

**The Development of Strategic Human Resource Management in the Chinese
Financial Services Sector:
Understanding the Roles of External Economic Factors and the State**

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The candidate confirms that the work submitted is her own and that appropriate credit has been given where reference has been made to the work of others.

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Abstract

The Chinese economy has experienced reform, rapid growth and a significant slowing down period over the last thirty years. During this time, the Chinese approach to people management has also shifted, with some observers suggesting a shift from personnel management into strategic Human Resource Management (SHRM). In many studies of SHRM, economic factors have been recognised to be essential external environmental forces which contribute to HRM strategy formulation (Schuler, 1992; Truss and Gratton, 1994, Boxall and Purcell, 2011). Under this argument, financial markets and the economic development of many countries have changed, the social and political environment has also been forced to adapt, and as a result, work, employment and HRM system of firms have been required to adjust to these changes.

This thesis examines the specific effects of Chinese economic development on employers' HR decisions, something which has been neglected in the SHRM literature to date. Employers in China, as elsewhere, may adopt different approaches to HRM development. For some, HRM systems in recent years have been built up from a low base, whilst others have adjusted well-established existing HRM approaches. Other employers have explored or implement radically different or 'new' approaches. These approaches can result in contradictions, tensions and resistance, due to differences between the rhetoric of seamless adjustment to 'strategic' HRM and the reality of what happens. All of these elements of HRM adjustment are underexplored in debates to date. The Chinese case is a particularly interesting lens through which to explore these under-researched issues due to its unique management contexts and the richness on social and economic transformation. The development of SHRM in China is ripe for exploration regarding how organisational HRM strategy does or does not supports operations.

The key contribution of the thesis is in its examination of 'fit' and 'non-fit' of SHRM in Chinese firms. The thesis argues that changes in the external environment in China have led to different rather than uniform adjustments in HRM strategy and practices in individual firms. Adjustments that are often presented as necessary, being influenced or

required by the state, or seen to be part of a 'best practice' approach to SHRM may or may not actually be implemented effectively in practice. However, even where effective implementation does not occur, resultant HR systems may still contribute to the growth and development of organisations. In this thesis, this examination of fit and non-fit is explored from the viewpoint of employers in the context of economic development in a transitional economy. The thesis also provides insights into how and why contradictions in business strategy and development are significant, and in doing so, examines the efficiency of HR systems in China in terms of reacting to change.

The empirical strategy for the research in this thesis involves qualitative research methods. A single case study of the Chinese financial service sector with multiple firms is used. Fifty-nine semi-structured interviews are conducted. The interviews were designed to explore employers' responses to the external economic environment. Interviews were carried out with policy makers of government institutions, executive and general managers and HR directors from financial firms including state-owned and joint-stock banks, insurance companies and other financial institutions.

The data generated from this research explores the drivers and effects of changes to HRM systems in two ways. First, the research identifies factors and events that cause concerns for firms, or which demand changes. Secondly, the thesis explores how these concerns or imperatives for change have, or have not been addressed and implemented in organisations. The findings reveal that specific economic development policies and changing economic cycles are recognised by employers, causing them concerns or compelling them to alter their skills mix or the number of workers they require. Differences in perceptions and approaches between state-owned firms and joint-stock firms are found to be significant. Some external factors which impact upon HRM strategy, such as political environmental factors lead firms to adjust their organisational governance systems and business strategy. The adjustment of specific HRM practices to external changes can be seen mostly in changes to recruitment and training strategy. The fit between business strategy and other HR practices, notably payroll systems and performance appraisals during different economic cycle stages, is less clear. However, even where 'non-fit' occurs, HR systems are still considered as working supportively to the growth of organisations.

In conclusion, this thesis contributes to the theory of SHRM by developing a deeper understanding of fit and by illuminating the idea that actively choosing ‘non-fit’ at both strategic and implementation level can enhance the effectiveness of organisational operation under certain circumstances. It also contributes to the theoretical framework of SHRM through introducing the taxonomy of the role of economic factors and the state in China.

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List of Abbreviations

ACFTU	All-China Federation of Trade Unions
AMO-RBV	Abilities, Motivation, Opportunity – Resource Based View
CBRC	China Banking Regulatory Commission
CPC	Central Committee of the Communist Party of China
CSRC	China Security Regulation Committee
ESOPs	Employee stock ownership plans
GFC	Global Financial Crisis
GSP	Generalised System of Preferences
HPWS	High Performance Work Systems
HRM	Human Resource Management
IPO	Initial Public Offerings
IR	Industrial Relations
JSC	Joint-Stock Companies
KPI	Key Performance Indicators
LCL	Labour Contract Law, 2007
MNC	Multinational Corporation
NPL	Non-Performance Loan
PBC	People’s Bank of China
SHRM	Strategic Human Resource Management
SASAC	State-owned Assets Supervision and Administration Commission
SOE	State Owned Enterprises

