staff turnover	Used interviews	Education and work history
	American	Business expansion drove the recruitment	Used a series of tests, multiple interviews and assessment centres	Culture fit with company and competency
	European		Used various methods to suit local constraints	Relevant experience

Source: developed for this research

Figure 7.12: Resourcing and Retention Dimensions by Nationality of Sampled Banks



Note: No information for AM5
Source: developed for this research

7.5.2. Firm Nationality and Training and Development

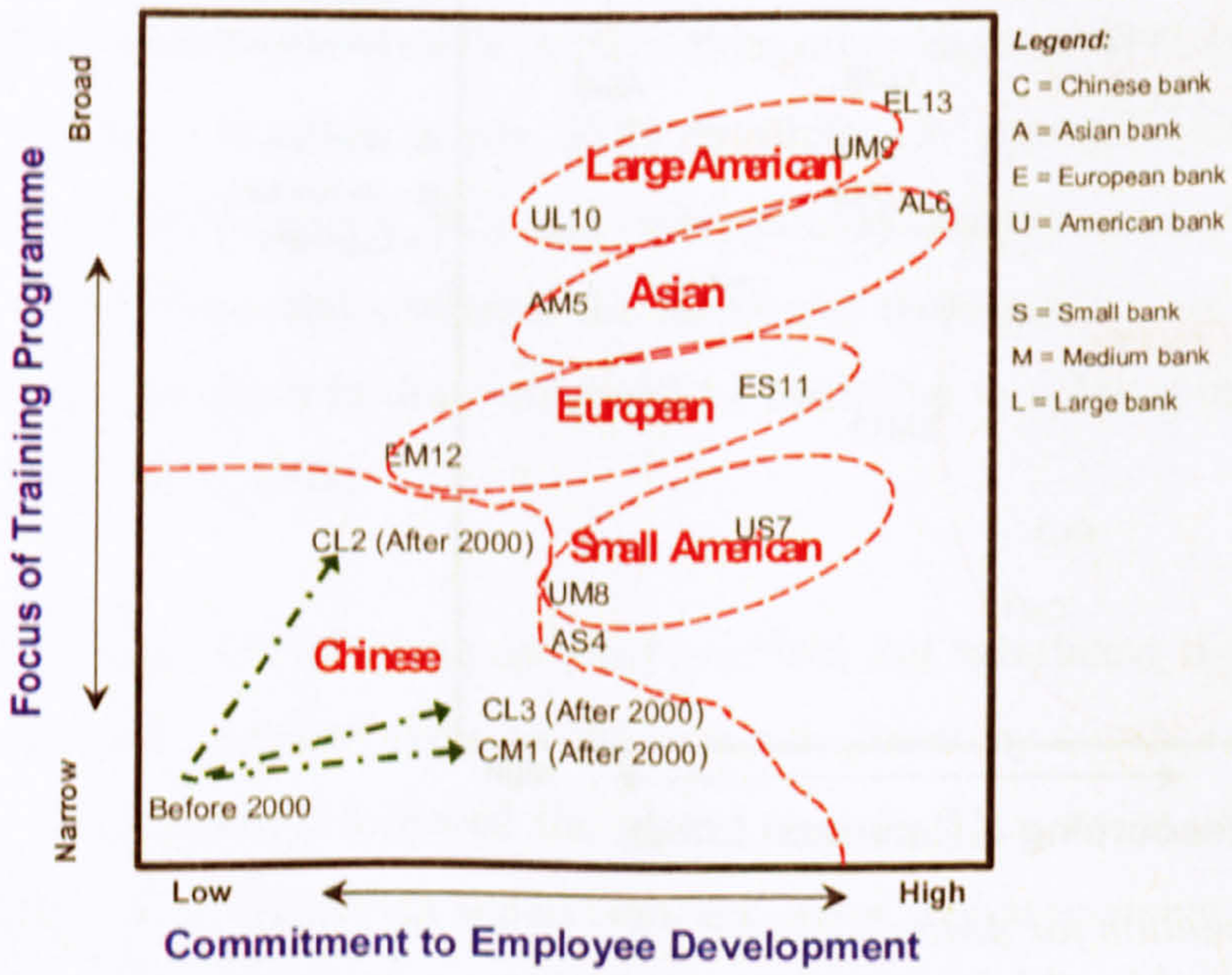
Firm nationality also affected training and development. The correlation result indicated that banks from different countries had different practices in the development of employees. In particular, firm nationality and underlying cultural values related to the way organisational learning and employee development programmes are arranged (See Table 7.13 and Figure 7.14).

Table 7.13: Summary of Training and Development Area by Nationality of Sampled Banks

Type	Firm Nation-ality	Frequency of Training	Dedicated Training Team	Training Effective-ness	Training Cover-age	KM System
Local	Chinese	Not frequent	Newly set up	Not important	Limited	Not yet set up
FIB	Asian	On-going	Dedicated team	Important	Broad	Online e-learning
	Small American	On-going	Newly set up	Important	Limited	Some KM system
	Large American	On-going	Dedicated team	Very important	Broad	Online e-learning
	European	On-going	Dedicated team	Important	Moderate	Some KM system

Source: developed for this research

Figure 7.14: Training and Development Dimensions by Nationality of Sampled Banks



Source: developed for this research

LCBs tended to have low commitment to employee development and a narrow focus on training programmes. Thus, technical training courses were offered to managerial levels on an irregular basis. Training was mainly conducted through on-the-job training or instructor-led classroom (e.g. CM1).. Organisational learning culture had not yet been fostered in LCBs and their KM system remained incomplete and flawed in transferring and sharing knowledge (CM1).

In contrary, large North American banks and Asian FIBs tended to have high commitment to employee development and a broad focus on programmes to wide organisational audiences. The development of a learning culture across the bank, the sharing of knowledge and an emphasis on people development, were the main features in these FIBs. For example, dedicated teams were set up to design training courses for Chinese subsidiaries (AM5), an online e-learning system was built to support a KM system from head office to local branches (AL6), and different modules were offered to various levels of employees to broaden the focus of training (UM9).

Several European and small North American banks had a moderate focus in their training programmes. To ensure proper and efficient knowledge transfer, these banks had their own training centres to offer training courses to local employees. Moreover, they had seriously committed their resources to build a KM system (US7) and linked their rewards and recognition schemes to measure and reward knowledge sharing and replication (EL13).

7.6. Firm Age and HRM Areas

There was a very weak relationship between firm age and the three HRM areas. The correlation result was not significant. The relatively long history of both LCBs and FIBs might attribute to this result.

Firstly, all three LCBs have over 20 years' history operating in China. Thus, most of their HRM practices and policies have been used for a long time. Although new practices were introduced, organisational inertia, deeply rooted in the cultural and institutional heritages of LCBs, acted as a brake on the full absorption of the changes. This persistence explained, at least partly, the insignificant pace of change in HRM with different firm ages.

Besides, the length of operation in China reflected the level of experience FIBs had. It took time for FIBs to understand uncertainty in China's institutional and market settings as well as to cultivate guanxi. Again, in the sample, most of FIBs were well established in their home countries (some had over 100 years of operations) and many had been operating in China for over a decade. Thus, the effect of firm age on HRM was not significant. Table 7.15 shows the number of years of establishment of the sample.

Table 7.15: Firm Age of Sampled Banks

Type	Bank Code	Number of Years of Establishment in China
LCB	CM1	21 – 25 years
	CL3	
	CL2	26 – 30 years
FIB	AS4	1 – 5 years
	AM5	6 – 10 years
	UM8	
	ES11	
	EM12	11 – 15 years
	UM9	16 – 20 years
	UL10	
	AL6	21 – 25 years
	US7	
	EL13	

Source: developed for this research

7.7. Branch Network and HRM Areas

Branch network was found to relate to resourcing and retention, and training and development. Some previous studies showed that location factors relate to compensation. For example, Ding et al. (2006) found that there were significant differences in compensation levels as well as components in firms operating in different locations. Those firms located in coastal cities tend to pay higher salaries and bonuses. In this study, location factors did not relate to rewards and performance. It was because this study evaluated the HRM practices of the bank at the corporate level, not at individual branch level. A bank could have multiple branches at different locations. It was not the purpose of this study to test the difference in compensation level or components of each branch.

In addition, branch network had a moderate effect on two other contextual variables, size and age. The larger the bank size, the more extensive the network and the number of branches were. As FIBs were allowed to open one new branch every year, it took a long time to establish a network. Thus, FIBs with extensive network (more than 10 branches) were those with a long history in China (typically over 15 years). Table 7.16 shows this relationship.

Table 7.16: Branch Network, Size and Age of Sampled Banks

Type	Bank Code	Branch Network	Firm Size	Years of Establishment
LCB	CM1	Extensive branch network. Could not increase the number of branches since 2002	Medium	21 – 25 years
	CL3		Large	
	CL2			26 – 30 years
FIB	AS4	1 – 3 locations	Small	1 – 5 years
	US7			21 – 25 years
	AM5		Medium	6 – 10 years
	UM8			
	ES11	4 – 8 locations	Small	6 – 10 years
	EM12		Medium	11 – 15 years
	UM9			16 – 20 years
	UL10	11 – 15 locations	Large	16 – 20 years
	AL6			21 – 25 years
	EL13			

Source: developed for this research

7.7.1. Branch Network and Resourcing and Retention

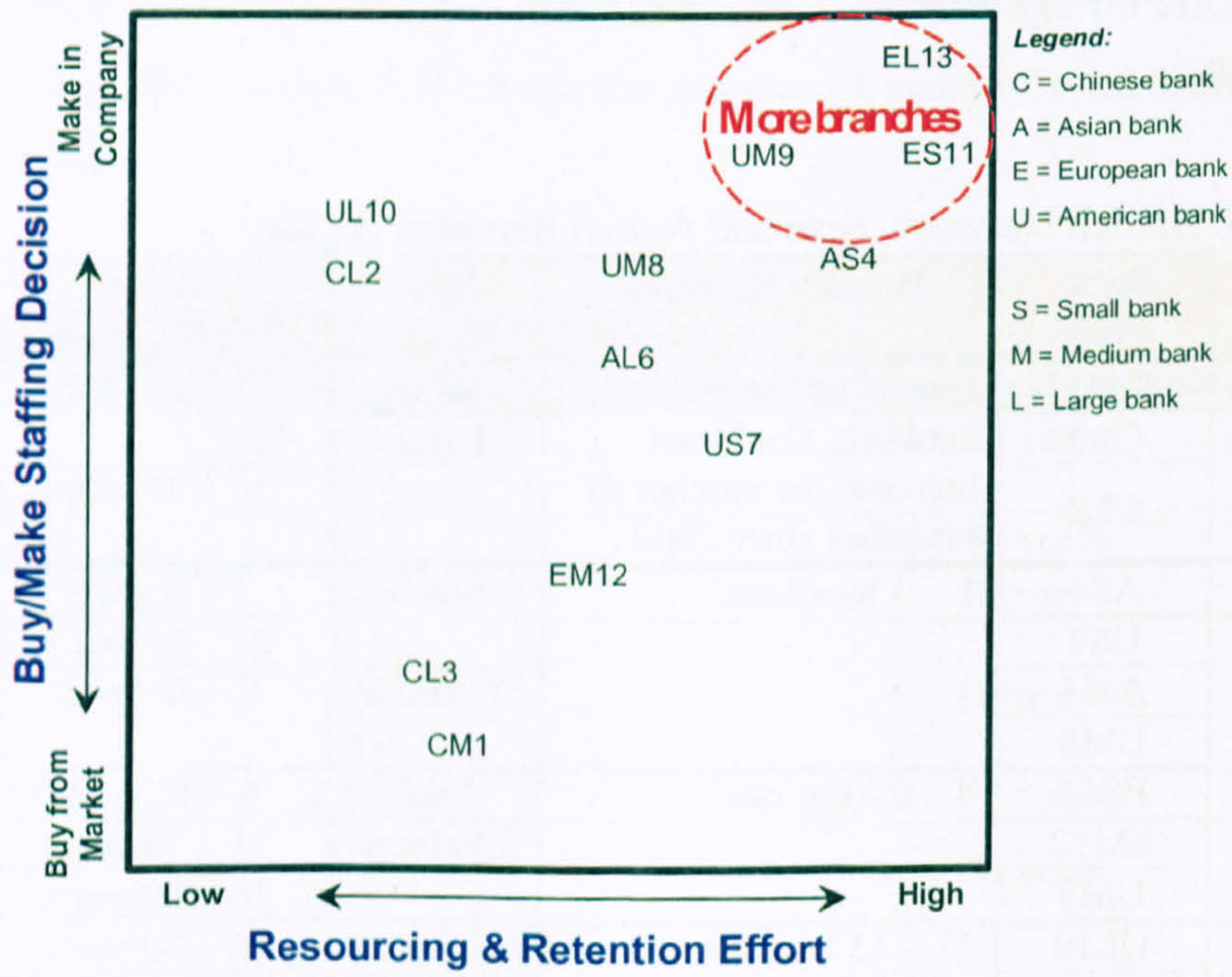
From the findings, the number of branches and distribution correlated with the resourcing and retention area. The correlation implied that FIBs with extensive branch networks tended to use external recruitment to source people and spend a lot of efforts on employee recruitment and selection (see Figure 7.17). Branch Operations Managers in ES11 and US7 described the effort their companies put in recruitment.

> *'Since our firm is expanding, we try to recruit managerial positions from anywhere, not limit to the coastal cities where we have branches.'*

> *'The recruitment effort is much higher and more extensive than in other countries because we want to get more involvement in the market and give our name exposure.'*

FIBs with the largest number of branches (i.e. AL6, UL10 and EL13) also had the highest number of employees in the sample and launched formal graduate recruitment programmes and practised rigorous selection processes.

Figure 7.17: Resourcing and Retention Dimensions by Branch Network of Sampled Banks



Source: developed for this research

Other than the number of branches and sub-branches, the distribution patterns of the branches were assessed. Most of the FIBs had branches in the first-tier cities, such as Shanghai, Beijing, Shenzhen and Guangzhou. Four FIBs (AL6, UL10, EM12 and EL13) expanded to some of the other cities along the coastal areas (for instance Qingdao, Suzhou, Ningbo) or second-tier cities (for example Wuhan, Chengdu). Experienced managers and skilled professionals were more ready available in the first-tier cities than in other locations. Hiring in less developed areas could be challenging. In order to ensure consistency in the selection of employees sourced from various branches, these four FIBs used skill tests or aptitude tests as some form of standardised criteria for initial screening. These types of tests were not found in those FIBs which have branches only in the first-tier cities. Besides, to enhance employment flexibility across widely dispersed branches, back-office functions (like IT, call centres) were centralised in some lower cost areas or outsourced to other companies.

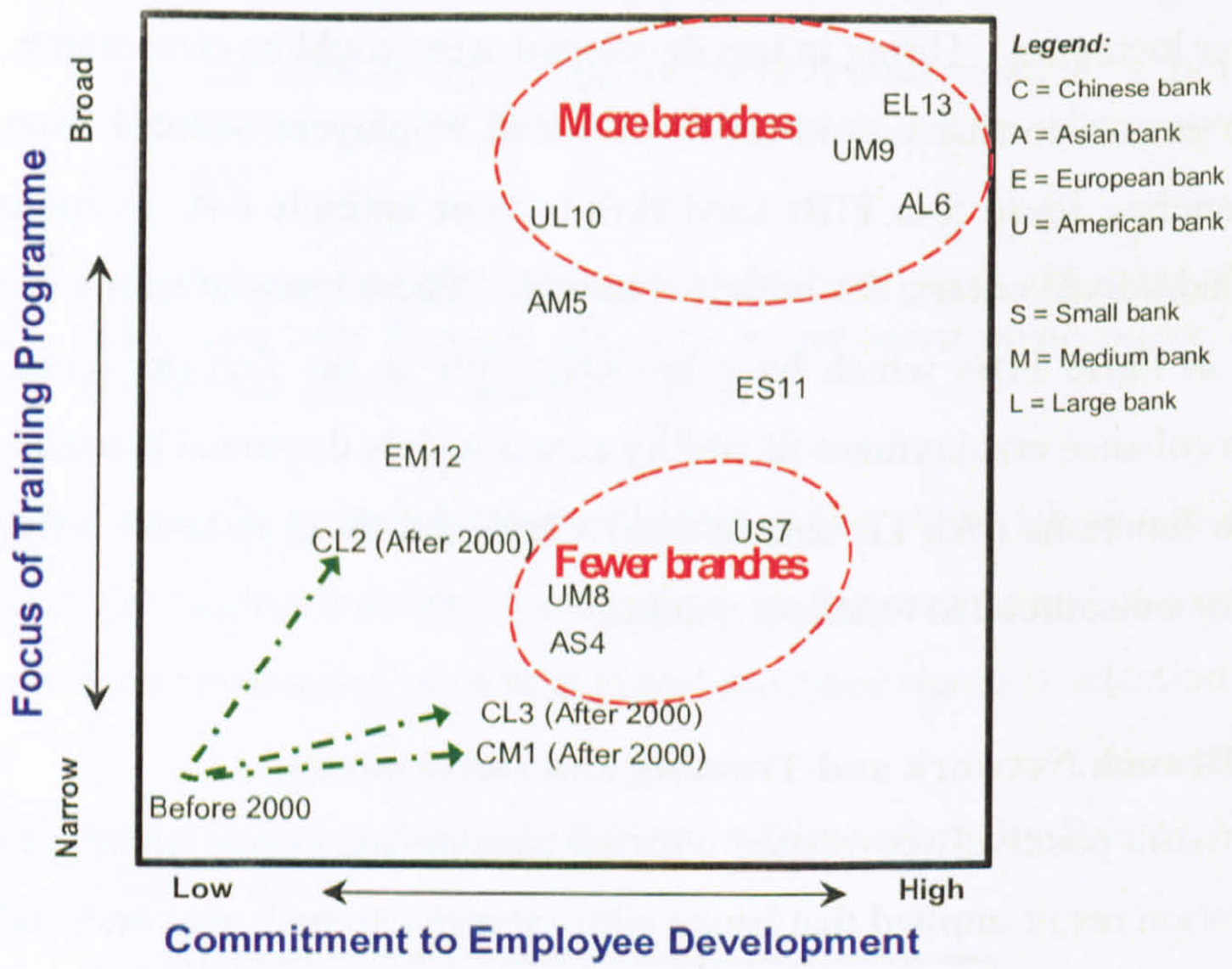
7.7.2. Branch Network and Training and Development

Branch network positively correlated with the training and development area. The correlation result implied that banks with extensive branch networks and widely dispersed branches were likely to have a broad focus of training programmes and high commitment to employee development. Specifically, branch networks related to three training and development practices.