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Chapter 1 Introduction

1.1 Introduction to the debates of the Thesis

In existing literature, HR strategy and systems are thought to be influenced and shaped by environmental factors, among which economic factors and state policies are considered to play the most important roles. In empirical research into Strategic Human Resource Management (SHRM), relatively little attention has been paid to how HRM systems adjust to environmental changes and development in different contexts. Most of the research into HRM system adjustment is based on knowledge that has emerged from Western HRM theories, concepts and understanding. Gaining an understanding of how SHRM approaches form in different types of economies, at different stages of development is important, as a means of identifying the influential factors on SHRM. There also remains a lack of studies looking at the tensions and issues that arise as a result of these adjustments, or which explore the difference between the rhetoric of seamless adjustment of HRM practices that is often painted in studies of SHRM, and the more complex and contradictory reality. China, the focus of this study, is a transitional economy, which is experiencing the rapid environmental changes in state policies and marketization, and which has been going through the development steps that advanced economies have already experienced. However, whether the Chinese approach to HRM and the development of SHRM is being experienced in the same ways as in advanced economies, remains unknown.

In Chinese contexts, where a ‘traditional’ approach to people management has dominated for many decades, the adjustment of HRM systems or the exploration of different approaches of HRM can cause confusion or resistance amongst employers. These, tensions, resistance, and the resultant ‘fit’ or ‘non-fit’ in HRM are underexplored in the SHRM literature and are the specific focus of this thesis. The Chinese case is a particularly interesting lens through which to explore these under-researched issues. China is also an interesting context to look at as it is a case where economic change and

the role of the state are closely connected. It is difficult to decouple these two sets of factors, and it would seem likely in the Chinese case that both could have a profound effect - on each other and on systems of HRM. The data generated from this research explores the drivers and effects of changes to HRM systems in two ways. First, the research identifies factors and events that cause concerns for firms, or which demand changes. Secondly, the thesis explores how these concerns or imperatives for change have, or have not been addressed and implemented in organisations. The findings reveal that specific economic development policies and changing economic cycles are recognised by employers, causing them concerns or compelling them to alter their skills mix or the number of workers they require. Differences in perceptions and approaches between state-owned enterprises and joint-stock companies are found to be significant. Some external factors which impact upon HRM strategy, such as political environmental factors lead firms to adjust their organisational governance systems and business strategy. The adjustment of specific HRM practices to external changes can be seen mostly in changes to recruitment and training strategy. The fit between business strategy and other HR practices, notably payroll systems and performance appraisals during different economic cycle stages, is less clear. However, even where 'non-fit' occurs, HR systems are still considered as working supportively to the growth of organisations.

In order to identify the factors and events causing concern and allegedly demanding HR changes, this research explores how employers interpret and respond to environmental factors. The issues are addressed through the following layers. First, the thesis asks the question, from the perspective of employers: what are the significant changes that firms have experienced at the organisational and people management levels? Secondly, the thesis illuminates the issues and events that are driving these changes. Thirdly, the thesis explores which - if any - of these issues and events are related to external environmental factors, including state policies and economic factors. It also studies how these concerns and demanded changes have or have not been reached or implemented, therefore providing an exploration of employers' perceptions to HRM adjustment. From a policy makers' perspective, the thesis examines whether and to what extent are these policies designed to lead to changes in HRM systems and practices in firms.

The thesis argues that changes in the external environment in China have led to different rather than uniform adjustments in HRM strategy and practices in individual firms, and

that adjustments that are often presented as necessary or required by the state, or in ‘best practice’ SHRM may or may not actually be implemented effectively in practice. In this thesis, this examination of fit and non-fit is explored from the viewpoint of employers in the context of economic development in a transitional economy. The thesis also provides insights into how and why contradictions in business strategy and development are significant, and in doing so, examines the efficiency of HR systems in China in terms of reacting to change. It addresses issues relevant to the efficiency of HR system in terms of reacting to change, but mainly from a broader strategic perspective.

The main economic environmental factors which have been considered in this thesis include economic reform, marketisation, economic growth in GDP, profit-making and economic policies. Economic policies include shareholder reform, economic stimulus plans, encouragement of the ‘new economy’ and national economic development plans. The economic factors that have not been covered in this research include inflation, interest rate, demands and supply, etc. According to the collected data of this research, this is because these factors have not raised a higher level of consideration in relation to HR adjustments in the Chinese financial services context, and because HR adjustments caused by these factors are relatively easy to be made to reach both internal and external fit without considering too many contradictions since their SHRM transformation from personnel management into SHRM, according to the participants of the current research. However, this still provides a platform for future HRM, employment relations and economics research which might take a closer look at these factors. There is a lack of existing studies which can provide a clear taxonomy for all the external economic factors in HRM research field. This study has thus provided a platform for future research.