First of all, FIBs with more branches utilised technology to facilitate KM (like ES11, UM9, EL13). E-learning and online training courses were accessible to their employees. This might be due to the fact that e-learning would be a cost efficient approach to share and transfer knowledge to widely dispersed managers and employees. The contents of online training programmes covered broad topics as there was no geographical limitation.

Second, banks with more branches maintained good training records about who had received the training and on what areas. Again, e-HR systems (for example HRIS, SAP) were applied to store and retrieve relevant organisational knowledge.

Figure 7.18: Training and Development Dimensions by Branch Network of Sampled Banks



Source: developed for this research

Third, banks with more branches offered training programmes on an ongoing basis and throughout the year. A training centre or a centralised team was responsible for course design and training schedule coordination. For instance, in UM9, a course on financial markets was offered in the Shanghai branch in one month. In the following month, this course would be offered in the Beijing branch. FIBs with few branches (AS4 and UM8) had their training organised by their own local branches and experience sharing initiated by branch managers. Hence, the focus and commitment to employee development were limited by the resources available. Figure 7.18 visualises the relationship.

7.8. Firm Ownership and HRM Areas

Firm ownership (in terms of the ownership percentages) related to all three HRM areas. Firm ownership (in terms of public listing in exchanges, such as Shanghai, Shenzhen, Hong Kong, New York, and London exchanges) did not have significant correlation with any HRM areas. This might be due to the fact that over 85% of the participating banks were listed companies, and thus the differential in HRM areas was not apparent.

7.8.1. Firm Ownership and Resourcing and Retention

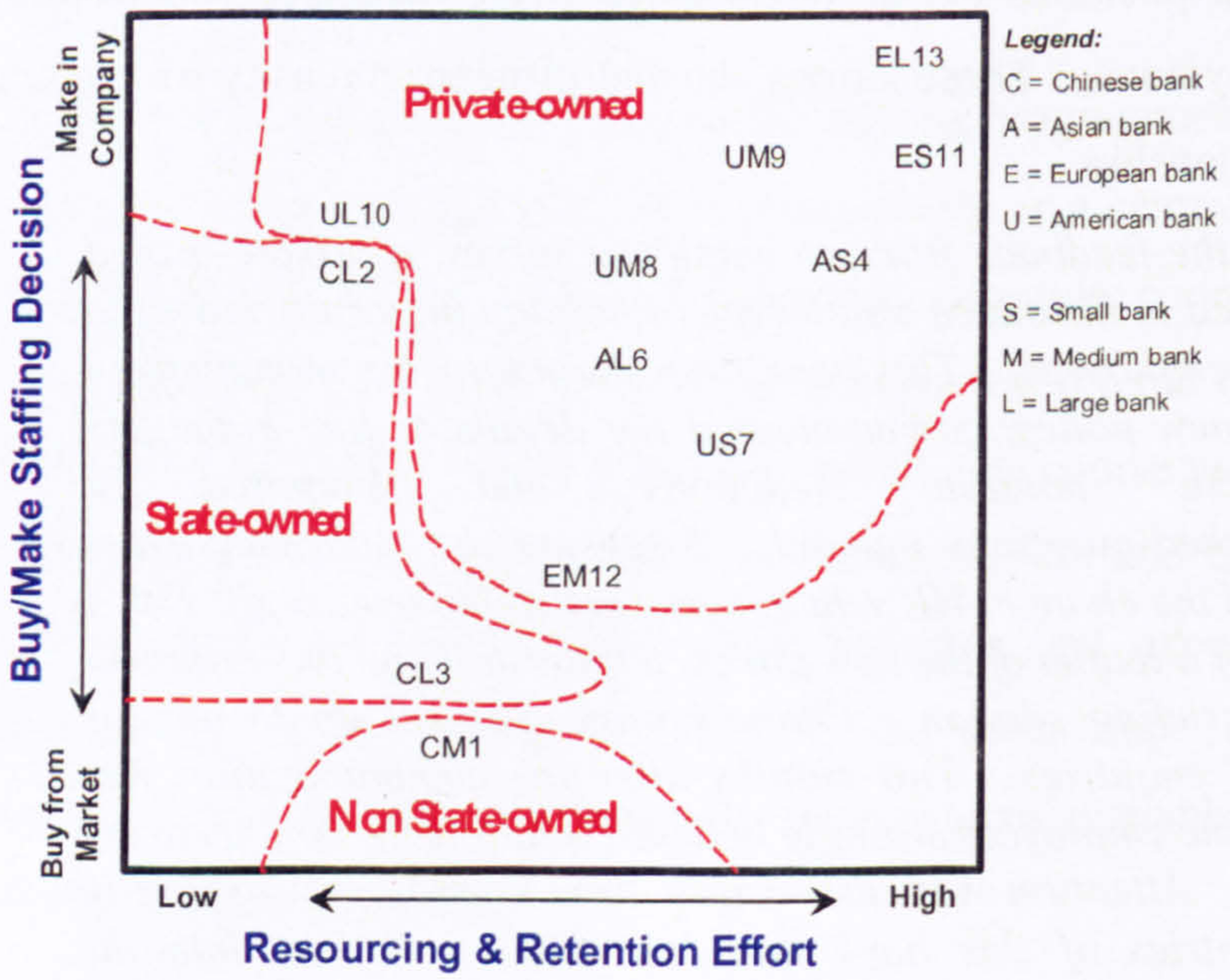
The categories of firm ownership was coded as: 1 represented state / government as the major owner; 2 represented non-state / non-government as the major owner; and 3 represented private individual or family as the major owner. Firm ownership affected resourcing and retention effort. The correlation result indicated that banks with different ownership structures had different practices in resourcing and retention. As shown in Figure 7.19, banks with state ownership had the weakest retention effort, whereas banks with private ownership had the strongest effort. Two stories about the communication of a new HR policy were recorded from the informal conversations in social gatherings during the researcher's visit in China. The names and positions of the interviewees were disguised so that they remained anonymous. These stories showed different intensity of keeping employee relationship.

> *Following the feedback from an employee survey, a private-owned bank decided to introduce a new type of holiday (paternity leave) to their male employees. This bank first alerted the top management about the new policy, communicated the details to line managers about the possible reactions and prepared a frequent-asked-questions manual. To ensure the male employees understand the change, HR sent to every male employee a gift which consisted of a leaflet of the new policy, a baby doll and an enrolment form for briefing session. Phone hotline was set up to answer employees' enquiries. Two months after the communication was launched, the employees strongly believed that 'our bank is a caring company'. Attention was also drawn from employees working in other countries of this bank that 'our bank is better than the competitors'.*

A bank which is owned by state government decided to revise its bonus calculation method to bring it in line with the market. HR department prepared information sheet and some examples about how to calculate the new bonus. HR department held a briefing session with all five District Heads to communicate the details. A notice was then issued to the District Heads. District Heads then communicated to Branch Managers who then cascaded down to individual employees. The notice was posted on the board. At the end of period when the bonuses got calculated, everyone was surprised why the bonus amounts were different from expectation and some employees complained that the bank was unfair to their bonus entitlement.

In the first story, the bank with private ownership took a strong and active role in communicating HR policy change to its employees. Better communication conveyed a message that the bank placed value on its people, and thus strengthened employee retention. In the second story, the bank with government ownership employed a passive way to cascade information down to employees. Misunderstanding and distortion happened during the communication flow. Consequently, it affected the employee relations as well as the implementation of its other HRM change.

Figure 7.19: Resourcing and Retention Dimensions by Ownership of Sampled Banks

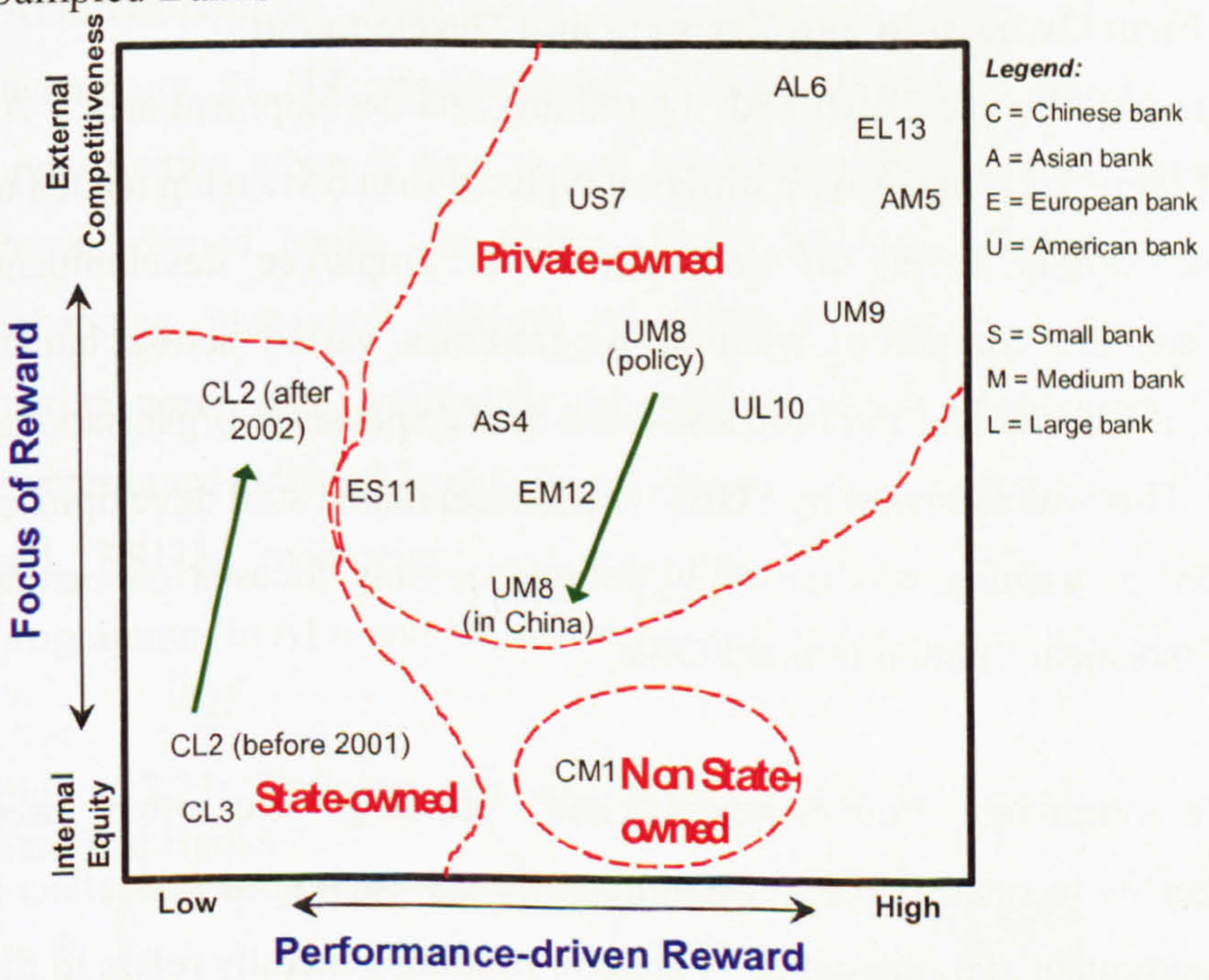


Source: developed for this research

7.8.2. Firm Ownership and Rewards and Performance

Type of firm ownership also related positively to rewards and performance. This implied that banks which were private-owned had rewards practices that were more externally focused and performance-based. Banks which were owned by the state or government had rewards practices with more internal focus and pay egalitarianism (Figure 7.20).

Figure 7.20: Rewards and Performance Dimensions by Ownership of Sampled Banks



Source: developed for this research

In recent years there was a change in the ownership structure of LCBs. Equity investments by foreign investors were found in SOBs, while several NCBs partnered with MNCs to form JSEs. The change in firm ownership led to HRM transfer and adoption. The injection of FDIs allowed SOBs and NCBs to gain access to new capital and technology on the one hand, and Western management practices and new rewards systems on the other hand. For example, CL2 had its new bonus scheme similar to its foreign investor's bonus scheme.

Frequent interactions with foreign investors facilitated LCBs to learn new management initiatives. Some foreign investors also tried to participate in the management of their respective LCBs and exerted influence on business development. For example, the investors in CL2 had assigned two members to sit on the remuneration committee of CL2. Pay structure and rewards systems were substantially revised after the introduction of foreign investors.

7.8.3. Firm Ownership and Training and Development

Firm ownership also correlated with the training and development area. As shown in Figure 7.21, banks with different types of firm ownership tended to have some similar levels of commitment to employee development. Nevertheless, the content of training programmes varied across banks. Private-owned banks had the broadest focus and emphasised organisational learning. This was followed by SOBs which accentuated staff development. The content of training was narrowly defined or only focused on certain aspects of technical training in non SOBs.

The terms 'training', 'development' and 'learning' are often used interchangeably to refer to HR development, though each term can reflect a unique requirement and objective. The term training generally refers to the acquisition of knowledge and skills as a result of the teaching of vocational or practical skills that relate to specific useful competencies (Poon, 2008). The training programmes offered by non SOBs typically involved specific planned instructional activities (for example training on some banking operating procedures) or skills training (for example writing skills). This was similar to 'learning related to the present job' (Nadler, 1984: 18).

Employee development roughly refers to an integrated set of planned programmes, provided over a period of time and delivered through a range of approaches, including on-the-job training, seminars, self-study materials, among others (Nadler, 1984; Poon, 2008). Along with changing banking industry and increasing financial services complexity, many SOBs turned

away from simple on-the-job training to more formalised development programmes. This was evident in the establishment of training centres in several SOBs to organise year-round development programmes to all levels of employees.

Learning in the organisational context is the development of capacity to transfer knowledge across the organisation, the sharing of expertise and information as well as the emphasis on continuous adaptation (Antonacopoulous, 2000; Poon, 2008; Temporal, 1984). The availability of technology in HR development allowed employee access to learning opportunities when it best suited his / her schedule and enhanced KM. Private-owned banks are FIBs. Their learning programmes aimed at enhancing managers' cultural capabilities, comprehending diversity of market needs, and facilitating the learning of all organisational members. Programmes included leadership development programme (as at UM8, UM9 and ES11), mentoring and coaching (like AS4), self-development programme (in AL6 and UL10), cultural diversity (e.g. US7), and so forth.

Figure 7.21: Training and Development Dimensions by Ownership of Sampled Banks



Source: developed for this research

7.9. Chapter Summary

This chapter, using a descriptive research design, assesses the relationship between three contextual factors (firm size, nationality and age) and three HRM areas, controlling for branch network and ownership effects. Firm nationality of a bank impacted on the available organisational choice in resourcing, retention, training and development areas as it tied a bank's practices to a set of expectations and regulations. Firm size affected resources available to the bank and its capacity to handle the task environment. Such an effect was strong in some reward practices of large FIBs. Firm age, however, did not correlate with any HRM areas as the majority of the sample were banks with many years since establishment. The two control factors, branch network and firm ownership, moderated the relationships of several HRM areas as well. The differences between banks of different characteristics gave an indicator of the degree of change that might happen between groups.

Correlation between contextual factors and the HRM areas is, however, not fixed; rather it evolves over time. The legacy of the size effect and firm nationality tends to diminish as a firm operates for a longer period. Current HRM practices may possess some transitional characteristics that they are mainly short- and medium-term adaptations rather than long-term ones. In most cases, HRM change could be lengthy and political and there might not be a definite finishing point or a fixed relationship. Therefore, whether the correlation between contextual factors and HRM areas would remain, or whether the gap between firms of different characteristics could be sustained, are questionable. It is suspected that inter-group change may occur and individual HRM practices may become assimilated into organisational routines over time. How long could the banks maintain the momentum for HRM change over time? What was the pace of HRM change? The next chapter will discuss the issues related to HRM change process in detail.

8. Findings: HRM Change Issues

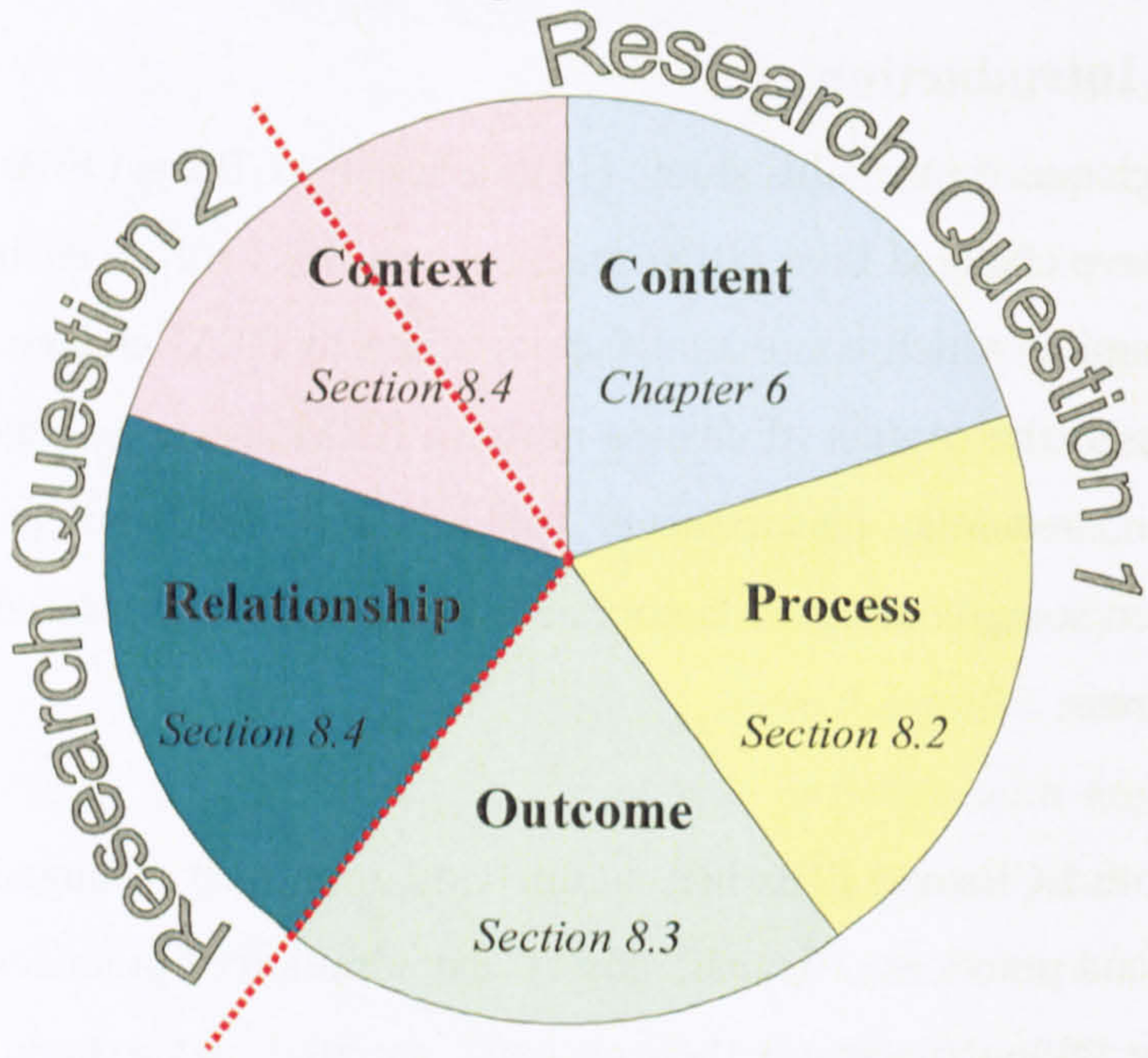
8.1. Chapter Introduction

There are two research questions in this study: (1) to assess if LCBs and FIBs operating in China have changed their HRM practices towards or from each other; and (2) to examine which contextual factors relate to HRM change. Chapter 6 has discussed the content of change in those HRM areas, such as resourcing, retention, rewards, performance, training and development. Chapter 7 has showed some contextual factors and control variables related to change in HRM areas.