The financial service sector was chosen as the location for the research due to the fact that this sector is one of the most advanced industries in China, and which has arguably experienced significant adaption of HR management concepts, as well as having a distinctive approach of managing people. At the same time, the financial services sector has also had to directly face marketization and economic policy changes over the last decade. The participants are from State-owned enterprises (SOEs) and Joint-stock companies (JSCs). More precisely, both SOEs and JSCs belong to the joint-stock sector, however, SOEs are where the state holds the majority shares of the firm, JSCs are where

the state could still be part of the shareholders of one joint-stock firm but holding the majority shares of that firm. It is the most commonly existing share structure of financial services firms.

This research aims at addressing these gaps through exploring the following questions:

1. What environmental changes do employers believe are driving reform in people management in China?
2. How have employers experienced and responded to the development of the Chinese approach to HRM during reform in financial service sector?
3. What role does the state play in setting and implementing HR strategy in the Chinese financial service sector?

1.2 Introduction to the chapters of the Thesis

Chapter 2 reviews the debates on strategic human resource management (SHRM) and the Chinese approach to HRM from existing literatures. It examines the background and contexts of SHRM and Chinese approach of HRM. Early theories on HRM models and SHRM are introduced. The chapter then discusses the main internal and external factors thought to shape HRM. Economic factors and the role of economic cycle are given prominence here, in line with the dominant themes in the extant SHRM literature, and as the most significant external changes that have occurred in recent decades. Attention is also paid to regulatory changes and the impact of economic growth, factors which are particularly important in the Chinese context. Thus, the discussion of the Chinese approach of HRM focuses on two factors: firstly, the role of state and legislative environment, and secondly the role of economic environment in shaping HRM. By reviewing the debates on SHRM, chapter two explores two things. Firstly, it looks at how SHRM and HR practices are defined and believed in different contexts; Secondly, the chapter examines the extent to which external environmental factors are recognised to have an impact on SHRM in general and in certain contexts.

Looking at SHRM, the chapter introduces the notion of ‘fit’ and looks at the theoretical background of SHRM, especially the influential factors which shape HRM strategy. Human resource practices are always socially embedded in their specific and broader institutional and environmental context. Yet, much of the SHRM literature adopts quite a prescriptive or managerialist approach to understanding fit, neglecting close consideration of whether, why and how managers act in particular ways. Employer and managers are considered vital for the success of HR policies (Purcell and Hutchinson, 2007), yet their actions in driving through or resisting change are underexplored. The review considers various external events, including HRM adjustments to the global financial crisis (GFC) from 2008. This reveals that managers make significant adjustments to their HRM practices to deal with the turbulence of the GFC. Overall, this chapter demonstrates that in the current research field of HRM, there is a need to explore further how HRM adjusts in different contexts and the extent to which the concept of ‘fit’ between HR strategy and business strategy can be understood in these different contexts.

The second half of the literature review sets out debates on the Chinese system of HRM, and examines whether there is a Chinese approach to HRM. It looks at each function of HRM, and discusses the legislative environment in China, and the role of state in shaping the actions of firms. Specific focus is on to the extent to which people management practices and approaches to HRM are different to Western cases that dominate the SHRM literature. This reveals some potentially important features of which HR functions and strategy that are adjusted in different contexts.

Following the literature review, Chapter 3 provides the details of the methodological approach adopted for this thesis. It begins by restating the objectives of the thesis, which are fundamental of all the choices of research methods and approaches that follow. It then moves to the discussion of the philosophical foundations of intensive research, through a consideration of the ontological and epistemological positions that this research pursues. The thesis uses an intensive qualitative research design, comprising a single case study of the financial services sector, with semi structured interviews conducted with respondents in multiple firms. The structure of the empirical chapters of this thesis

develops a logic of ‘one step further’ rule. Each empirical chapter answers one of the research questions and sets up the foundation for the next one.

Chapter 4, the first empirical chapter, provides the contextual analysis and data regarding at the environmental background, which builds the foundation of the following empirical chapters. As well as setting up the foundation of the answers for the rest research questions, from a broader perspective it answers the first research questions of what environmental changes are driving the reform of people management in China. This contextual analysis and data considers the regulatory background, labour law of Chinese financial service sector. By discussing the data of interpretation from the participant policy makers and employers of firms, it provides an understanding of them in the Chinese contexts associating with the role of the state from two aspects: first, the political and economic elements and events that are directly pushing the change and development of HRM in firms. In other words, what environmental factors set up a significant target for HRM reform to achieve? Secondly, the chapter examines the political and economic factors that affect the shape and outcome of the HRM system. In other words, what environmental factors impact on the way in which HRM reform reaches its target? The results indicate that the state does have significant impacts on shaping HR strategy through labour law. The most significant impacts shape the overall Chinese approach to HRM. Internally, the role of state on board in SOEs can directly shape the organisational business and HR strategy. Externally, the state shapes the economic, industrial policies and direct the economic growth. Other national plans can also have indirect impact on the development of SHRM.