Overall speaking, both LCBs and FIBs had, in one way or another, changed their HRM policies and practices. Transferability and adoption of practices were simultaneously taking place: on the one hand, internal and external forces pressurised local companies to learn from foreign counterparts (i.e. 'inter-group' change), but resistance was aroused; and on the other hand, MNCs extended home policies but integrated them with local customs (i.e. 'intra-group' change). Across-time change in HRM was also observed during the research study period of 2000 to 2008. These were useful starting points to further investigate how and why changes took place.

This chapter first describes the change *process*, that is how HRM change occurred. What has happened during the change process, such as pace (tempo of change) and magnitude (extent of change) (Section 8.2), are critical analytical issues in this area. These issues are followed by discussion of what the resulting directions are and some of the possible change *outcomes* (Section 8.3). Finally, this chapter gives some insights into what led to, and hindered, HRM change in the Chinese *context* as well as the structural and institutional contextual factors (*relationship*) relevant to this study (Section 8.4). Figure 8.1 presents the change issues discussed in this chapter.

Figure 8.1: HRM Change Issues Covered in Current Research



Source: developed for this research

8.2. Change Process – At What Pace and Magnitude?

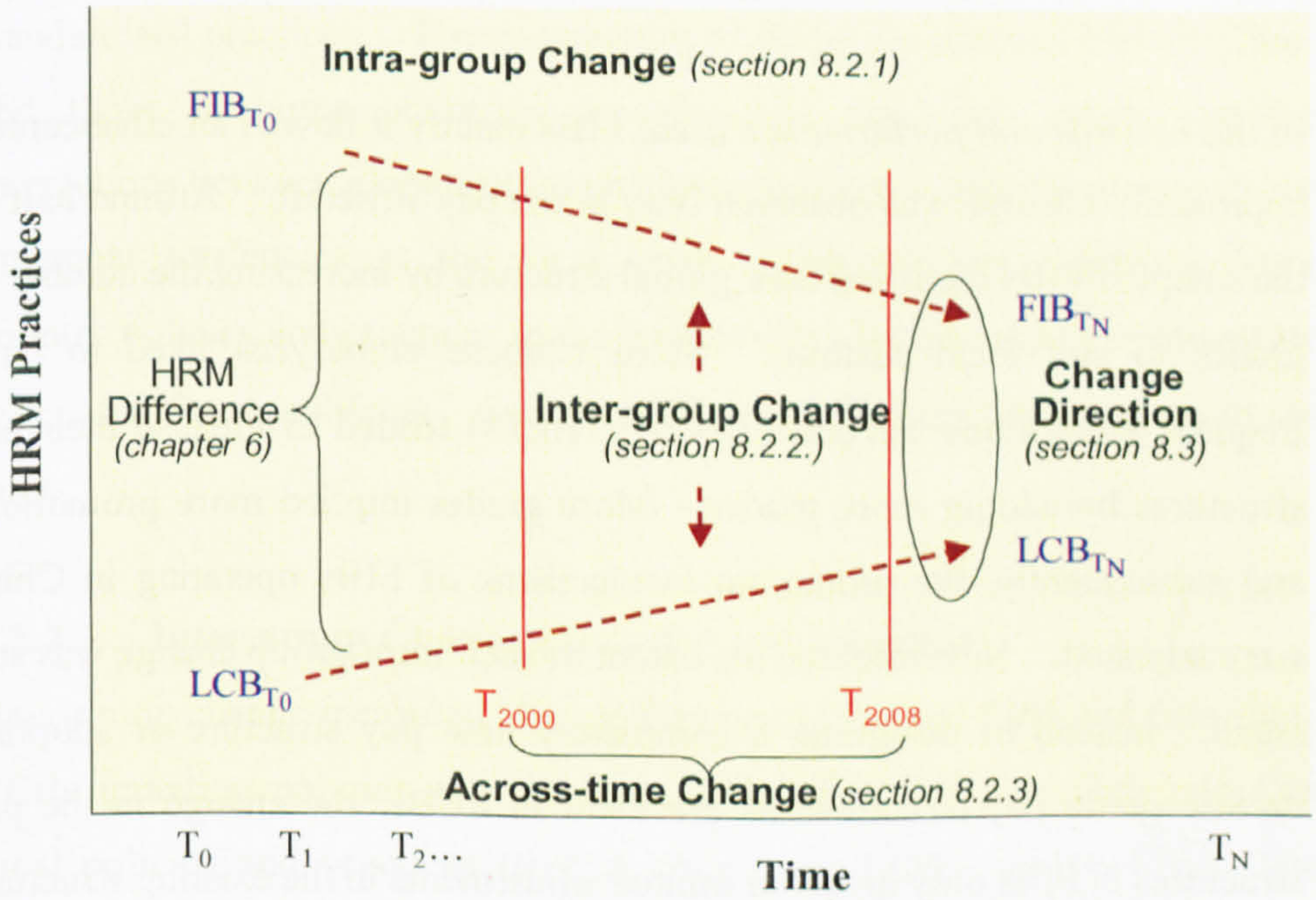
The notion of pace (how quickly changes occur) and magnitude (the extent of change) are key factors, not only in understanding issues, but also in assessing the degree of HRM change taking place in an organisation. The pace or speed of transferring and adopting new practices gives an indication of the base level of activities from which change can occur, while the magnitude of change is derived from the extent to which the existing practices are pressurised to change.

There are numerous descriptive accounts of the change processes in the literature, mostly based on research on Western firms operating in relatively stable environments (Hope Hailey and Balogun, 2008; Nadler et al, 1995; Nadler and Tushman, 1989). While different in form, many of these changes follow some similar processes, the first of which is the breakdown of the existing system, then a period of confusion, finally convergence around new core values or a new paradigm (Newman and Nollen, 1998). In essence, the existing paradigm has to be destroyed before a new paradigm can be built. Nevertheless, different academics and researchers (such as

Lewin, 1947; Amburgey et al., 1993) tend to describe change pace and magnitude differently. Under the contingency perspective (for example Meyers et al., 1993), the pace of change is gradual and steady with a small magnitude. However, structural inertia theorists (for instance Hanna and Freeman, 1984) argue that change is infrequent, formidable and can be large. Institutional theory (such as McKinley et al., 1995) implies an evolutionary transformation towards some isomorphism. Therefore, the measure of HRM change becomes less about 'all or nothing' and more about 'to what degree' or 'at what magnitude'.

In this research, three types of change were investigated, namely intra-group change, inter-group change, and across-time change (see Section 4.2.3). In China's banking industry, what were the change processes in LCBs and FIBs? Was there any difference between banks in terms of these three changes? Figure 8.2 visualises the process and possible direction of the three types of HRM change.

Figure 8.2: Process and Direction of three types of HRM Change



Source: developed for this research

8.2.1. Intra-group Change (Standardisation versus Localisation)

Intra-group change assessed whether FIBs diffused home HRM policies and practices to the host country; or whether FIBs integrated their original policies into the host country's policies and practices in their baseline values (that is, analysing FIB_{T0} and FIB_{TN}). Change in the FIBs home country's practices is outside the scope of this study (see Section 4.2.3).

In the *resourcing and retention area*, intra-group change was limited. Most of the key positions in FIBs were still filled by expatriates and global recruitment and standardised selection processes were applied. For example, ES11 responded to the recruitment challenges in China through a global approach to recruiting and capitalised on international resources. It ran international recruitment campaigns, built relationships with global search firms to source international talent, and launched a global career website. These developments might be due to some host country factors, for instance limited supply of experienced bankers in China, FIBs' earlier stage of business expansion in China's market, difficulty to find right people because of socio-cultural conditions, or a variety of firm-specific factors.

In the *rewards and performance area*, FIBs mainly followed an ethnocentric approach. Change was observed only in the pay structure. Around half of the sampled FIBs modified their global structure by increasing the number of grades to suit local customs. Since Chinese employees liked to have frequent promotions, several FIBs (e.g. EL13) tended to localise their pay structures by adding more grades. More grades implied more promotions and subsequently, the promotion mechanisms of FIBs operating in China were adjusted. Nevertheless, the extent of such intra-group change was still small. Instead of designing a completely new pay structure or adopting narrow grade pay structures as prevalent in LCBs, the change in the pay structures in FIBs only involved limited adjustments in the existing structure. For instance, a conversion table was used to closely link local grades to head office ones (e.g. AM5, UM9 and ES11).

There was one special intra-group change observed in the rewards and performance area. UM7 designed a different performance bonus and localised its PA scheme for local branches because the scale of its Chinese branches was too small to fit into the global scheme. Such change was more of an exception than a norm. Intra-group change was rarely observed in any of the other rewards and performance practices.

In the *training and development area*, change in the content of training programme was observed. All FIBs had dedicated teams to design training programmes suitable for their Chinese branches and customise training materials (both language and content) for their local employees. Hence, change in this area was more frequent and steady.

In sum, the extent of intra-group change among FIBs was not significantly large and the process was slow and gradual. Most FIBs operating in China extended their programmes, applied standardised processes, or transferred home schemes to the host subsidiaries. Modification of national systems was minimal as FIBs tended to be very cautious in modifying their standardised practices. The comparison of HRM practices of FIBs in China and those in home countries demonstrated that there were complex interactions between globalisation pressures towards a uniform approach and divergent tendencies at the local level. Nevertheless, applying home country policies and practices in the host country with limited customisation was not without problems. Section 8.4 below will elaborate those problems later.

8.2.2. Inter-group Change (Transfer and Adoption)

Inter-group change measured change between LCBs and FIBs and was about LCBs imitating policies and practices diffused by FIBs or FIBs adopting local policies and practices (that is comparing LCB_{T0} versus FIB_{T0}, and LCB_{TN} versus FIB_{TN}).

LCBs Adopting Western HRM: The interview data and archival records showed that there were many adoptions of new HRM practices by LCBs. The pace of inter-group changes among LCBs tended to be radical and evolutionary. Market-driven Western practices were heavily experimented with.

In the *resourcing and retention area*, there were a lot of changes. As LCBs faced greater competitive pressures from foreign entry and needed to satisfy the WTO requirements (see Section 3.3) within the fixed timeline, they tended to adjust rapidly. Transitionary change was observed in the Chinese HRM system. Nevertheless, in a relatively closed industry, such as China's banking industry, the adjustment period would likely to be longer as the interference from government did not diminish (especially in making or influencing top executive appointments) and the opening of financial markets was carefully managed by the Chinese central bank PBOC (see previous discussion in Section 3.4.2). Not all changes in the resourcing and retention area performed well. One of the unsuccessful changes was that CM1 launched a graduate recruitment programme in 2001, but had to end it in 2004 because the programme did not help CM1 attract sufficient graduates from top tier universities. Change was observed but could not be sustained. Section 8.4 below will elaborate on the resistance to change and organisational inertia.

One of the biggest changes in the appointment of top executives was observed in an acquisition case. In the past, top executives of LCBs were appointed, or heavily influenced, by government. Towards the end of 2006, a North American bank, together with several Chinese companies, secured a deal acquiring a LCB (*because of data sensitivity, the names of acquirers and acquiree cannot be released in this example*). Immediately after reaching the agreement, the new owner (North American bank) announced that it would appoint a North American banker to replace the former Chinese head as the CEO for the acquired bank and diversified the structure of ownership of the bank. The deal was regarded as a landmark case in China's banking

industry because it showed the openness of the Chinese government to accept change in appointments of top executives as well as the degree of change LCBs would take. It seemed that deeply embedded organisational routines were finally disrupted and outcomes of HRM change might become less predictable (there is more discussion of this in the latter section).

In the *rewards and performance area*, the pace of reforming the old people-management system in China was uneven; and the process was not an easy one. LCBs still preserved the egalitarian philosophy in salary, had promotion based on seniority and showed little differentiation in performance bonus payouts. Typical example of inter-group change was the implementation of a performance management system in CL2. In the early 2000s, CL2 shifted from a traditional PA to a Westernised scheme. Three years after implementation, HR still needed to constantly revise the PA forms and mechanisms to suit the local environment. The transfer process, however, was only at a pre-institutionalisation stage (Tolbert and Zucker, 1996) and at the surface level (Kostova, 1999) where few managers understood and adopted the new scheme.

In general, the speed and magnitude of change in LCBs was somehow related to exposure to Western management. In this study, CM1 received equity investment from a FIB and other MNCs, and hence had the most direct exposure to Western management, which served as a visible model to trigger mimetic behaviour. CM1 built its electronic learning communication channels to transfer and share knowledge, introduced an employee attitude survey, benchmarked with some FIBs to launch similar recruitment programmes, and brought in many new HRM policies and practices. The change process of CM1 was similar to a continuous transformation model as described by Brown and Eisenhardt (1997) (see Section 2.5.1 for detail).

In the *training and development area*, all LCBs established in-house training centres in the early 2000s, although these varied in focus and resources. The establishment of training centres led to a rapid diffusion of Western training practices. It was noted that the adoption of Western-style HRM practices should be perceived as a continuum from high to low; and LCBs differed in the extent to which they adopted a certain practice. At one end of the continuum, CL2 provided on-going training on a variety of topics, but at the other end, CL3 only committed to set up a training centre with slight changes in programme frequency or topic coverage.

In sum, change in HRM in LCBs was rapid and radical. The change magnitude was large, but sometimes was symbolic and partial and constrained by institutional inertia. This resulted in adjustments in some particular HRM practices at the surface level without corresponding changes in HRM philosophies at a deeper level. This findings was consistent with some previous literature (such as Becker and Gerhart, 1996; Rowley and Benson, 2002).

FIBs Adopting Chinese HRM: Previous studies (for example Tolbert and Zucker, 1983) show that when a large number of organisations share certain salient practices or policies that are seen as the way to handle a certain issue, there is a high probability that organisations will copy each other. Adoption of local practices by FIBs happens when the participants in the same industry face similar issues (like competition, labour market reforms, financial crisis), share a similar set of activities (in this case commercial banking services), and recognise each other as referents.

In the *resourcing and retention area*, European banks (both ES11 and EL13) thought that relevant experience was the most important selection criterion in China. Given institutional constraints in sourcing qualified bankers, these European banks adopted a more customised approach. Because of the high level of direct interaction with domestic employees and customers, guanxi (the relationship networking which is a concept deep-rooted in Chinese

culture) was used to source potential candidates and became the selection criterion. This is different from arguments from Anderson (1992) and Watson (1994) that recruitment and selection practices are less culture-bound because they are characterised by the technical elements of jobs.

In the *rewards and performance area*, FIBs typically implemented a global approach with common performance measures that drove organisation-wide consistency. Some action plans, however, were delegated to local branches to provide local autonomy and local relativity (as in AM4, AL6, US7, UL10 and EM13). For instance, the employee attitude surveys were initiated by head office and the questionnaires were designed by the global HRM teams. After the survey, US7 formed some working groups in the domestic office to analyse the results and come up with action plans suitable for the local situations, such as flexible work schedules or compensation leave in lieu of overtime pay rate. While an overarching global survey provided a consistent framework for all subsidiaries to operate in a highly global setting, country-specific actions that considered local cultures and norms were institutionalised.

In the *training and development area*, the major adoption was the development of training programmes with local universities in local Chinese languages to offer business development and management education to local employees (such as AL6, UM8, UM9, ES11 and EM12). Such local programmes were run within the global framework and centralised delivery mechanisms to ensure consistency in corporate culture and values.

In general, FIBs faced with a dilemma in whether to follow home countries' policies and practices and take gradual and partial change so as to minimise the risk of transition; or whether to localise faster so as to expand market share in China and secure a competitive position. Having a radical change in HRM systems could give an advantage to overcome the disruptive period of risk, uncertainty and inertia associated with major transition as quickly as possible, while a gradual change could be less disruptive and more

manageable. However, it seemed that FIBs were not prepared for the change and they were not willing to bear the potential risk of any substantial or radical reforms.

In sum, this current study showed that the gap between LCBs and FIBs was getting smaller. LCBs took a more rapid and transformative step in changing their HRM systems that had a dramatic impact on the whole bank, whilst FIBs had slow and incremental adjustments of HR policy, procedures or practices affecting a few activities. To ensure the successful implementation of new HRM policies and practices, which includes not just transfer and adoption of practices across geographies and cultures, the other part of HRM functions needs to be changed to fit with the process. This institutionalisation process could take a long time to become stabilised.

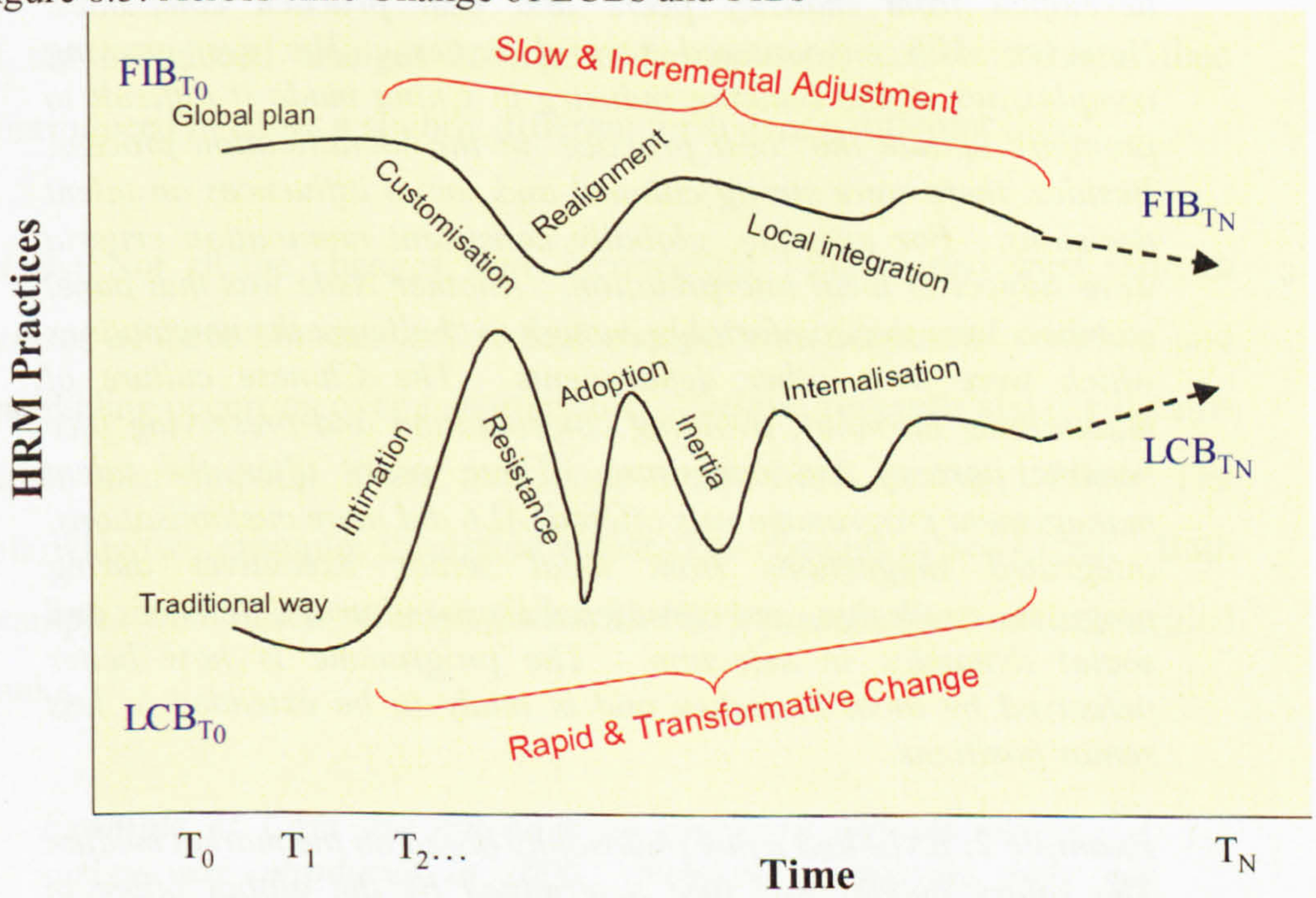
8.2.3. Across-time Change (Smooth versus Oscillating)

Across-time change looks at adjustment within a certain time frame. HRM practices of LCBs may change (comparing LCB_{T0} and LCB_{TN}) and those of FIBs may change as well (comparing FIB_{T0} and FIB_{TN}). The available time period can be of importance since changes require people to learn new behaviours, and it often takes time for people to adjust their norms and values. Besides, the order in which different elements are changed affects the direction of the change (to be discussed later in Section 8.3).

This research used a retrospective method to collect historical HRM data during the period 2000 to 2008. Census, statistics and company reports were collected for each year in this 9-year period and interviewees were asked about their HRM policies and practices during the period. When there was change in the HRM area, more probing questions were asked, for example, when (which year) the change happened and the subsequent events (see Section 5.5.5).

From the findings, it was observed that the trajectory of change (i.e. the pattern of change over time) was not monotonically increasing or decreasing. Rather, across-time change could be reversible in the form of waves and characterised by delays, oscillations and reversals. Figure 8.3 visualises such across-time changes.

Figure 8.3: Across-time Change of LCBs and FIBs



Source: developed for this research

FIBs: FIBs engaged in change processes involving various small adjustments. These incremental changes were more like fine-tuning and typically did not imply any change in fundamental assumptions and HRM philosophies. The purpose of this was to improve the alignment with head office, local operations, institutions and culture. The following two examples illustrated typical across-time changes in FIBs. The first example came from an industry report describing the recent development of the sampled bank and the second one was consolidated from a compensation consultancy study conducted in Asia.

Example 1: *In the early 2000s, AL6 worked with leading business schools (for instance London Business School) to develop a talent management programme which was based on some best practices. This programme was an organisation development solution and aligned to its global business strategy. First was the identification of talent pools based on interviews, panel review, self and manager assessments. Second, the candidates were nominated and assessed. Instead of regionalising or localising programme in countries, talent assessment was pulled together using global benchmarks developed from industry peers and best practice companies. However, AL6 encountered several issues. The ever-growing complexities of the banking industry in China made it difficult to promptly update the 'best practice' in the identification process. Besides, there were strong cultural and social influences on talent decisions. For example, globally consistent nomination criteria were subject to local interpretation. Another issue was that panel members were not comfortable enough to challenge the nominations which were from other departments. The Chinese culture of maintaining harmony, avoiding confrontation and preserving face became part of the concerns. Three years after the talent management programme was offered, AL6 did more customisations, integrated suggestions from local senior executives during programme redesign, and considered cross-cultural differences and social dynamics in selection. The programme is now better perceived by local branches and is ready to be extended to less senior positions.*

Example 2: *ES10 had a pay philosophy based on the market median. The salary budget was first determined by the global office in Europe and then by the Asia Pacific regional office in Hong Kong. The global and regional policies could not be overwritten by local branches. To ensure consistency, each local branch participated in a compensation survey conducted by the same consultant firm (i.e. McLagen compensation study). Head office received the compensation reports of all countries and hence if there were any deviations from the pay philosophy and corporate policies, head office would be able to monitor. Nevertheless, in China, that compensation study was not readily available. For some scarce positions, paying at the market median was not sufficient to attract and retain the people. The dilemma was how to align with regional policies while adapting to local circumstances. As a result, the local branch was given the flexibility to recruit certain positions at the upper quartile, but the overall positioning remained at market median (change at local level). Besides, the regional head of Asia Pacific gave a high salary budget to developing countries, such as China and India, and a small budget to high cost locations, such as Hong Kong (change at regional level).*

From the two cases, it was found that the degree of acceptance of different practices by FIBs in their Chinese branches was slow, gradual and protracted. The effect of change might be felt in the longer term. When new practices failed to work, the banks went back to the original ones. HRM change tended to follow a nonlinear path. This might be due to the fact that HRM policies and practices that were introduced were not compatible with Chinese cultural values. Consequently, opposition to the changes resulted in some of the introduced changes having to be adjusted, customised and then reintroduced in either a slightly different form or at a different time.

LCBs: Not all the changes were incremental. Banks also went through periods of discontinuous and radical change, with sequential coupling and uncoupling occurring over a shorter time. Delays, reversals and oscillations, rather than smooth, linear transitions were found among LCBs. The following two examples illustrated across-time changes in two LCBs. Both examples were based on interviews with HR representatives of the sampled banks.

> ***Example 1:*** *CM1 did not have an employee attitude survey. A survey was introduced in 2000. However, employees were not familiar with sharing their opinions or making suggestions to the company in a formal way. Therefore, in 2002, CM1 revised the questions in the survey, but met with little success and heavy hesitation. Two years later in 2004, CM1 changed the collection method by putting a suggestion box in the branches. An employee could make an anonymous suggestion. Since then, a more frank employees' voice was collected.*

> ***Example 2:*** *CL2 modified its traditional PA system aligned with some Western practices in the early 2000s. Among other things, individual performance and mutually agreed objectives were heavily emphasised in the new system. Nevertheless, a lot of resistance resulted. In the hierarchical nature of Chinese society, managers typically set the goals for their subordinates rather than mutually discussing them. Chinese culture places value on harmony and great differentiation is undesirable. In the subsequent five years, the HRM Department redesigned the PA form, adjusted the objective setting mechanism and even modified performance criteria. To make this new change even more demanding was that such constant change in practice eventually led to employees' fatigue and more resistance to change.*

In the first case, since a large degree of uncertainty existed, ad hoc schemes were developed in the transitional stage. The bank attempted to develop new rules through a lot of learning by trial and error and a lot of false starts. In the second case, as Chinese culture is often described as collective (e.g. Bond et al., 1998; Hofstede, 1980), such change implied a rather fundamental paradigm shift. Nonetheless, determining the new 'positioning' of HRM in China was rather difficult. Employee fatigue plus organisational inertia partly restrained companies from full absorption of new HRM practices. The weight of tradition and reluctant attitudes further acted as a drag on the change over time. It seemed that full institutionalisation of new practices when employees have commitment to, and ownership of, the practice (Kostova, 1999) has not yet been reached. The uncertainty brought by change resulted in experimentation as alterations were made, found to be unsuitable, withdrawn, and replaced by another new set of changes (Figure 8.3).

In sum, HRM changes among LCBs tended to be ongoing, evolving and cumulative. Change did not proceed in one single pathway but through multiple different trajectories. There was a shift away from planning to the insight that change was emergent. The change process was similar to 'accumulation to, and experiments with, the everyday contingencies, breakdowns, exceptions, opportunities, and the unintended consequences of action' (Ford and Ford, 1994), as well as the assumption that everything changed all the time.

To conclude this section, intra-group, inter-group and across-time changes could be slow and incremental, or rapid and large. Planning was no longer the central focus of HRM. Instead, 'change is a phenomenon of time. It is the way people talk about the events in which something appear to become, or turn into, something else, where the "something else" is seen as a result or outcome' (Ford and Ford, 1995: 759). Viewing change as non-discrete and continuous requires a focus on 'changing' rather than 'change' (Weick and

Quinn, 1999: 382). Moreover, organisations relied on different heuristic systems when making a choice in the HRM change process so as to ensure fundamental changes would increase organisational effectiveness. Large and rapid change could preserve organisational competence by forcing the organisation to change less often than it would if responding directly to the environment (Sastry, 1997), whilst the organisation could improve using small and slow change to tackle social, political and business environmental shifts.

8.3. Change Outcome – In Which Direction?

Another aspect of HRM change is the change outcome. According to the literature (discussed in Chapter 2), change in HRM practices and policies are not necessarily towards one direction but can occur in a multifaceted manner (Briscoe, 1995; Dowling et al., 1994; Taylor et al., 1996). One view (Becker and Gerhart, 1996; Delery and Doty, 1996; Peters and Waterman, 1982; Weber, 1947) is that global forces can create pressure for convergence transcending national boundaries, particularly as MNCs extend their operations across a variety of countries. Alternatively, as suggested by DiMaggio and Powell (1983), idiosyncratic national and institutional regimes can play an important role in creating divergence between HRM areas in different countries. A third view argues that there are complex interactions between global and local forces; and that companies may crossverge (Ralston et al., 1993) or relatively converge (Warner, 2002, 2003) with respect to HRM.

8.3.1. Convergent Direction but Hybrid Outcome

The research findings in this thesis showed that traditional HRM policies and practices in China started to change and that these changes were towards the direction of Western HRM systems. It was evident that there were various degrees of acceptance and adoption of these changes. However, the outcomes of HRM changes were not uniform among LCBs. Convergence to one best way was not found. Rather, relative convergence in HRM or a hybrid outcome was observed in China's banking industry.

For example, moves from some more conventional information sharing systems to more integrated KM systems (see Section 6.5.6), and from traditional training programmes to more comprehensive development programmes (see Section 6.5.2), were found in LCBs. When comparing LCBs with FIBs from different countries, greater similarities in HRM policies and practices were found between LCBs and Asian banks. Strong parallels in the bonus schemes and pay structures were found between Chinese and Hong Kong banks with some differences in implementation.

Nonetheless, while LCBs have made a conscious effort to adopt many aspects of HRM practices they learnt from FIBs, the result of change was not the same as the original Western model or the traditional Chinese practices. The first reason was that the adoption of new practices was only partial and LCBs faced resistance and inertia. Some traditional HRM practices were very different and unlikely to change in the short run. For instance, as described in Section 6.4.3, organisational levels of LCBs were organised according to the government administrative division, which was more hierarchical and only allowed vertical promotions. Unless the structure of government divisions changed, LCBs would be unwilling to reorganise their own organisational structure and by implication, their promotion ladder. The second reason was that change in HRM only existed at a certain level. For instance, at the philosophy level, both LCBs and FIBs placed emphasis on employee retention; whereas in practice, the ways of retaining employees remained divergent. FIBs used multiple techniques (including monetary

reward and training commitment) and LCBs valued succession planning (see Section 6.3.5). Therefore, while there has been varying evidence that many LCBs were adopting and converging towards the Western model, there was no strong case for arguing that these LCBs would have exactly the same model as that of FIBs. Change outcomes in LCBs might not be the same as it might be understood in the West nor might it form a uniquely Chinese way.

8.3.2. Remain Divergent but Transnational Trends

The research findings asserted that HRM practices employed by FIBs were influenced by local HRM practices. The outcome was best exemplified by the gradual replacement of expatriates, establishment of local training teams, or incremental adjustment of the performance review process to the local culture and so forth. Such gradual and slow change brought a transnational trend to some of their practices. Nonetheless, the FIBs' HRM system still largely resembled their home country one.

There were several reasons for this. First, one-to-one copying of HRM systems would be difficult. It would be extremely costly, if not impossible, for FIBs to replicate the path-dependent Chinese HRM system which was developed over time. There were limits on organisations changing their own HRM systems and adapting to other companies' socially complex elements and practices (Becker and Gerhart, 1996). Second, there were many cultural barriers and institutional preconditions that could mediate FIBs from taking up domestic practices. FIBs did not, or could not, fully adopt all local customs or develop a completely new model for their Chinese branches. Third, the pressure for internal consistency and firm nationality effects played a dominant role in shaping management practices (Cooke, 2004) and hence the direction of change.

To summarise, as LCBs were adopting more Western practices and FIBs were tailoring their systems to some local customs, the boundaries between the two organisational populations were slowly blurring. The growing overlap between LCBs and FIBs indicated that a competitive relationship between LCBs and FIBs might be strengthened in the future, and the increasing number of FIBs from different countries has altered the industry's competitive structure and thereby brought further changes to management practices. Yet, the tendency that the different HRM models would move in the same direction and result in some similar outcome is unlikely to happen because of different contextual factors which are discussed in the next section.

8.4. Change Context and Relationship - Why HRM Change Occurred?

There were multiple forces facilitating or hindering HRM change in China. The current research examined different aspects of the HRM change contexts and attempted to give a more complete picture of the phenomenon which could contribute to the expansion of existing theories or development of some new theories.

8.4.1. Factors Facilitating HRM Change in LCBs

Competition: Following China's accession to the WTO, many entry barriers on foreigners joining China's banking industry were relaxed and financial markets were further liberalised. This indicated a greater and deeper involvement of LCBs in international markets in terms of cooperation and competition. WTO entry also brought a higher and deeper level of competition to FIBs in the domestic market (Chen, 2003). Entry of new players affected the monopolistic positions of LCBs in general and SOBs in particular. Functional pressures on institutionalised practices (Oliver, 1992) might tie LCBs to broad environmental changes and led to intensified competition for market share, customers and resources, including human resources. These pressures in turn created a universalistic tendency to push LCBs to catch up with FIBs and adopt new Western practices.

Cooperation with FIBs: Some LCBs had a chance to cooperate with FIBs and to update their old systems. This promoted exchange and learning between LCBs and FIBs about how to recruit, retain, reward and train people. For example, the formation of the partnership between CL1 and a FIB and the subsequent change in rewards, performance and training was a typical instance of how the learning force led to HRM change.

Changes in the Economy, Banking Industry, and Labour Markets: During the few years following China's WTO accession, the reforms in the economy, financial markets, banking industry and labour markets brought rapid change and restructuring. The recent financial crisis forced many banks to adjust their growth strategies to survival plans. Some old institutions were replaced by new institutions and norms. As environments changed, LCBs changed to realign themselves with the new conditions, and those that did change tended to perform better (Meyer, 1982). This was observed in the banking industry in China. For example, CL2 used to have an 'exclusive partnership' with a FIB's private banking unit. Having learned from the experience of that FIB and imitating the practices of its partnership, CL2 subsequently created its own wealth-management unit.

8.4.2. Factors Facilitating HRM Change in FIBs

More Business Opportunities: More business opportunities were available after China's accession to the WTO and its further market reforms. Many FIBs decided to expand their business operations in China by opening more branches, customising their services, and recruiting more professional people to serve local needs. To conform to social constraints and culture, they modified their HRM policies and practices to suit local customs. For instance, they localised the pay structures, set up dedicated training teams for the Chinese branches, and so forth.

Changing Market Situation: Though market change served both to drive change and to shape the nature of change across levels and contexts, the markets themselves changed in character and potency over time. FIBs needed to transform themselves rapidly to meet new institutional demands and, at the same time, they sought to sustain their competitive advantage by reducing uncertainty and securing continuity in exploiting resources from the external environment. Thus, many FIBs adjusted their contextual features, or in Hope Hailey's (2009) terms, capability and capacity, so as to fit to external environment contingencies, correspond to their internal development in China, or conform with their international business strategy.

8.4.3. Factors Hindering HRM Change in LCBs

Resistance from People: One major reason why employees resisted organisational change was that they believed they would lose something of value. Because employees focused on their own best interests and not on those of the total organisation, resistance often resulted in political behaviour – such attitudes are not unique to China (see for example Hope Hailey et al., 2007). For example, posting information on newly created KM systems implied that other departments could easily 'steal' their work. Hence, the culture of knowledge sharing and storage was still not common in LCBs (such as CM1). Besides, managers also resisted change when they did not understand the reason of change. Such situations occurred when managers thought that new PA systems required them to do more work in discussing objectives with employees and filling in more evaluation forms. Hence, new PM schemes never became popular and were not internalised (for example as in CL2). Whether employees have the opportunities to voice their concerns during change can influence their commitment to that change (Hope Hailey, 2009).