Chapter 5 details of the processes that the Chinese financial service sector has followed, during a period where attempts have been made to shift people management in the sector from traditional personnel management into SHRM. It helps to address the first research question and begins to answer the second research question. Split into three sections, this chapter begins by introducing the factors and events that are recognised to be driving the changes in people management. To do this, it considers historical characteristics of people management and the supposed imperatives for development and progress. It also provides the insights of how the expected transformation from personnel management into SHRM in China are often characterised as ‘failure’ in practice, due to a deviation from the rhetoric

of seamless adjustment and implementation. The chapter then moves on to analyse the facts and details of the changing HR practices. Specific focus is paid to adjustment in recruitment and training, where changes, and fit with business strategy, appear to be closer to those anticipated in much of the literature on SHRM. Whilst there is still ‘non-fit’ in these practices, this is less pronounced than with performance appraisal, pay and reward systems, which have not adjusted as much. It is argued that this reflects different ‘HR abilities’ within firms, particularly how managers perceive and adjust HRM. Throughout the whole chapter, the fit and non-fit of HR practices at the level of implementation are highlighted. There are two types of non-fits regarding to the relationship between business strategy and HRM: 1) Type A is where business strategy calls for changes and adjustment of HR practices, however the changes fail to happen; 2) Type B is where changes and adjustment of HRM are taken placed, however the HR outcomes fail to fit the demands.

In order to find out the most significant factors shaping the Chinese approach of HRM, Chapter 6 seeks to look at the system of HRM in Chinese firms, rather than focusing on individual HR practices. Developing the idea of “a body of SHRM with a mind of personnel management”, this chapter builds the bridge between the Chinese approach of HRM and the role of the state in trying to shape HRM. Going across this bridge from the side of Chinese approach of HRM, it helps to find out what is on the other side, identifying the most important influential factors leading HRM development to achieve and reach their current position, with or without strategic intent. The first main characteristic of the Chinese approach of HRM is in the development of a system of HRM in individual firms, which relies on the building of working system of HRM in SOEs, and which focuses on individual talents in joint-stock sector. The second main character is the ‘consistency’ in the Chinese approach to HRM, where the practices are stubbornly wedded to a so-called ‘safe-zone’ of traditional practices, creating tensions and resistance when change is encountered. However, crucially, this holding back of development of people management from what many see as a best practices approach to SHRM does not necessarily prevent the building of a meaningful, effective approach to HRM in China. Again, the thesis argues that changes in the external environment in China have led to different rather than uniform adjustments in HRM strategy and practices in individual firms, and that adjustments that are often presented as necessary, being influenced or required by the state, or in ‘best practice’ SHRM may or may not actually be implemented

effectively in practice. The last characteristic of HRM defined and explored in this chapter relates to the role of the state in shaping change. Some changes in HR activities have been achieved by the joint-stock sector, yet have not been accommodated or integrated into SOEs until the current stage. Through a discussion of these, it naturally indicates that there are some roles that the state is playing and significantly shaping these differences in sectors with different ownership. All these three main characters of Chinese approach of HRM becomes the foundation of this bridge and point to the direction of finding the roles of the state.

Chapter 7 focuses in more closely on the role of the state in shaping HR strategy in firms. This chapter aims to explain the reasons for non-fit in HRM and the reasons why the people management system still plays a supportive role for firms to achieve their organisational goals and growth while there is non-fit between business strategy and HR strategy. This chapter is structured to look at the various roles of the state. The first role of the state is to shape HR strategy through the encouragement of change in the business strategy of firms, through its role on the boards of organisations. The results indicate that the state impacts on the development of SHRM in organisation in two ways. Firstly, the state can shape long-term development targets of business strategy. For SOEs, their business strategy is impacted by the state from both state policies and the state role on board. For joint stock firms, the impact from the state is mainly from state policies. Two types of state policies have significant impacts from this aspect: 1) the institutional and industrial regulatory and legislative changes shapes the demanded labour skills and amount of labour, for which adjustment in recruitment and trainings are made, and the regulations on strengthening risk management shapes the performance management; 2) the orientation of planning the economic structure and types of economic growth, which has also significantly impact the development of recruitment and training according to the changes of demanded labour skills and amount of labour. Secondly, SOEs, as the strongest supporter of delivering the state policies and the national plans, see their business goals and organisational targets being set by their internal selection and career development pathway, but they have more external determinants that are relevant to the state to consider than joint-stock firms. Thus, they may face more HR challenges and tasks to adjusting to principle contradiction of the state impacts of developing social, political and economic growth issues at the same time.

To conclude this thesis, Chapter 8 draws together the previous chapters and presents discussions on the key findings and central argument of this research. The theoretical contribution to SHRM and the empirical contribution to Chinese HRM are addressed. The findings contribute to SHRM in two aspects. First, the conceptual analysis of non-fit is addressed. Second, the contribution of external factors to HRM system adjustments are set out and the role of economic factor and the role of state are interpreted. Taken together, the thesis provides significant new insights into the fit and non-fit of SHRM, and the role of external factors and the state on HRM development. The development of SHRM in China has its unique management contexts. Developed from a planned economy approach, without experiencing industrial revolution, the foundations of management in this country were built from a quite different pathway from western contexts. During the transitional economy period, not only were there rapid changes for shifting economic structure, but accelerated changes have also happened aiming at the developing legislative and regulatory system. On the way towards a market-oriented business strategy, HR policies and practice are still not entirely market-oriented at the present day. The dimensions at both the strategic and implementation levels of non-fit are defined. At the strategic level, the adjustment of specific HRM system and practices indicates three types of non-fit: 1) there is non-fit of SHRM in both the setting up the system and at the implementation level due to the strong remaining influences from the traditional types of personnel management. The idea of “the body of SHRM with the mind of personnel management” occurs from here; 2) there is non-fit of the Chinese approach of effective SHRM with well-established and dominant western models, entailing different adjustment and understandings of particular HR practices; 3) there non-fit of HR practices with the emerging economic value-oriented and marketization of business strategy. Managers seek to support their organisations to stand with a more complex social identity, and both employers and managers have to accept these types of non-fit and look to overcome the tensions. At the implementation level, there are two types of non-fits as introduced in chapter 5: 1) Type A is where business strategy calls for changes and adjustment of HR however the changes fail to happen; 2) Type B is where changes happened in HR approach, however the HR outcomes fail to fit the demands.

Chapter 2 Literature Review

2.1 Introduction

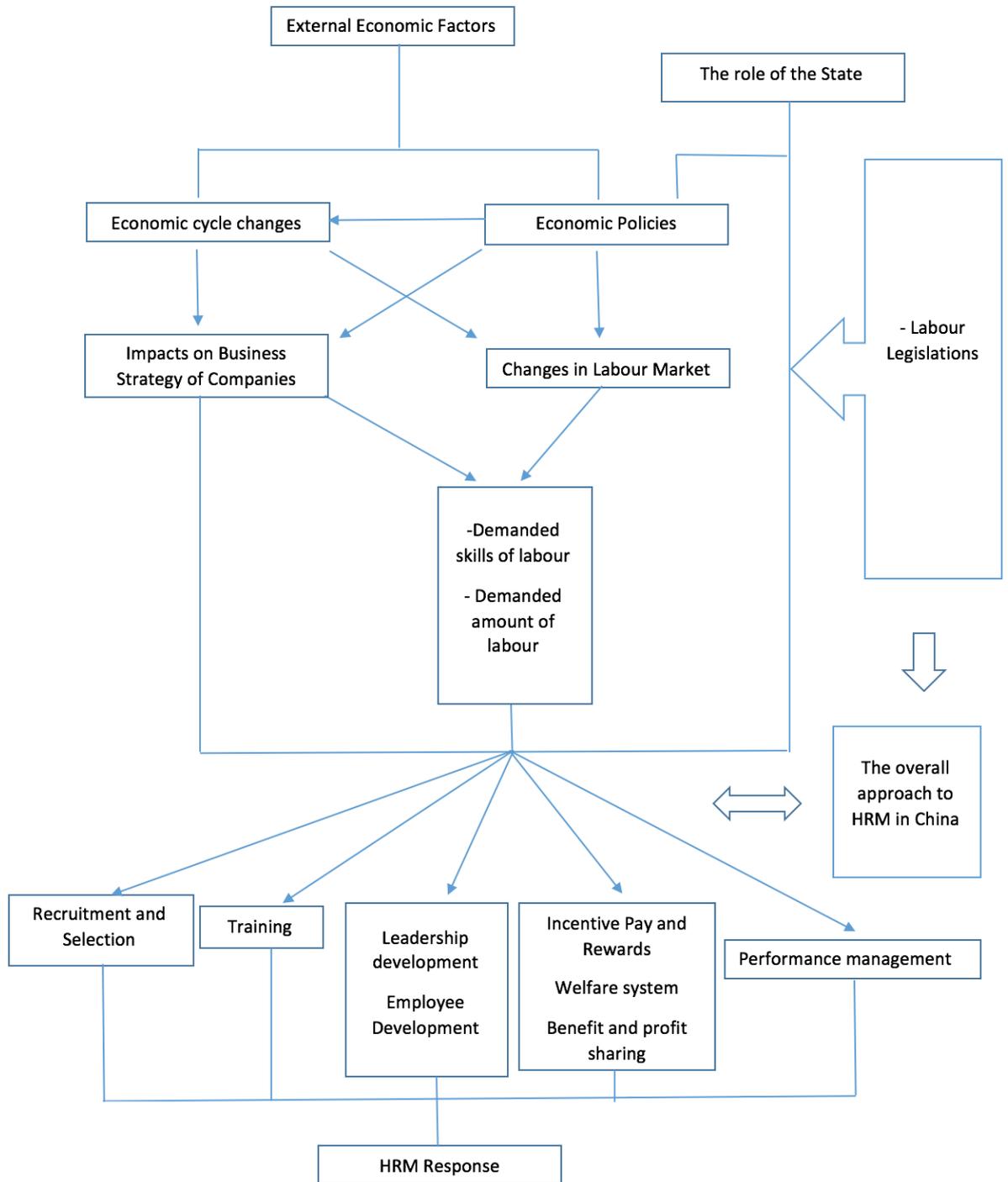
This chapter reviews the literature on SHRM and the Chinese approach to HRM. This literature review consists of two main parts. Section 2.2 focuses on theories of SHRM, covering debates about the relationship between HR and external economic factors in general, as well as contributions of HRM responses to economic factors in specific contexts. Section 2.3 reviews the traditional approach to HRM in the Chinese context, and looks at how - and why - this has evolved in recent years. The aim of the review is to develop an understanding of how contextual factors, specifically economic factors, are thought to shape HRM. Over the last thirty years the literature on these topics has focused on a number of different angles, because there are multiple ways in which economic factors are thought to shape HR, while the response of HR systems to the external economic environment is also recognised to be complex and multifaceted. This thesis examines employers' understanding of external factors, and the actions they implement in their HRM practices and systems in response to these factors. Economic factors in this thesis may be studied from a number of standpoints. The first of these is national and industry-level economic conditions, along with state-level policies focused on shaping these conditions; both of these can affect organisational business strategy, and in turn HRM. The second standpoint is the resultant economic and financial performance imperatives that organisations need to undertake to fit their business strategy.