Structural and Organisational Inertia: It was found (see Section 6.4.3) that organisational inertia, deeply rooted in the cultural and institutional heritages of companies, acted as a brake on the full absorption of HRM changes. Rules, standard operating procedures and patterns of decision making were emphasised and inhibited divergent changes. Another barrier to change was that organisations remained committed to retaining past proven competencies because doing so was more efficient than trying to develop new ones (Gratton et al., 1999). Banks have generally been conservative institutions. Such constraints in turn stifled companies' ability to alter their current strategies. For example, the egalitarian philosophy in salary mechanisms (Section 6.4.2) and seniority in promotion (Section 6.4.3) hindered change in the LCBs in the rewards and performance area.

Besides, organisational culture can be a major catalyst or a major hindrance to change in KM (Palanismay, 2008). A successful KM system requires organisational culture that values the creation, and supports the transfer, of knowledge (Poon and Rowley, 2008). Limited horizontal communication between departments and reluctance to share information discouraged disruption to the routines and made the HRM change processes formidable in LCBs.

Effect of Contextual Factors: As mentioned in Section 7.4, another inertial force stemmed from firm size. LCBs were large in size and had more cumbersome organisational structures. They were faced with greater organisational inertia to change their traditional promotion mechanisms, vertical career ladders and egalitarian salary systems. Formerly monopolistic SOBs in China's banking industry (for example, the Big Four) were burdened with a high portion of non-performing loans and low profitability (see Section 3.4.1), so did not have the capabilities necessary for competition nor the financial resources needed for transformation.

Interference from Government: State intervention was an important factor affecting different trajectories of HRM change in Chinese companies (Child, 2001). Government policies and reforms in the financial markets varied from enhancing immediate market friendliness and macroeconomic stability to promoting industries with long-term objectives to influence structural change. Following the financial crisis, the central government tightened credit control and the central bank cut interest rates to fight against the downturn (Liu, 2008). Such monetary policies can affect growth in the banking industry.

Besides, decisions on the appointment, promotion and selection criteria of senior managers in LCBs were still largely affected by local government. Although interference from government has been 'formally' reduced since the 1990s, political and ideological qualities still remained as crucial in the promotion and selection criteria in LCBs (this was seen especially in CL2 and CL3, which are SOBs). These qualities caused inertia in HRM change.

8.4.4. Factors Hindering HRM Change in FIBs

Pressure to Follow Global Practices: In this study (see Section 7.5), FIBs faced pressures to follow certain HRM policies and plans from home countries for the purpose of global consistency, integration and control. They tended to apply certain 'best' HRM practices consistently, irrespective of their firm nationalities and domestic environmental conditions. Such best practices that worked in one location in the past were assumed to work effectively elsewhere in the future. The literature including Milliken and Lant (1991) showed that past success of practices reduced the perceived need to change and led to increased management inertia. Besides, organisational members also had certain expectations about HRM practices of a FIB given its firm nationality and its internal value system (for example, individual performance-based bonus plans for FIBs from individualist countries).

Institutional Change: There might be competing or contradictory institutional isomorphism in local environments, which acted in opposition to the FIBs' strategic intent. For example, indigenous Chinese companies were still required to open at least one bank account with LCBs even though FIBs were allowed to participate in the industry. Such an institutional context was a major source of difficulty for FIBs' expansion in China. The decision drivers for HRM change were, therefore, complexity and path dependency (Figure 8.3). Without well-understood rules of the game at the institutional level, it was difficult for FIBs to adjust themselves to new rules of the game, or national business systems (Whitley, 1998).

Incompatible to Chinese Culture and Value: Culture can be a barrier to change (Hofstede, 2004). Culture is not isolated nor unchangeable, but constantly changed, being modified, and transformed. There are significant differences among the countries in cultural and legal norms (Hofstede, 2001; Lammers and Hickson, 1979). These differences are based on history, religion and geography. Banks from different nationalities tended to implement their HRM systems in accordance with the distinctiveness of each home country. There existed some differences in prevailing practices. The most noticeable examples were Western-style PA and performance-based bonus schemes. Chinese culture is built on a long Confucian tradition of familism and authoritarianism, creating norms of dependence and acceptance of hierarchy (Redding, 1990). These societal values are in conflict with the development of individual responsibility and initiative (Child, 1991), which are central ingredients of Western PA practices, and may also restrict the possibilities of introducing pay based on performance at the expense of the hierarchical position (discussed in Section 4.4.5). The role of 'face' and harmony are also significant aspects of social and organisational life in China (McGreal, 1995; Redding and Ng, 1982). The manager who criticises a subordinate, whether in private or in the presence of others can cause that subordinate to 'lose face'. The issue of 'face' can complicate performance feedback between managers and subordinates as well as upset group harmony. The extent that Western practices can be implemented in local

situations requires behavioural changes on the part of local employees. National differences and cultural heritages could outweigh organisational issues in the process of HRM change. This issue was found in several FIBs in the sample (see Section 6.4.5).

Generally speaking, why has HRM change occurred in LCBs and FIBs? One explanation concerned a range of institutional forces that pressurised banks to gain legitimacy for their behaviours. Besides, importing 'best' practice, competition, cooperation, and opening of market created additional forces for change. These forces were seen as being opposed by some inertia and barriers, for example employees' resistance, structural and organisational routines, the country's particular and specific culture, and contextual factors. The role of government was an important explanation for change in HRM. The case was most obvious in China where legislative change and economic reforms were actively promoted. Table 8.4 summarises these forces.

Table 8.4: Factors Facilitating and Hindering HRM Change

Type	Factor Facilitating HRM Change		Factor Hindering HRM Change	
	Pushing Force	Relevant Theory	Pulling Force	Relevant Theory
LCB	Competition	Constraining forces	Resistance from employees	Initiative fatigue
	Cooperation with FIBs	Cloning forces	Structural and organisational inertia	Inertia
	Reforms in economy, financial markets, banking industry, and labour markets	Contingency approach	Interference from government	Inertia
			Firm size too large to change rapidly	Contextual
FIB	More business opportunities	Institutional perspective	Pressure to follow global practices	Universalistic perspective
	Changing market regulations	Contingency approach	Incompatible culture and value	Culture-specific view

Source: developed for this research

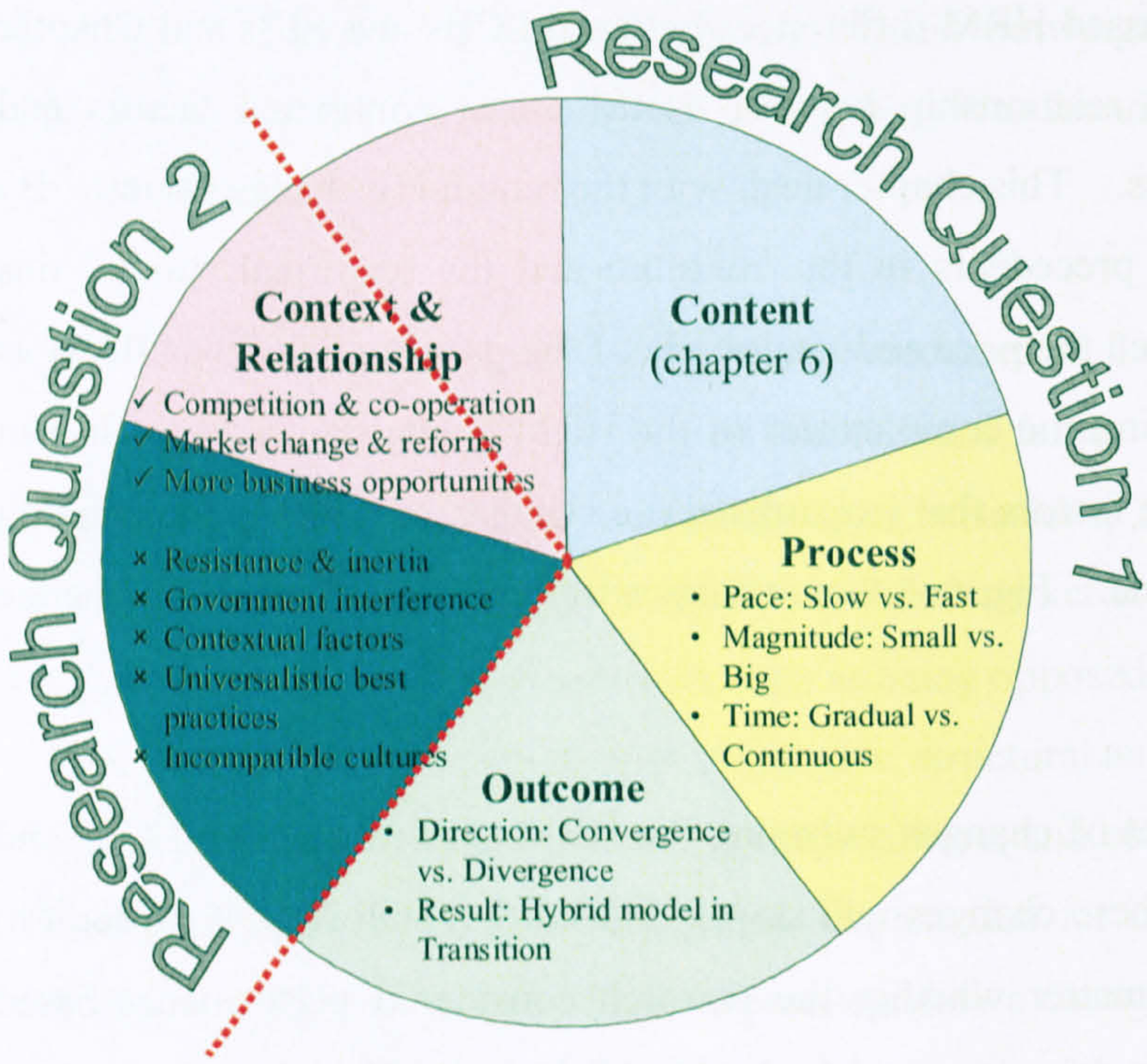
8.5. Chapter Summary

Chapter 6 discussed HRM differences between LCBs and FIBs and Chapter 7 explored the relationship between HRM areas, contextual factors and control variables. This chapter dealt with the remaining change issues. By integrating the precedents in the literature and the empirical results, this chapter examined the pace and magnitude of the paradigm shifts of HRM as well as describing the complexities of the HRM change outcomes. It also investigated the factors that jeopardised the changes in HRM in the banking industry in China. Figure 8.5 summarises the findings of the HRM change issues.

There were a lot of changes sweeping the HRM systems of both LCBs and FIBs. When these changes will stop, if indeed they will stop, is difficult to estimate. No matter whether the research considered performance-based pay, recruitment of managers, or the establishment of training centres, the change of HRM in LCBs seemed to be rapid and large, but faced with delays and oscillations. While differences in the change content, FIBs also adjusted and localised some of their HRM policies, plans and programmes, carefully avoiding abrupt or traumatic breaks with head office. The process of change was far from easy to elucidate. In the interim, a hybrid system that contained elements of both foreign and indigenous HRM practices would be formed. Nevertheless, this was far from a safe conclusion. So long as the facilitators and barriers of HRM changes continued to be present, more future changes could occur and experimenting with new practices could be expected in the industry. These are the beginning of a change process that may slowly blur the boundaries between the two organisational types – LCBs and FIBs.

Having presented and analysed the data in Chapters 6, 7 and 8, the next chapter will discuss the findings of the research questions and draw together the conclusions and outlines some possible future directions.

Figure 8.5: Findings of HRM Change Issues



Source: developed for this research

9. Discussion, Conclusions and Implications

9.1. Chapter Introduction

This study examined HRM changes in China, by first comparing HRM areas in LCBs and FIBs, and then examining the relationships among HRM areas, contextual variables and control factors. The previous Chapters, 6, 7 and 8 presented and analysed the data along with lines of the research issues about change context, content, process, outcome and relationship.

This chapter discusses the findings of the two research questions (Section 9.2) and draws some conclusions by comparing the data analysis in the previous chapters with the literature review undertaken in Chapter 2. This chapter also discusses the conceptual framework proposed in Chapter 4 with reference to the research findings (Section 9.3). The contribution of the research to the body of theory on HRM change is reviewed in Section 9.4, along with practical implications of the conclusions (Section 9.5) and the limitations of the study (Section 9.6). Finally, future research needs are identified and directions for further study are recommended (Section 9.7).

9.2. Discussion of First Research Question

Change within HRM has attracted tremendous attention in the research of management and organisation theory, from earlier writers such as Lewin (1947) and Tushman and Anderson (1986) to recent ones such as Dawson (1994), Hope Hailey and Balogun, (2008), and Warner (2003). Identifying and examining HRM change is no longer a question of whether there is change or not as many empirical studies have proved that organisations do change their HRM practices. Instead, this current study covers five important change issues to investigate HRM change in a more holistic way. These issues are why change has occurred (*change context*), what has been changed (*change content*), how change has happened (*change process*), where new HRM practices are heading towards (*change outcome*) and which factors relate to HRM change (*change relationship*). There are two research questions to cover these issues. For the purpose of the present study, the types of HRM change can be classified by **intra-group change** (between

FIB's home and host countries), **inter-group change** (between LCBs and FIBs), and **across-time change** (in both LCBs and FIBs within a certain time frame). The first research question is: *To what degree have the LCBs and FIBs operating in China changed their HRM practices towards or from each other?*

The first research question examined HRM change issues from both LCBs' and FIBs' perspectives. Below there are summaries of the key findings.

9.2.1 Summary of Findings: First Research Question

Data from the exploratory interviews with HRM departments, employee interviews and archival records supported the findings that LCBs and FIBs were significantly different in all three HRM areas, namely resourcing and retention, rewards and performance, and training and development. There were changes in all these areas (*change content*). In LCBs, market-driven Western practices were experimented with, for instance new PM systems (Section 6.4.5), graduate recruitment schemes (Section 6.3.3), training centres (Section 6.5.4), employee attitude surveys (Section 6.4.6), and so on. **Inter-group change** was observed and the *change process* was rapid while the magnitude was large. On the other hand, FIBs operating in China extended global training programmes (Section 6.5.1), applied standardised selection processes (Section 6.3.4), conducted regular feedback surveys (Section 6.4.6), transferred home bonus schemes to host subsidiaries (Section 6.4.1), and so forth. Modification of national systems was found in a few areas, such as greater numbers of grades in the pay structures (Section 6.4.4), selection criteria (Section 6.3.4), design of local training courses (Section 6.5.4), etc. **Intra-group change** was slow and incremental. It seems that LCBs and FIBs might have some structural resemblance over time if changes in HRM practices continue and converge towards each other (Figure 8.3).

Yet, **over-time change** was not smooth. Rather, change was in the form of waves and characterised by delays and oscillations. The tendency for different HRM models to change in the same direction and same *change outcome* resulting in similar models would be unlikely to happen because factors facilitating and hindering change were both present in the *change context*. New practices in LCBs were restricted by some idiosyncratic traditions and institutional regimes surrounding companies, for instance government interference in senior appointments (Section 6.3.1), resistance to change from employees (Section 8.4.3), etc. On the other hand, global practices from home countries could not be fully localised or be institutionalised. FIBs also faced pressure for internal consistency (Section 8.4.4) and firm nationality (Section 7.5) effects played a dominant role in shaping direction of change.

9.2.2. Context: Chinese Way or Western Notion?

China is the largest, the fastest growing and the most engaged in international business and investment country at the present time (see Section 3.2 for detail). China is also unusual in the extent to which its transition continues to be affected by the government. This distinctiveness is relevant to the study of HRM change for two reasons. First, the peculiarities of China's system generate uncertainties for MNCs that operate there (Child and Tse, 2000). Second, the nature of China's transition challenges the capabilities of present HRM change theory (Satow and Wang, 1994; Tse et al., 1988; Weber et al., 2004). The unique institutional characteristics of China's transition call for the theoretical incorporation of the specific socio-economic context and that certain HRM practices may be less cross-culturally transferable than others (Braun and Warner, 2002; Rosenzweig and Nohria, 1994; Warner and Joynt, 2002).

The transfer of Western best practices has happened in China, but not all practices have worked or been adopted, for example, the introduction of an employee attitude survey and subsequent revision to a suggestions box for gathering feedback (as at CM1), the difficulty of implementing Western PA scheme (such as CL2), the modification of training programmes (for example CL3), and so forth (see Chapter 6 for detail). Experimentation with best practices continued but new practices were modified to suit the particular Chinese characteristics, such as local social, cultural, political, and legislative systems. This is consistent with some previous studies (e.g. Rowley and Benson, 2002).

It is, therefore, argued that applying Western management theories and concepts to analyse what has been changed in China can present a number of difficulties. HRM theories, for example, are seen by some as Anglo-American concepts (Brewster, 2007; Hofstede, 1984; Warner, 1995). It should not be assumed without proof that HRM theories can work outsides the American or European environment or such theories can be comprehensively applied without considering the cultural context and the setting in which the theories were developed. Another point of difficulty is that HRM is characterised by a historical evolution of management practices over time (Hsu and Leat, 2000). Whilst there are many similarities in work values and norms between East and West, national differences based on cultural roots may well be factors to be reckoned with (Bond et al., 1998; Hofstede, 1984; House et al. 1999; Trompenaars and Hampden-Turner, 1997). There exists a widespread tendency to underestimate the importance of deeply rooted societal norms for arriving at organisational solutions and change management techniques. Culture and institutions can render the Chinese conception of HRM different from the Western conception. It is uncertain whether change processes and results will be somewhat similar to the original Western practices or will take a particularly Chinese form.

Hence, a high degree of uncertainty may exist in the transitional experimental stage; and this poses challenges to research on HRM in China. Most of the existing theories and research paradigms have origins in the West (Brewster et al., 1996; Budhwar and Debrah, 2001) with limited Chinese or Asian elements. While past studies of management in China are generally characterised by lack of Chinese theory (Poon and Rowley, 2007), the approach of fitting Western management theories to other contexts rather than searching for new concepts to explain similarities and differences between Western and Eastern ones can be problematic.

In this study, a Chinese research paradigm was introduced. For example, Chinese epistemology, dominated by an ontoepistemology with the universe and shared experience, has offered an integrated perspective and is used with realism in the West (Section 5.2). In this way, both Chinese and Western paradigms were considered within this research to allow broader theorisation. This research paradigm provided a suitable framework for the study of HRM change in China. Greater appreciation of the Chinese context, as well as more effort on developing models to suit Asian situations, is desirable so as to identify possible contributions to the development of HRM change and their application in the international environment.

9.2.3. Context: Competing Theories or Complementary Views?

An eclectic approach was used in this study to integrate various theoretical approaches because HRM change was a complicated concept and a single theoretical framework was not sufficient to explain this process (Section 4.2.1). The conceptual framework for this study consolidated ideas from the literature and aspects of several studies (Figure 4.6). Firstly, the research found that using the conceptual framework was useful to integrate what seemed to be contradicting perspectives and gave more parsimonious explanations of complicated HRM change issues. Integrating competing change theories, two research questions and several overarching research themes common to all HRM change efforts were formulated to highlight similarities and differences in various theories of change.

Secondly, contemporary research in HRM change consists of considerable variations in theoretical perspectives on change context, content, process and outcome, such as Becker and Gerhart's (1996) universalistic views of best practice, Jackson et al.'s (1989) contingency perspective, Barney's resource-based theory (1986, 1991), and so on. The pluralistic nature of the change literature, represented by a range of views, each has its strengths and limitations. These theoretical perspectives are not pulled together in a comprehensive manner, or in a form that makes them easily accessible to practitioners. Rather, there was a paradox among different theoretical perspectives. Competition, cooperation and external pressures generated HRM change. A range of contingent impediments (including structural inertia, global consistency pressure), however, hindered HRM change. Institutional forces and cultural values were both catalysts and barriers of change. As an intellectual investigation, understanding HRM change requires the appreciation of a vast network of competing theories, each drawn from many disciplines and perspectives. Change is a phenomenon which cannot be restricted solely to the 'behavioural' aspects of management learning (Wilson, 1992). Studying change needs a perspective that can blend the behavioural with the economic, the historical with future-oriented decision-making, and the political with the social and economic factors of change (Wilson, 1992). In this study, different explanations are considered as complementary rather than mutually exclusive. By integrating different theoretical perspectives, this study allows a range of views to explain different change issues and produces a more complete picture of the phenomenon of change in HRM.

Thirdly, the change process is more rapid and complex than previous literature originally predicted. This rapidity and complexity of change in HRM was especially found in China which has experienced swift growth by world standards since commencing its economic reforms in 1979, accelerated with the entry into the WTO in 2001 and affected by the post-2008 financial crisis. In addition, China is a populous and complex society. As Morgan (1986) explains, using only one approach (which is

static) to explain an organisational phenomenon (which is dynamic) tends to limit the understanding of the phenomenon and aspects other than the one under study.

Future research on HRM change will benefit greatly if researchers can play closer attention to specifying the points of intersection of different theoretical perspectives and combining various change issues to provide more comprehensive explanations of the questions they study. Working out the relationships between such seemingly divergent theories provides opportunities to advance theory building that has stronger and broader explanatory power than the initial perspectives as well as to contribute to the debate on the robustness of change research overall.

9.2.4. Content: Can Best Practice Be Applicable Elsewhere?

A great number of management practices, not just those of HRM, contain underlying assumptions and conditions for their successful application. As such, past success or best practice in one situation does not automatically guarantee effective transfer and adoption in another situation, for example in a different location or industry. Conflicts with cultural values, institutional environments, and other conditions are likely to affect the adaptability of such best practices (Rowley et al., 2009). The interaction between various business contexts and cultures means that each country might best develop its own unique HRM system.

The current research findings showed that a number of HRM best practices were modified, adjusted or localised. A number of factors that supported or hindered the transferability of HRM policies and practices were identified. First, the meaning and operation of particular HRM practices could vary substantially by country. HRM, for example, is seen by some (Brewster, 1995) as an essentially North American concept. HRM's applicability may still be seen as controversial even where transmitted across the Atlantic to a cousin-economy like the British (Storey, 1989).

Second, firm nationality (Ferner and Quintanilla, 1998; Ngo et al., 1998; Yan, 2003), host-country institutions (Scott 1995), business systems (Whitley, 1998, 2000), and so on, all had effects on change in HRM. Future research should be customised to consider such differences and nuances which impact on HRM.

Third, major shifts in competitive, technological, social, and legal conditions may render prior HRM / management policies and practices ineffective. To ensure alignment with the new environmental context, organisations need to anticipate or detect such changes and initiate strategic transformations. Yet, organisations often become committed to retaining proven success and do not respond to environmental changes except in crises. They easily assume that a practice that worked in the past would be the most effective one in the future.

Fourth, the transfer of best practice is one thing, but making such practice effective is another matter. While performance-based bonuses systems had been introduced in LCBs, installing a performance-based culture in the companies was still in an infancy stage. The move towards fostering a performance-based culture required support from many other HRM areas, such as having objective measurements of employee performance and providing extensive training to managers. Shifts in the practice level of HRM systems could not be treated as discrete activities, nor could practices be considered in isolation from the context in which change took place. The lack of consistent change at other HRM levels and areas suggested that some unique attributes remained crucial constraints on HRM change (see Section 8.4 for detail). Future studies need to be directed to a deeper level of the HRM system for a better understanding of the means and degree of change.

Finally, institutional and cultural factors can restrict the applicability of best practice elsewhere. While there were some signs of change in LCBs towards Western approaches, substantial differences in terms of final convergence remained. For example, although some selection criteria (like use of previous work experience) and methods (such as interviews) exhibited little variability across firm nationality, most resourcing practices appeared to remain divergent (Section 6.3.6). Some 'best' selection practices, for instance sophisticated tests and multiple round interviews, required modification to fit Chinese culture and required additional training for interviewers (Section 6.3.4). How to put foreign management models more effectively into practice could, however, only be answered together with close consideration of the specific domestic context. . As such, HR managers need to be culturally sensitive when devising HRM systems in various cultural environments. After all, 'best international HRM practices' ought to be the ones best adapted to cultural and national differences (Huo et al., 2002).

9.2.5. Process: Static Cross-sectional or Dynamic Movement?

Regarding the change process, there are two conclusions. First, when did a change process begin and end? This would be essential where the unit of analysis was the continuous process in context but not a one-off change episode or project. There may not be an absolute and simple answer to such a question. In the case of China's banking industry, HRM change was lengthy and complex; and there might not be a definite finishing point. The research findings showed that across-time change in China was continuous and took a long time before it became internalised and stabilised in the organisations.

Therefore, simply studying HRM change in an episodic fashion or in a cross-sectional approach would not enable researchers to uncover the mechanisms through which changes were created and sustained (Pettigrew, 1990). It is argued (Van de Ven and Poole, 1995) that management research should be conducted across time as it helps reveal the relationship of multiple directions of change in the interaction field. Studying change over a period (from 2000 to 2008), this current study can show twin effects: age effects (changes over time within companies) and cohort effects (inter-group change and intra-group change among companies in their baseline values).

A further methodological conclusion concerns the length of time over which data should be collected so as to examine the full extent of HRM change. Kikulis and her colleagues (1995) argued that a 4-year period would be an insufficient period of time in order to assess what changes have been taking place. Greenwood and Hinings (1993) suggested that an 8-year study was 'considerably longer than that usually found in organisation theory research... was too short' (p.1075). Amis et al. (2004) even proposed 12 years would be an appropriate period for studying the cyclical effects of change because it took that long for large-scale change to become evident. The current research covered a 9-year period from 2000 to 2008. This time span was carefully chosen to assess the cumulative effect in the change in HRM immediately after WTO accession. Although the time span was not a particularly long one, it was considered to be sufficient to reduce the effects of any exceptional year (Child, 1974) and at the same time produced some indicators for the pace and magnitude of change. Given unprecedented transitions in China's social, legal and economic institutions, there is a future research need to conceptualise the time period of the research process accurately and realistically.

9.2.6. Process: Which is Suitable, Slow or Rapid Change?

The second conclusion on change process is that the pace of change is debatable. What pace of HRM change is appropriate in different settings to meet national and global objectives? How does an organisation maintain the momentum for HRM change over time? In this research, both slow and rapid changes were recorded in different banks from different countries at different time periods. Rapid changes could speed up the momentum, but changing too fast restricted adaptations to new situations. Slow-paced change could facilitate learning and allow organisations time to understand what needed to be done and how. Nonetheless, when a change process took too long, the change lost salience and increased the possibility of resistance (Meyer and Stensaker, 2006).

As a field of research interest, change management is not a distinct and well structured discipline (Langer et al., 2005). The degree of change pace is far from easily understood. Warner Burke (2003) highlights that the theoretical modes of the change process can be explained from different perspectives: (a) revolutionary versus evolutionary, (b) discontinuous versus continuous (episodic versus constant), (c) transformational versus transactional, (d) strategic versus operational, (e) systemic versus local. There is no obvious analytical consensus in explaining all change processes. Another theoretical challenge is presented by the complexity of transitional emerging economies. The example of China is not deterministic in nature, but involves an inter-play between the field of forces operating at different system levels (Child and Tse, 2000). The inability to apply a simple change process means that organisations may need a range of tools to address change in dynamic and complex environments. To have a more clear view, research on change process needs to be studied using a comparative approach across different levels of analysis, at different time periods, and among different types of firms.

9.2.7. Outcome: Where is the End Point?

In China LCBs imitated market-driven Western practices, for instance, new PM systems, graduate recruitment schemes, training centres, market-adjusted bonus mechanisms, and so forth. FIBs incrementally adjusted some global practices, such as pay structures and selection criteria. Such inter-group change between LCBs and FIBs seemed to imply that there would be some tendency towards convergence of HRM systems. Hitherto, separate analyses of individual HRM practices revealed a picture that had more complex patterns. Equating nominal structural resemblances of new Chinese HRM practices to MNCs' practices might oversimplify the comparisons. Warner's (2000) framework advocates four possible outcomes: hard convergence, soft convergence, soft divergence and hard divergence. He speculates that the most likely outcomes for China would be a variation of 'soft convergence' or 'soft divergence' which may lead to outcomes heading in different directions from a Western model.

As has been demonstrated change in HRM is an ongoing process. Most of the changes in China's banking industry were still at a transitional stage and subject to further adjustments (including government interference, cultural and institutional heritages, firm nationality effects). In addition, many organisations experienced delays and oscillations when implementing new HRM practices. It was shown that the trajectory of change did not follow a linear track but took the form of a wave or waves (Figure 8.3). Furthermore, this study illustrated that there were complex interactions between competitive forces towards converging to best practices and institutional constraints leading to divergence (Section 8.3). Thus, HRM change might be something of a hybrid model that is unstable and contradictory. Even such an in-between hybrid model might be subject to variability as the meaning and operation of a particular practice could vary substantially between Chinese companies and MNCs. As has been shown change often occurs slowly in HRM, therefore researching over a longer time frame would be more effective in showing consolidation of various HRM models.

Therefore, this current study could not predict that indigenous companies and MNCs would be more likely to converge to one single HRM system, or towards any of the possible outcomes suggested by Warner (2000). Weick and Quinn (1999) suggest that researchers should focus on 'changing' rather than 'change'. A concern with 'changing' means greater appreciation that change is never completed, that its outcome effects are longer and less determinate than anticipated, and that inertias are discovered. Recent researchers (Kostova, 1999; Tolbert and Zucker, 1996) also highlight that many HRM change outcomes only exist at the nominal surface level and have not penetrated to a deeper level to which they are planned. Rowley and Benson (2002) point out that the HRM systems operate at organisational architecture, policy and practice levels. HRM change can happen at any one level but not necessarily all the other levels. Thus, it may be possible that there are multiple change outcomes at different levels but without one single outcome. Future studies can focus on change outcome at different levels, phases and directions.

9.2.8. Outcome: Can Change by Sustained?

This research examined HRM change over a 9-year period. Despite regular assertions that adoption and therefore, 'across-time' change, has occurred throughout the period, no clear evidence confirmed that a change momentum would increase and the change process would continue, say for another 9-year period. If change would continue, how long it could be sustained is questionable.

Critics might argue that there was something peculiar about the years selected to investigate these HRM changes that might account for the findings. Future investigations could replicate this study using other time periods to evaluate if the process would indeed continue.

It is suspected that individual HRM practices may evolve over a long time before becoming assimilated into organisational routines. Current HRM practices possess transitional characteristics in that they are mainly short- and medium-term adaptations to the challenges rather than long-term ones. Whether change process will continue long-term depends on how far the new norms become institutionalised and when managers' and workers' attitudes absorb and integrate the changes.

9.3. Discussion of Second Research Question

The effectiveness of an HRM system depends on the extent to which HRM practices are compatible with unique organisational characteristics. Therefore, the second research question is: *Which contextual factors relate to change in HRM in LCBs and FIBs?*

This second question examines the *change relationship* between HRM and other factors. Of the several organisational characteristics, firm nationality, firm size and firm age have been empirically tested in some other Chinese enterprises regarding the transformation of HRM practices in China (Ding et al., 2000, 2001; Zhu and Warner, 2004). These factors were included in this study. Branch network (showing location effect), as well as firm ownership, was controlled for company effect. Below there are summaries of the key findings.

9.3.1. Summary of Findings: Second Research Question

The findings of the current research showed that firm nationality of a bank impacted on the available organisational choices in resourcing, retention, training and development areas, whilst firm size affected HRM resources available to the bank. Such a size effect was strong in some reward practices of large banks. Firm age, however, did not correlate with any HRM areas as the majority of the sample were banks with many years since establishment. The two control factors, branch network and firm ownership, moderated the relationships of several HRM areas as well. The differences between banks of different characteristics gave an indicator of the degree of

change that might happen between groups.

9.3.2. Relationship: Size and Nationality Outweigh Age Effect

In this empirical finding, firm nationality had an impact in resourcing and retention, training and development of FIBs. This was consistent with the previous literature (Edwards and Ferner, 2002; Ferner and Quintanilla, 1998; Ngo et al., 1998) suggesting that firm nationality of an organisation can affect organisational decisions in HRM system design as it can tie the company's practices to a set of international institutional expectations and regulations (Scott, 1995). Evidence was found in the current study that firm nationality possessed powers to enforce certain organisational arrangements and affected HRM changes in the local environments. Selection methods, selection criteria, retention arrangements, to name a few, varied in banks from different countries (see Section 7.5).

According to the literature, firm size can affect ownership structure and agency relationships (Aldrich, 1979) and its capability to handle the task environment. Due to scale, large firms deal with more complex environments and tend to be more cumbersome so difficulties in organisational change may be encountered. This effect was found in rewards and performance in the large Chinese banks (see Section 7.4). The impact of firm size on HRM change was less significant than that of firm nationality (see Section 7.5). It was speculated that the results found might be due to the fact that this research focused on the service sector while most of the previous studies in China (such as Geib, 2005; Yeung and Mok, 2002) were on the manufacturing industries and factory environments. Services differ from goods in many important ways: they are intangible, they tend to be produced and consumed simultaneously, and they tend to involve consumers in their production and delivery (Bowen and Schneider, 1988). Therefore, the findings from the previous HRM studies in the manufacturing sector may not be the same or be applicable in this context. It is clear that there is a wide scope for theory development for the service sector.

Additionally, correlation between contextual factors and the HRM areas was not fixed; rather it might evolve over time. For example, the legacy of size effect and firm nationality might diminish as a firm operates for a longer period, or as it builds up its branch network over time or through mergers and acquisitions. Therefore, whether the correlation between contextual factors and HRM areas would remain, or whether the gap between firms of different characteristics could be sustained, are questionable.

9.4. Contributions to Theory

This research investigates HRM change in China's banking industry. This research contributes to the identification of a theoretical gap in HRM change and an extension of the literature (theoretical contributions) as well as applicability of research design in new contexts and expansion of research methodology (methodological contributions) as will be seen below.

9.4.1. Theoretical Contributions

Cross-cultural Management: First, there is an increasing interest among academics and scholars in cross-cultural or cross-national differences in HRM (Rowley and Benson, 2002; Sparrow et al., 2004). Some previous studies (such as Gamble, 2003) have compared Chinese HRM to some Western theories while some others (such as Sparrow et al., 1994) have studied MNCs in the global or regional context. A review study conducted by Poon and Rowley (2007) shows that there are few comparative studies conducted in the areas of management and HRM in China, and those studies mainly compared China against other Asian economies (for example Korea, Singapore and Taiwan). There has been limited research to conduct comparison on HRM within the same local context. The questions of why change occurs, what has been changed and how change occurs, are relatively unexplored in previous cross-cultural management literature.

To extend the body of knowledge of cross-culture management literature, the current research investigated change in HRM by sampling banks operating in the same industry setting. As such, a study could control the external environment, such as political systems, economic growth rates and demographic differences, while measuring changes within the industry. This demonstrates the originality of this study and contributes to the fields of cross-cultural HRM by addressing the gap in the existing literature.

Chinese and Asian Context: Second, the applicability of HRM theories in international studies is of particular importance, as the management research community is becoming more internationalised (Lau, 2002). There are several schools of thought concerning change, such as a universalistic best practice approach (Kerr et al., 1960), institutional and cultural perspectives (DiMaggio and Powell, 1983; Hofstede, 1984; McKinley et al., 1995), and structural inertia theory (Ding et al., 2000; Warner, 1999). Though a vast diversity of theories and concepts have been offered over the years, most of the change models still have an Anglo-Saxon base (Budhwar and Debrah, 2001) and the relevance of lessons learnt from the Anglo-Saxon experience to other contexts (Hofstede, 1993) needs to be examined. In particular, the concept of HRM is criticised as culturally bounded (Easterby-Smith et al., 1995).

Despite the tremendous transformation in institutional infrastructure, marketisation, and economic development in China, the field of change theories is far from mature in understanding the dynamics and context in China. Whether HRM can, or even should, be replicated in the Chinese context is a matter of opinion as Western notions of HRM are not present in Chinese enterprises (Warner, 1995). Differences in cultural heritages, historical development and institutional situations can affect change theories and concepts (Pettigrew et al., 2001) being employed and developed in other cultural contexts. The current research in change issues in the Asian societal and cultural situations is, therefore, a viable way to start. The contribution of the current research is to introduce organisational scholars to

HRM change in the Chinese context and motivate them to think about Asia within an empirical context.

Consolidation of Various Theoretical Models: The extant body of knowledge in HRM change consists of a multiplicity of views. This diversity of concepts and models can be seen as an advantage as it captures and reflects various HRM change issues (Grant et al., 2002). Nevertheless, past studies have focused on different discrete sets of HRM and have not included all potential relevant practices and factors at one time. This can be problematic as such pluralistic theories and concepts often encourage compartmentalisation of perspectives that do not enrich each other and produce isolated lines of research (Gioia and Pitre, 1990).