The key focus of this study is on whether, and how, strategic HRM is formulated primarily by these external economic factors, and how HRM practices are adjusted in practice. Regarding SHRM, the review introduces the notion of fit, as well as providing a fundamental theoretical background to SHRM in order to arrive at an understanding of how this concept has been brought in and developed in Western literature (Schuler, 1992; Wright and McMahan, 1992; Lundy, 1994; Truss and Gratton, 1994; Delery and Doty, 1996; Wall and Wood, 2005; Boxall and Purcell, 2011; Paauwe et al., 2013; Beer et al., 2015). Special focus is placed on the most influential factors that shape HRM strategy.

The discussion that follows then reviews specific forces in more detail in order to draw out the importance of particular external factors in the literature to date. HR practices are always socially embedded in their specific and broader institutional and environmental contexts. However, the chapter argues that much of the SHRM literature adopts quite a prescriptive or managerialist approach to understanding fit, neglecting a close consideration of whether, why and how managers act, and how specific forces shape their actual actions.

This chapter also provides a fundamental understanding of the Chinese HRM system. It reviews the traditional Chinese approach to HRM, looking at key economic, legislative and political influences. It is important to understand how the external fit of HRM practices in China does or does not take place, and how particular forces play a role in shaping this situation. Specific reference is made to the theories and models of SHRM in the Chinese context, the role of state policies in formulating business conditions, and the impact of economic growth and recessions, as key factors shaping HRM in China.

In order to address the key research questions around the development of SHRM in China and its external environmental drivers, this chapter aims to provide a fundamental conceptual understanding of the relationship between HRM, economic factors and the Chinese state (as shown in Graph A). The next two sections explain, first, the general and broader theoretical background of SHRM and the key debates around fit. As shown in the left rectangles of Graph A, the following discussions of this section focus on the fact that economic factors impact on HRM and IR in general from a broader perspective in Western literature. The effects of economic recession are used as examples to explain the relationship of economic cycle in detail. The impacts of these specific economic events in different countries are discussed in terms of their various effects and responses from government and organisations. In the second section, an overview of the Chinese approach to HRM is presented. The two factors of the role of the state and the labour law (as shown in the right rectangles of Graph A) will be reviewed under this section. This discussion also addresses the debates surrounding the notion of ‘China as context’ for HRM practice and research regarding at the history of people management in China, as well as the current economic and legal environment.