To address this deficiency, caused by compartmentalisation, the current study employs an eclectic approach to combine aspects of the existing literature of various disciplines and apply them to the field of HRM change (see the conceptual framework in Section 4.6). The consolidation and improvement of models is considered an addition to knowledge because this can include some of the missing areas and allow greater precision in the identification of institutional sources of influence. Working out the relationships between seemingly divergent theoretical perspectives provides opportunities to advance theory building that has better and richer explanatory power than the initial perspectives.

Implications for Change Theory Development: The case of China's banking industry and the processes of change have a number of implications for the development of HRM change theory. First, the concept of convergence and divergence has limited use in understanding the change processes and the likely outcomes. This research demonstrates that the concept of 'convergence' can be further differentiated and developed. The change direction is no longer a dichotomous view, towards either convergence or divergence. The assumption of a one best way of doing things cannot explain the barriers of change from national cultures, institutions, preconditions and company norms.

Second, this research extends change theories by allowing for multiple aspects of change issues to be considered. HRM change can occur in a variety of ways (Section 8.2), at a variety of levels (Sections 8.4.3 and 8.4.4), and towards a variety of directions (Section 8.3.2). Not all HRM practices are adopted with equal speed or proceeding in a similar direction. Such multidimensional perspectives suggest that company transfer and adoption of ideas is contingent on various circumstances.

Third, although HRM in China has been studied for many years, the previous literature has largely focused on manufacturing industries and factory environments (Björkman and Fan, 2002; Zhang and Parker, 2002). Studies investigating how different HRM practices are transferred and why change occurs in the emerging service sectors in China are limited. With economic growth, the service sector in China is gaining importance in China in terms of contribution to GDP and numbers of labour employed (Figures 3.4 and 3.5). Some researchers have studied HRM policies and practices in the financial industry in some other economies (for example Delery and Doty, 1996; Frei et al., 2000), but these studies have various methodological limitations, such as being cross-sectional studies, not able to show the dynamic changes of practices, etc. This current study finds that the effect of firm size on HRM change is less significant than that of firm nationality in China's banking industry (see Chapter 7). It is conjectured that the size of a

bank (a service company) is typical smaller than a manufacturing factory in China, and the findings from the previous HRM studies in the manufacturing sector may not be applicable in this service context. Structural and contextual factors can render the results of prior theories insufficient. The findings from the service industry offer a new perspective on HRM change research and contribute to debates on the robustness of change research.

9.4.2. Methodological Contributions

Application of Historical Approach: Much of the research focusing on static comparisons only provides a partial investigation of the situation. Studying HRM changes in an episodic fashion or a cross-section approach cannot uncover the mechanisms through which dynamic changes are created and sustained (Pettigrew, 1990). An examination of trends over time for comparative data provided more comprehensive empirical insights into the dynamic processes of transfer of practices to LCBs and adoption of practices by FIBs (Section 5.3.3). A historical retrospective approach, a technique seldom employed in HRM research, is applied in this study. The sampling of a comparative group and the employment of time series data not normally used in this field demonstrate the originality of the research. Consequently, this research design makes a methodological contribution to show how the aggregate effect of HRM changes across time while keeping track of individual practices in both inter-group change and intra-group change.

Dual Nature of HRM Change: The research design drew a comparative sample from LCBs and FIBs to explore change issues from both local and foreign companies' perspectives (Section 5.3.3). The contribution of this research is the discovery and formulation of the dual nature of HRM change, that is the transfer and adoption can be initiated from both domestic firms and foreign companies simultaneously (see inter-group change in Section 8.2.2). The significance of this research is two-fold. First, it points out the possibility of a new road to HRM change, different in direction, process and perspective from the previous literature. Second, it also reveals the need to rethink the transfer and adoption, and hence the traditional theories of

convergence and divergence. The traditional theories neither analyse nor consider the dual nature of HRM change. Instead, transfer and adoption is typically thought of as the simple adoption of Western practices by indigenous companies. The adoption of local practices by MNCs is not fully discussed or explored. Traditional convergence and divergence theories, as this research has shown, are insufficient to explain some emerging phenomena. The dual nature of the comparative approach used in this study is a good example to illustrate this insufficiency.

Combination of Qualitative and Quantitative Research: Methodologically, this research is exploratory and descriptive research, and comprises qualitative and quantitative data from multiple data sources (see Sections 5.3.1 and 5.3.2). This triangulation method helps reduce measurement errors and generate more accurate results because the use of multiple sources alleviates systematic errors, such as common method biases, and the application of multiple techniques enables the weakness of any one method to be compensated for by the strength of another method and facilitates comparing and contrasting conditions between LCBs and FIBs. Future research will benefit from continuing to employ a similar approach to conduct organisational studies.

9.5. Implications for Policy and Practice

The nature and intention of this study, in addition to contributing to theory, is to gain insights that are of practical relevance for managers and policy makers facing HRM change. The results of this research have the potential to provide some understanding on how banks use HRM change to cope with their changing environment. This study of management practices can be useful for firms seeking entry into, and prosperity or even survival in, China and for policy makers designing HRM policy. The findings of the study can provide timely insights for HRM practitioners of local companies and MNCs to the post-2008 financial crisis challenge ahead.

Policy Makers: This current research has direct and clear implications for policy makers involved in transition initiatives. First, policy makers need to be cautious about attempting to implement large-scale changes rapidly and simultaneously across an organisation or at industry level. Such action can be an ineffective and disruptive way of bringing about change. Instead, policy makers should better spend time understanding the context of change, relationships between the key factors involved and the change process.

Second, this study helps clarify the general notion of HRM change in developing countries, that is the change in HRM policies and practices in such nations are less rationalised and structured than in the West. The results show that this is not the case at least in the Chinese context. Local organisations may face rapid change with delays and oscillations; and there is an indication of the existence of a unique Chinese cultural influence. Policy makers need to pay a lot of attention to these unique aspects of HR in Chinese organisations.

HRM Practitioners: The literature is dominated by research that guides practitioners on how to implement and manage HRM change. This approach does not provide an in-depth understanding of why HRM change occurs in different contexts and how pace and magnitude affect outcome of change. The understanding of the pace, magnitude and context of change has the potential to better equip practitioners to cope with the change – both externally imposed and internally driven. Potential exists for the results of this research to be applied by management consultants, business advisors and HR professions.

Managers overseeing change programmes need to sensitively consider resistance from employees. Simply implementing a new programme does not guarantee that employees would have commitment to, and ownership of, the practice (Kostova, 1999). Employee resistance can be important in determining whether or not a transformation will be successful. If employees do not internalise a new practice, HRM change may subsequently

need to be withdrawn and modified, inevitably slowing the change process and decreasing its probability of success. This study provides crucial information regarding the context-specific nature of HRM change which can be used to develop new HR programmes and policies for firms operating in China.

9.6. Limitations of the Study

There are a number of limitations embedded in the nature and scope of this study.

One Industry in One Country: The study focuses on one industry in one country, namely the banking industry in China. The ability to generalise findings of this research to other populations, for example China's manufacturing sector, or the banking industry in other countries, may be limited. This focus on one industry and one country was deliberately done with a consideration of time and the resources required. Despite this, the findings of the study can be extended to other workplaces, albeit with a degree of caution, due to the focus on HRM and the generic nature of change.

FIBs HRM Change in Home Country: The study included LCBs and FIBs operating in China and their HRM changes in Chinese branches. Policy and practice changes at the FIBs' originating country were outside the scope of this study. The study was not able to shed much light on the decision processes undertaken by headquarters that might differentiate between radical, big change and incremental, slow change in local branches. Clearly, change theory can be tested systematically in some cross-country studies outside China.

Survey Sample: The limitation in this study also relates to the sampling. Although the data were collected through a multi-stage sampling process, several caveats should be noted. First, this was not a statistically representative sample of firms. The banks were purposefully sampled in the study. This limitation needs to be seen in the light of the scarcity of comparable data and the difficulties (including costs and time) of obtaining valid and reliable data in widely dispersed banks in an emerging market. Second, there were no small size LCBs in the sample, which might cause bias. As an exploratory study, the goal of this study was to seek greater understanding that could lead to building a foundation for more extensive research in the future. Future studies can include a larger and more representative sample of financial companies (such as city and urban banks which are small in firm size) with more data sources and eventually extend the research outside the banking sector.

Risk of Time-series Data: The methodology itself has some inherent limitations. The retrospective approach applied was not a 'typical' process which collected data in every year during the research period. The use of time series data faces the risk of attribution of the sample (for instance mergers and acquisitions of the bank). Change in HRM is an ongoing process. The recall of historical change by the interview participants may lead to some inaccuracy or bias. For example, in the data collection, participants were asked to give their view from 2000 to 2005. Since it is not possible to turn the clock back and 'repeat' the transfer of HRM in the current situation, the time-series data obtained from interviews have been carefully checked and validated to ensure suitability.

Objectivity of Data: As archival records (such as government census) are collected for some administrative purposes and not with the social researcher in mind, the quality, content and order of data is beyond the influence of the researcher. The results of interviews may also entail some interpretation on the part of interviewer. Various measures (for instance member check, peer review) were implemented to minimise the effects.

In sum, although this study has certain limitations and assumptions, various measures have been taken, including a triangulation approach using multiple data sources, various modes of data collection methods, rigorous validity and reliability tests. These measures have addressed and overcome some of the limitations as well as having tried to maximise the overall value of the study.

9.7. Directions for Future Research

This study examined HRM change in China. General patterns have emerged from the study which suggests that there are some generalised lessons to be learnt. Replication, by other researchers, is needed to further substantiate the findings of this study.

Expand to Other Industries in Multiple Countries: This study used the banking industry in China to examine HRM change. While the banking industry is gaining attention in China, following WTO accession and recent financial crisis, it cannot be considered representative of all service industries as the development in China is very uneven. The inclusion of other financial industries besides the banking industry, such as the insurance industry and asset management industry, as well as increasing the number of companies under study, will help generalise the findings further. Besides, some comparison of China with other emerging economies could provide an interesting pattern of similarities and country specific differences. In addition, FIBs are based in other countries and their home countries practices have not been considered in this study. The design of the survey might be improved to include more international strategic variables of the home companies.

Include More Variables and Interaction Impact: This study examined three HRM areas, three major contextual variables and two control factors. When considering HRM change, awareness is needed that HRM areas are interrelated and not static. Also, there are many contingencies and factors (uncontrollable or even unknown) that can affect HRM systems. Further research can explore what factors or variables may have been missed in the existing conceptual framework. There is also some interaction between HRM areas. For example, retention effort could be affected by the resourcing approach and rewards and compensation systems. Such an interaction impact can be further explored.

Research Methodology: It is acknowledged that the use of a nine-year period immediately after China's joining the WTO may not be sufficient to review all the trends, but there do appear to have been some interesting observations occurring in the years examined in this study. Clearly, this study needs replication using other time periods and with a longer time span.

As the financial and economic crisis may continue for the next few years with consequent high levels of uncertainty and many challenges, the change in China's banking industry will probably continue and become more rapid and more complex than previous years. This means that change in HRM will be a lengthy and complex process and that more indirect influences may have greater and far-reaching effect on the industry. Extension of this research over the next couple of years can further show how the banks react to the financial crisis and hence bring change in HRM.

Extend Research Questions: Finally, the types of research questions posed and research issues considered need to be extended. The study has focused on the change issues of why, what, where, how and which aspects, but have not attempted to investigate what might happen after the HRM change. As part of this process, the research issues under examination could be extended to issues, for example firm performance and profitability after change, organisational culture after change etc. These questions would involve detailed case studies where company financial data and day-to-day work of employees and managers would need to be collected. Insights would be gained into ways to support HRM change and how practices transfer and adoption could influence positive business outcomes.

In brief, this study provided an understanding of various HRM change issues in the banking industry in China. It is hoped that the findings from this study may serve as the basis for further research.

9.8. Conclusion

This chapter concluded the study by summarising the findings, presenting the discussion of the five research issues, and comparing to the existing literature, with the aim at answering the two research questions of how LCBs and FIBs have changed their HRM practices towards or from each other. This study contributes towards an answer to these questions, and adds new knowledge with respect to the change process of HRM policies and practices using comparative approach and historical method.

The discussion focused on the need to consider the Chinese perspective and Asian context when employing Western theories to conduct research in the East. The discussion concluded that best practice may not be applicable elsewhere; and even best practice is transferred, making it effective is another matter. The research also discussed that pace of change and final outcome of change are subject to a number of factors, and whether change can be sustained is still debatable. The findings lead to recommendations for academicians studying the effects of management practices, firms

seeking business expansion in China and HRM practitioners designing policy. Furthermore, the findings may serve future researchers as useful references for expanded studies.

'The only thing that doesn't change is change' a proverb from the *Books of Changes* (or *Daoism Yi Jing* in Chinese) reminds one that there is no permanent reality beyond that of change. However, by understanding the dynamics of change issues, one may better prepare to encounter future transitions.

Appendix 1. Cover Letter

English Version

[Name]
[Company]

[Date]

Dear [Name],

I would like to ask for your participation in my research project on 'Human Resource Management (HRM) Changes'. This study is part of an effort to understand the trends of HRM practices in the 21st century and factors contributing to the changes. By knowing what and why the changes are, organisations can better plan ahead to enhance their human capital and match with dynamic business environment.

My role is that of the researcher as a Doctor of Philosophy (PhD) candidate. This research is an essential part of the requirements for the PhD degree at the Cass Business School, City University of London. The study is purely for academic purpose only and is not connected to any commercial interest.

The interview session will last for around 30 to 45 minutes. While your participation is entirely voluntary, it is sincerely appreciated. There is no obligation or consequence for withdrawal from the study. The information obtained from this interview is strictly confidential. Your organisation's name, your name, and any other information to identify you or your organisation will be coded. The ethical requirements of City University of London are highly upheld throughout the study.

Once all the data are collected and analyzed for this research project, I plan on discussing the findings with the research community through seminars, conferences and journal articles. If you are interested in receiving more information regarding the results of this study, please feel free to contact me at h.f.poon@city.ac.uk.

[Name], thank you very much for taking your time to support in this important study.

Yours sincerely,

Irene Hon Fun Poon
PhD Candidate of Department of Management
Cass Business School
City University of London

Simplified Chinese Version

[受访者姓名]
[受访企业名称]

xx 阁下:

我诚邀阁下参加这个关于「人力资源管理的趋势」调查研究，课题是了解二十一世纪的人力资源管理实务的变化和构成变化的原因。透过明白当中的转变和因由，企业就能更有效地计划未来、提升其人力资本，以应付竞争激烈的市场环境。

我作为博士候选人进行是次研究。研究为完成英国伦敦城市大学卡斯商学院的博士学位。研究纯粹以学术为目的，并不涉及任何商业利益。

访谈时间约 30 至 45 分钟。阁下的参与为自愿性质，而我衷心希望阁下支持。阁下可以选择不回答其中的问题，而亦不会带来任何的责任。访谈的资料会绝对保密。阁下企业名称、阁下姓名、或任何足以透露阁下身份或企业情况的资料，都会加密。在研究时，我会严格遵守伦敦城市大学的道德守则。

数据收集及分析完成后，我将会以研讨会、座谈会和杂志文章，与学术界讨论调查的结果。如果阁下有兴趣收到调查的结果，或有任何疑问或查询，欢迎电邮至 h.f.poon@city.ac.uk。

衷心感谢阁下拨冗参与这次重要的研究。

顺颂
安祺

课题研究员

潘汉芬
管理学系博士候选人

<日期><地点>

Traditional Chinese Version

[受訪者姓名]
[受訪企業名稱]

xx 閣下:

我誠邀閣下參加這個關於「人力資源管理的趨勢」調查研究，課題是瞭解二十一世紀的人力資源管理實務的變化和構成變化的原因。透過明白當中的轉變和因由，企業就能更有效地計畫未來、提升其人力資本，以應付競爭激烈的市場環境。

我作爲博士候選人進行是次研究。研究爲完成英國倫敦城市大學卡斯商學院的博士學位。研究純粹以學術爲目的，並不涉及任何商業利益。

訪談時間約 30 至 45 分鐘。閣下的參與爲自願性質，而我衷心希望閣下支持。閣下可以選擇不回答其中的問題，而亦不會帶來任何的責任。訪談的資料會絕對保密。閣下企業名稱、閣下姓名、或任何足以透露閣下身份或企業情況的資料，都會加密。在研究時，我會嚴格遵守倫敦城市大學的道德守則。

資料收集及分析完成後，我將會以研討會、座談會和雜誌文章，與學術界討論調查的結果。如果閣下有興趣收到調查的結果，或有任何疑問或查詢，歡迎電郵至 h.f.poon@city.ac.uk。

衷心感謝閣下撥冗參與這次重要的研究。

順頌
安祺

課題研究員

潘漢芬
管理學系博士候選人

<日期><地點>

Appendix 2. Interview Questions

English Version

Introduction to Interview

This interview is to understand the trends of human resource management (HRM) practices and factors contributing to the changes. I will ask you questions related to HRM practices in your organisation, including previous (say 3-5 years ago), current and future (say 3-5 years later) arrangements. If there were changes or if you are planning to review HRM practices, I will also ask the reasons for the changes. Besides, I will also collect information about HRM practices in your Hong Kong office, China office and headquarters to understand the difference. The questions are not designed to collect whole details of any particular HRM practice, but to identify the trends happened or will happen in these few years.

Recruitment

1. How often does your organisation recruit fresh graduates from high schools or universities?
2. How often does your organisation recruit managerial positions (e.g. section / department heads)?
3. How often does your organisation use part-time staff?
4. What type of work has your organisation outsourced?
5. What are your organisation's selection criteria?
6. What are your selection methods for manager?

Reward

7. How does your organisation determine incentive / discretionary cash bonus?
8. How large is incentive / discretionary cash bonus relative to fixed salary?
9. How does your organisation determine salary increase?
10. How does your organisation determine promotion?
11. What is your organisation's salary structure look like, in terms of salary differential from top executive (e.g. chief executive) to entry level?

Performance management

12. How often does your organisation have performance objective setting meetings?
13. How often does your organisation have performance appraisal meetings?
14. How important is performance result on salary increase?

Training

15. What type of training programs does your organisation offer to managers (e.g. section / department heads)?
16. What type of training programs does your organisation offer to non-managers (e.g. technical / professionals)?
17. How often do your new employees receive training?
18. How often do your existing employees receive training?
19. Does your organisation co-operate with other education institutions to offer training programs?