Graph A The role of external economic factors and the state in the development of SHRM – Review (Author’s self-made reviewing graph)

Overall, these discussions address the key background and gaps relating to the three main questions of this research. SHRM and its influential factors cannot be studied in isolation. Internal and external factors all play important roles in shaping it. The literature studying the relations between external factors and SHRM usually draws more attention to specific or particular HRM systems or practices. However, there is a lack of detailed analysis of the rationale of external factors. There is also not very much literature about HRM adjustment in different contexts. This chapter will review the discussions around the broader strategic aspect and the specific Chinese aspect, in order to map out existing knowledge and the gaps to be addressed by the research questions.

2.2 Strategic HRM and the role of external economic factors

This section covers the discussion on the elements under the economic factors as shown at the left main body of the Graph A. To open the discussion on SHRM, this section introduces the development of HRM models and SHRM theories in the existing Western literature. It at first identifies the concept of SHRM, tracing the idea to its origins in Western contexts. The reasons as to why economic elements matter for HRM are then discussed from the perspective of fitness, strategic HRM and the particular relationship between the economic cycle and HRM. This raises the question of what factors drive the existence and development of SHRM in China - in what way do economic elements really matter in the development of Chinese SHRM? It also provides a foundation for understanding fundamental differences between SHRM in Western and Chinese contexts, if it is found in this research that there are different HRM adjustments and a different approach to 'fit' in China.

In order to demonstrate the relative importance of external economic factors on HRM decisions, it is necessary to review existing works and theories related to how HRM strategy is formulated and conditioned by all potential factors such as stakeholder interests, situational factors, and the economic, legal, technological, social and cultural environment. This is the mainstay of the classical SHRM literature, and key studies in this field are reviewed. The main focus of this research among all these factors is economic factors, particularly the influence from the political and legislation environment.

As a potentially important factor to inform and impact on HRM strategy, alongside influence from external factors when formulating business strategy itself, the relationships between business strategy and HRM are highlighted in the first point of this section. Then, in order to indicate the possibility of how external factors may impact on HRM strategy through business strategy, this section also reviews the literature suggesting that HRM should be seen as a source of sustained competitive advantage for organisations (Barney, 1995; Berker and Gerhart, 1996; Akhtar et al., 2008).

The first section of the literature review starts with a discussion of early HRM models and theories and current trends in the development of theory, in which the important role of environmental factors in the development of HRM systems and strategy is presented and discussed (Beer et al., 1984; Fombrun, 1984). The emergence of the concept of strategic human resource management (SHRM) (Wright and MacMahan, 1992) is also discussed. The second section reviews the arguments concerning fit between strategy and HRM (Cook and Armstrong, 1990; Boxall, 1991), followed by reviews of debates and understanding of the relationship between HRM and external economic factors, and how this is important for employers by helping them to react effectively. However, due to the complexity of the construction of economic elements, there are still gaps in terms of the best approach to HRM to adopt in different contexts. The relationship between HRM and economic factors is still under-researched in different conditions considering the changing environment.

Recent reviews of research on HRM in leading US and British management journals since the mid-1990s continue to claim that there are few studies that examine ‘the connection between firm-level HRM practices and the external environment’ (Batt and Banerjee, 2012, p.1745; Sheldon and Sanders, 2016), with a similar criticism being levelled at the sub-field of SHRM (Kim and Wright, 2011; Sheldon and Sanders, 2016). This research will contribute to this research gap. Some case studies focusing solely on specific economies to discover the impact of the economic environment are also reviewed. According to the different national and economic characteristics, different HR responses are adopted. This understanding of how HRM adapts to different kinds of environmental change, and whether these changes are from economic perspectives, contributes to

understanding the importance of situating and reflecting reasons for the diversification of the responses.

2.2.1 Emergence of HRM models and SHRM

In order to address the research questions around the transformation of people management towards SHRM in China, it is important to examine and explore the concept of SHRM and evaluate how this idea originally emerged and developed in Western contexts. This section aims at exploring the circumstances under which scholars started to recognise the importance of developing an approach to managing human resources that supports business goals and outcomes. It starts by introducing early HRM models. The review draws out the key forces shaping HRM and looks at the relationship between HRM and business strategy. Early theories assume that SHRM systems are shaped by a number of managerial and situational factors. This review stresses a focus on the fit theories of SHRM, which indicate how and why the links between forces and HR strategy are formed. It also explores how the linkage between external environmental factors exists, and raises the question of the extent to which HR strategy may be shaped differently according to the changes in the environment.

The development of HRM models was particularly reflected in the emergence of the concept of SHRM (Wright and MacMahan, 1992). Boxall (1996) identifies two broad strands of discourse in HRM. The first is based on the view that HRM constitutes a commitment-oriented model of labour management. The second is focused on the relationship between strategic management and employee relations in firms.