Communications

20. How does your organisation communicate your policies to employees?
21. What is the proportion of employees joining labour union?
22. What is the proportion of employees covered in employee's attitude / opinion survey?

About You

23. What is your job title?
24. How long have you worked in the organisation?
25. In which of China's cities does your organisation have operations?
26. How long has your organisation been established in Hong Kong and China?
27. What is your background?

Thank You Very Much for Your Help

Simplified Chinese Version

引言

这个访问的课题是了解人力资源管理实务的变化和构成变化的原因。我将会询问阁下有关于 贵公司的人力资源管理实务，包括以前（约三至五年之前）、现在、和将来(约三至五年之内)的安排。如果其中有改变、又或者阁下计划检讨其人力资源管理实务，我亦询会问转变的原因。另外我亦会收集 贵公司在香港、中国和母公司的人力资源管理安排，以便作出比较。访问的问题并不是详细收集某一项人力资源管理实务的资料，而是要掌握过去及未来的趋势。

招聘

1. 贵公司从高校或大专招聘毕业生的次数如何?
2. 贵公司招聘经理职位(例如部门主管)的次数如何?
3. 贵公司聘用兼职员工的次数如何?
4. 贵公司将哪些工作外判?
5. 贵公司有什么招聘的标准?
6. 对于经理职位，贵公司用哪类甄选方法?

薪酬

7. 贵公司如何厘定奖酬?
8. 贵公司如何厘定奖酬 / 非固定的奖金?
9. 贵公司如何厘定薪金加幅
10. 贵公司如何评估员工晋升?
11. 就高层领导人和基层员工的薪酬差距，贵公司的薪酬结构如何?

绩效管理

12. 贵公司的绩效目标设定会议的次数如何?

13. 贵公司的绩效评估会议的次数如何?

14. 绩效评估结果对于薪酬的加幅有何影响?

培训

15. 经理职级(例如部门主管)培训计划的内容是什么?

16. 非经理职级培训计划的内容是什么?

17. 新入职员工的培训次数如何?

18. 已入职员工的培训次数如何?

19. 贵公司有没有与其它教育机构合作开办培训课程?

沟通

20. 贵公司如何向员工交代公司的政策?

21. 有多少员工参加了工会?

22. 员工意见或态度调查包括有多少员工?

关于阁下的问题

23. 阁下目前在公司担任什么职务?

24. 在目前的岗位已经有多长时间?

25. 贵公司于中国哪些城市设有办事处?

26. 贵公司于香港和中国的办事处在何年成立?

27. 阁下的背景如何?

衷心感谢阁下接受这个访问

Traditional Chinese Version

引言

這個訪問的課題是瞭解人力資源管理實務的變化和構成變化的原因。我將會詢問閣下有關於 貴公司的人力資源管理實務，包括以前（約三至五年之前）、現在、和將來(約三至五年之內)的安排。如果其中有改變、又或者閣下計畫檢討其人力資源管理實務，我亦詢會問轉變的原因。另外我亦會收集 貴公司在香港、中國和母公司的人力資源管理安排，以便作出比較。訪問的問題並不是詳細收集某一項人力資源管理實務的資料，而是要掌握過去及未來的趨勢。

招聘

1. 貴公司從高校或大專招聘畢業生的次數如何?
2. 貴公司招聘經理職位(例如部門主管)的次數如何?
3. 貴公司聘用兼職員工的次數如何?
4. 貴公司將哪些工作外判?
5. 貴公司有什麼招聘的標準?
6. 對於經理職位，貴公司用哪類甄選方法?

薪酬

7. 貴公司如何厘定獎酬?
8. 貴公司如何厘定獎酬 / 非固定的獎金?
9. 貴公司如何厘定薪金加幅
10. 貴公司如何評估員工晉升?
11. 就高層領導人和基層員工的薪酬差距，貴公司的薪酬結構如何?

績效管理

12. 貴公司的績效目標設定會議的次數如何?

13. 貴公司的績效評估會議的次數如何?

14. 績效評估結果對於薪酬的加幅有何影響?

培訓

15. 經理職級(例如部門主管)培訓計畫的內容是什麼?

16. 非經理職級培訓計畫的內容是什麼?

17. 新入職員工的培訓次數如何?

18. 已入職員工的培訓次數如何?

19. 貴公司有沒有與其他教育機構合作開辦培訓課程?

溝通

20. 貴公司如何向員工交代公司的政策?

21. 有多少員工參加了工會?

22. 員工意見或態度調查包括有多少員工?

關於閣下的問題

23. 閣下目前在公司擔任什麼職務?

24. 在目前的崗位已經有多長時間?

25. 貴公司於中國哪些城市設有辦事處?

26. 貴公司於香港和中國的辦事處在何年成立?

27. 閣下的背景如何?

衷心感謝閣下接受這個訪問

Appendix 3. Interview Guide Book

Human Resource Management Changes Survey

In Partial Fulfilment of the Requirements
For the Degree of
Doctor of Philosophy
Cass Business School
City University of London

www.city.ac.uk/cass

Human Resource Management Changes Interview

This interview is to understand the trends of human resource management (HRM) practices and factors contributing to the changes. I will ask you questions related to HRM practices in your organisation, including previous (say 3-5 years ago), current and future (say 3-5 years later) arrangements. If there were changes or if you are planning to review HRM practices, I will also ask the reasons for the changes. Besides, I will also collect information about HRM practices in your Hong Kong office, China office and headquarters to understand the difference. The questions are not designed to collect whole details of any particular HRM practice, but to identify the trends happened or will happen in these few years.

Recruitment

1. How often does your organisation recruit fresh graduates from high schools or universities?

		Difference	Reason
Once a year	1		
Twice a year	2		
No fixed schedule	3		
No such practice	7		
Other _____	8		

2. How often does your organisation recruit managerial positions (e.g. section / department heads)?

		Difference	Reason
Depend on headcount	1		
Assigned by headquarters	2		
Redeployment	3		
No such practice	7		
Other _____	8		

Continue on next page

3. How often does your organisation use part-time staff?

		Difference	Reason
Constantly	1		
During peak season	2		
Only when needed	3		
No such practice	7		
Other _____	8		

4. What type of work has your organisation outsourced?

		Difference	Reason
Data entry work	1		
No such practice	7		
Other _____	8		

5. What are your organisation's selection criteria?

		Difference	Reason
Education level	1		
Skill	2		
Working experience	3		
Background	4		
Gender	5		
Age	6		
Other _____	8		

Continue on next page

6. What are your selection methods for manager?

		Difference	Reason
Interview	1		
Aptitude test	2		
Group interview	3		
No fixed method	7		
Other _____	8		

Reward

7. How does your organisation determine incentive / discretionary cash bonus?

		Difference	Reason
Individual performance	1		
Department results	2		
Profitability	3		
Seniority	4		
Other _____	8		

8. What is the proportion of incentive bonus relative to fixed salary

		Difference	Reason
Large proportion	1		
Moderate large proportion	2		
Half-half	3		
Moderate small proportion	4		
Small proportion	5		

Continue on next page

9. How does your organisation determine salary increase?

		Difference	Reason
Local market trends	1		
Cost of living	2		
By headquarters	3		
Other _____	8		

10. How does your organisation determine promotion?

		Difference	Reason
Individual performance	1		
Open vacancy	2		
Seniority	3		
Other _____	8		

11. What is your organisation's salary structure look like, in terms of salary differential from top executive (e.g. chief executive) to entry level?

		Difference	Reason
Large differential	1		
Moderate large differential	2		
Medium differential	3		
Moderate small differential	4		
Small differential	5		

Performance Management

12. How often does your organisation have performance objective setting meetings?

		Difference	Reason
Once a year	1		
Twice a year	2		
No fixed schedule	3		
No such practice	7		
Other _____	8		

Continue on next page

13. How often does your organisation have performance appraisal meetings?

		Difference	Reason
Once a year	1		
Twice a year	2		
No fixed schedule	3		
No such practice	7		
Other _____	8		

14. How importance is performance result on merit increase?

		Difference	Reason
Large impact	1		
Moderate large impact	2		
Medium impact	3		
Moderate small impact	4		
Small impact	5		

Training

15. What type of training programs does your organisation offer to managers (e.g. section / departments heads)?

		Difference	Reason
Soft skills	1		
Technical skills	2		
Team building	3		
Supervisory skills	4		
Other _____	8		

Continue on next page

16. What type of training programs does your organisation offer to non-managers (e.g. technical/professionals)?

		Difference	Reason
Soft skills	1		
Technical skills	2		
Team building	3		
Other _____	8		

17. How often do your new employees receive training?

		Difference	Reason
Induction weeks	1		
On-the-job training	2		
Various across departments	3		
No such practice	7		
Other _____	8		

18. How often do your existing employees receive training?

		Difference	Reason
Once a year	1		
Twice a year	2		
No fixed schedule	3		
No such practice	7		
Other _____	8		

19. Does your organisation co-operate with other education institutions to offer training programs

		Difference	Reason
Yes, detail_____	1		
No	2		

Continue on next page

Communications

20. How does your organisation communicate your policies to employees?

		Difference	Reason
Newsletters	1		
Email	2		
Notice board	3		
Employee meeting	4		
No fixed practice	5		
No such practice	7		
Other _____	8		

21. What is the proportion of employees joining labour union?

		Difference	Reason
Majority of employees	1		
Half of employees	2		
Few employees	3		
No labour union	4		
Other _____	8		

22. What is the proportion of employees covered in employee's attitude / opinion survey?

		Difference	Reason
All employees	1		
Majority of employees	2		
Half of employees	3		
Few employees	4		
No attitude survey	5		
Other _____	8		

Continue on next page

About You

23. What is your job title?

24. How long have you worked in the organisation?

25. In which of China's cities does your organisation have operations?

26. How long has your organisation been established in Hong Kong and China?

27. What is your background?

End of Interview **8**

Thank You Very Much For Your Help

Appendix 4. List of Interviewees

Bank	Job Title	Gender	Year of Company Service	Education
CM1	Senior HR Officer	Female	5	University
	HR Manager	Female	3	University
	Head of HR	Male	4	College
CL2	Senior Section Head, Compensation and Benefits	Female	4	University
	Section Head, Training	Female	5	Polytechnic
	Department Head	Female	3	Polytechnic
CL3	Head of HR	Male	8	College
	HR Manager	Female	3	College
AS4	HR Manager	Female	2	University
	Settlement Manager	Female	4	University
AM5	HR Project Consultant	Female	2	University
	HR Specialist	Female	2	College
AL6	Senior HR Manager	Female	3	University
	Vice President	Male	4	College
US7	Compensation and Benefits Manager	Female	6	Master
	Recruitment Manager	Male	3	College
	Training and Development Manager	Female	4	College
UM8	Assistant HR Manager	Female	3	University
	HR Manager	Female	5	University
	Vice President	Female	6	University
UM9	Vice President, HR	Female	10	College
	Business Partner	Female	2	University
UL10	Vice President, HR	Female	6	College
	HR Representative	Female	2	College
	Business Associate	Female	3	Master
ES11	Assistant Manager, HR	Female	2	Master
	HR Specialist	Female	4	University
EM12	Head of HR Services	Male	2	Master
	Head of Compensations	Female	5	University
	Business Partner	Male	3	College
EL13	Regional Head of HR	Male	10	Polytechnic
	HR Manager	Female	4	College

Appendix 5. Archival Records Document List

Documents from Participant Banks

- Annual reports of 13 participating banks (from 2000 to 2007)
- Employee handbook of AL6, EM12 and EL13
- Newsletters of CL2
- Performance appraisal form of AM5, EM12 and EL13

Industry Reports

- A Research on Corporate Hong Kong's Readiness for the Mainland Financial Markets, Hong Kong Securities Institute survey
- China 21st Century WTO: Chinese Companies Fitness Survey, Deloitte Touche Tohmatsu survey
- Company Profile of 13 participating banks, Datamonitor survey
- Compensation report, Watson Wyatt survey
- HR articles for China, Pacific Bridge Incorporated
- Pay trend reports, Hewitt survey
- Top Retail Bank, USBanker report

Census and Statistics

- Almanac of China's Finance and Banking (from 2000 to 2008)
- China Economic Yearbook (from 2000 to 2008)
- China Financial Guide (from 2001 to 2005)
- China Statistical Yearbook (from 2000 to 2008)
- Economic Intelligent Unit
- National Bureau of Statistics

Newspapers

- China Economic Information Network (www.cei.gov.cn)
- Financial Times (www.ft.com)
- Newsletters from China Banking Association (www.china-cba.net)
- Newsletters from The Chinese Banker (www.chinabanker.net)
- The Banker (www.thebanker.com)

Other Information

- Foreign Bank Participation and Crises in Developing Countries, World Bank Policy Research Working Paper 4128
- Foreign Banks and Competitive Advantage, World Bank Policy Research Working Paper 4113
- International Monetary Fund economic trends and analyses
- The Empirical Analysis of Scale Economies on Commercial Banks of China
- The Industrial Map of Financials in China (from 2005 to 2007)
- United National Economic and Social Commission special study on Asia

Appendix 6. Coding Manual

6.1. HRM Change

6.1.1A Across-time Change

- Yes, already made the change 611-1
- Yes, plan to make the change 611-2
- No, without change 611-3

6.1.2.B Change happened in which year

- 2001 612-1
- 2002 612-2
- 2003 612-3
- 2004 612-4
- 2005 612-5
- 2006 612-6
- 2007 612-7
- 2008 612-8

6.2. Difference from headquarters (for FIBs only)

6.2.1. Inter-group Change

- Yes, same as headquarters 621-1
- No, slight different from headquarters 621-2
- No, major different from headquarters 621-3

6.3. Recruitment and Resourcing

6.3.1. Top executive: Appointment, Expatriation and Location

- Depend on headcount 631-1
- Assigned by headquarters 631-2
- Reployment 631-3
- No such practice 631-4
- Other practice 631-5

6.3.2. Manager: Allocations versus Expansion

- Depend on headcount 632-1
- Assigned by headquarters 632-2
- Reployment 632-3
- No such practice 632-4
- Other practice 632-5

6.3.3. Entry Level: College Graduate Recruitment

- Recruit once a year 633-1
- Recruit twice a year 633-2
- Recruit with no fixed schedule 633-3
- No such practice 633-4
- Other practice 633-5

6.3.4A. Selection Methods

- Education level 634-1
- Skill 634-2
- Working experience 634-3
- Background 634-4
- Gender 634-5
- Age 634-6
- Other criteria 634-7

6.3.4B. Selection Criteria

- Interview 634-11
- Aptitude test 634-12
- Group interview 634-13
- No fixed method 634-14
- Other method 634-15

6.3.5. Retention Effort: Talent War versus Succession Planning

- Succession planning 635-1
- Increase salary 635-2
- Promotion 635-3
- Training 635-4
- Other effort 635-5

6.4. Rewards and Performance

6.4.1A. Bonus Scheme: Performance-based

- Individual performance 641-1
- Department results 641-2
- Profitability 641-3
- Seniority 641-4
- Market adjustment 641-5
- Other determination 641-6

6.4.1B. Bonus Scheme: Proportion to Fixed Salary

- Large proportion 641-11
- Moderate large proportion 641-12
- Half-half 641-13
- Moderate small proportion 641-14
- Small proportion 641-15

6.4.2. Salary Review: Internal Equity vs. External Competitiveness

- Local market trends 642-1
- Cost of living 642-2
- By headquarters 642-3
- Other determination 642-4

6.4.3. Promotion Mechanism: Seniority versus Performance

- Individual performance 643-1
- Open vacancy 643-2
- Seniority 643-3
- Other mechanism 643-4

6.4.4. Pay Structure: Global Band versus Local Grade

- Large differential 644-1
- Moderate large differential 644-2
- Medium differential 644-3
- Moderate small differential 644-4
- Small differential 644-5

6.4.5A PA: Traditional Appraisal versus Western Schemes

- Conduct appraisal once a year 645-1
- Conduct appraisal twice a year 645-2
- Conduct appraisal with no fixed schedule 645-3
- No such practice 645-4
- Other practice 645-5

6.4.5B PA: Objective setting meeting

- Conduct once a year 645-11
- Conduct twice a year 645-12
- Conduct with no fixed schedule 645-13
- No such practice 645-14
- Other practice 645-15

6.4.5C PA: Importance of Performance Result on Merit

- Large impact 645-21
- Moderate large impact 645-22
- Medium impact 645-23
- Moderate small impact 645-24
- Small impact 645-25

6.4.6. Employee Attitude Survey: Global versus Local

- Cover all employees 646-1
- Cover majority of employees 646-2
- Cover half of employees 646-3
- Cover few employees 646-4
- No attitude survey 646-5
- Other arrangement 646-6

6.5. Training and Development

6.5.1A. Focus of Training Programme: Broad versus Narrow

- To manager: Soft skills 651-1
- To manager: Technical skills 651-2
- To manager: Team building 651-3
- To manager: Supervisory skills 651-4
- To manager: Other focus 651-5

6.5.1B. Focus of Training Programme: Broad versus Narrow

- To non-manager: Soft skills 651-11
- To non-manager: Technical skills 651-12
- To non-manager: Team building 651-13
- To non-manager: Other focus 651-14

6.5.1C Training to new employees

- Induction weeks 651-21
- On-the-job training 651-22
- Various across departments 651-23
- No such practice 651-24
- Other focus 651-25

6.5.2. Target Audience: Limited versus Diversified

- Newly recruited manager 652-1
- Newly recruited non-manager 652-2
- Existing manager 652-3
- Existing non-manager 652-4

6.5.3. Horizon: Long-term versus Short-term

- Once a year 653-1
- Twice a year 653-2
- No fixed schedule 653-3
- No such practice 653-4
- Other practice 653-5

6.5.4. Resources for Employee Development: Limited versus High

- Co-operate with other education institutions 654-1
- Has in-house training center 654-2
- No resource 654-3
- Other arrangement 654-4

6.5.5. Employee Self-development: Learning Culture versus Cost

- Yes, with company provision to individual 655-1
- Yes, with company provision to department 655-2
- No provision 655-3
- Other arrangement 655-4

6.5.6. Knowledge Management: Transfer and Sharing

- Newsletters 656-1
- Email 656-2
- Notice board 656-3
- Employee meeting 656-4
- No fixed practice 656-5
- No such practice 656-6
- Other practice 656-7

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Author's Recent Publications

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