Many of the classic HRM models emerged in the 1980s, in an environment of increasing competitiveness and globalization in Western countries. When exploring HRM theories, it is easy to see that HRM practices are usually not considered in isolation. Under these circumstances, scholars started to recognise the importance of an approach to managing human resources that supports business goals and outcomes. Earlier HRM models considered the environmental and situational dimensions that shape the HRM system (Guest, 1987; Warwick, 1992). Other models theorize affecting factors, dividing them into internal and external categories (Schuler, 1992; Lundy, 1994; Truss and Gratton,

1994), with both kinds of factors playing a particularly important role in translating organisational strategy into strategic business needs. The Harvard model (Beer et al., 1984) and the Michigan model (Fombrun et al., 1984) became the fundamental models of HRM, both suggesting that the concept and science of HRM studies should be differentiated from personnel management. Both of the models consider the situational factors of HRM. As shown in Figure 1, the Harvard model divides factors into three categories according to their antecedents. The first category is the environment of societal values, laws, the labour market, and the business conditions where the organisation operates. The second category is the elements that are under the organisation's control but are limited by previous managerial decisions and history, including workforce characteristics, task technology and unions. The third category includes the elements that are directly related to the business, including management philosophy and business strategy. In terms of all the elements within these categories, both internal factors and external factors are counted. Except the first category, which consists entirely of external elements, business strategy in the third category may also be impacted by external factors. As shown in Figure 2, situational factors in the Michigan model also consider both internal contexts, e.g. mission, strategy, and organisation structure, and external contextual aspects such as cultural, economic and political forces. Thus, even these early models call for more exploration of the links between situational context and HRM.

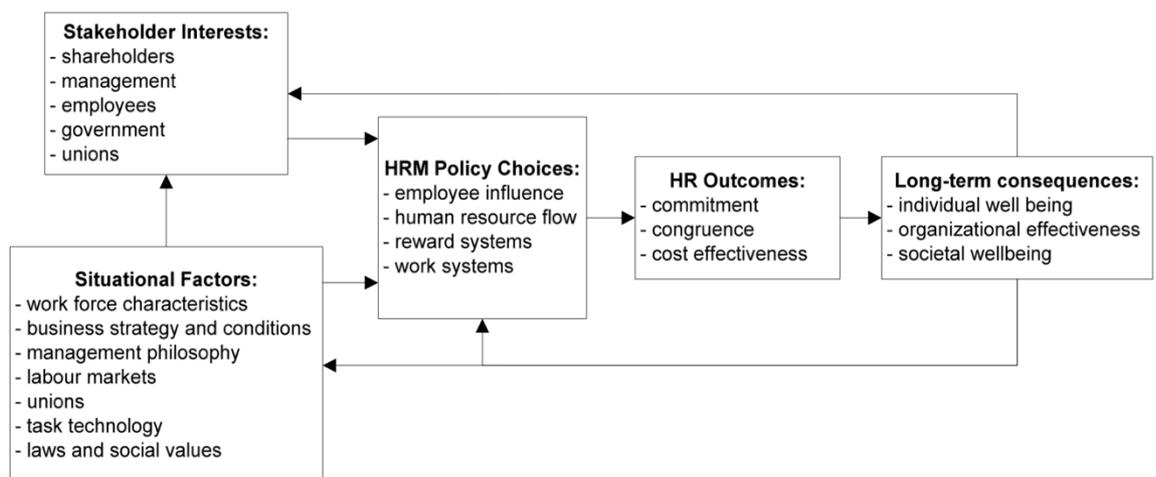


Figure 1: The Harvard model (Beer et al, 1984)

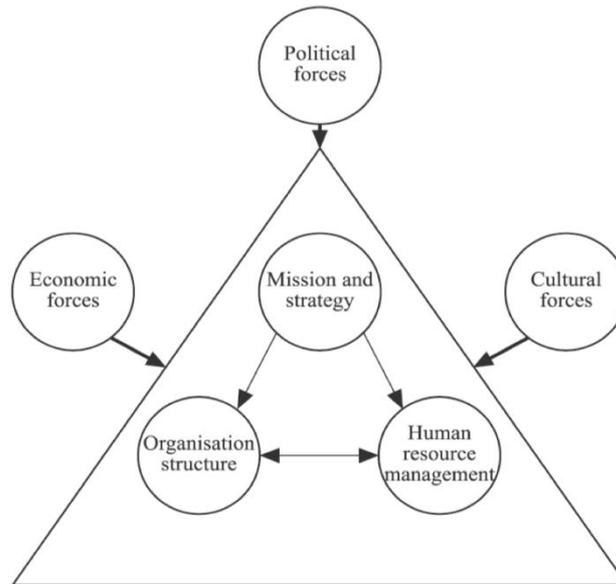


Figure 2: The Michigan Model (Fombrun et al., 1984)

Schuler (1992) suggests that internal characteristics, including culture and the nature of the business, and external characteristics involving the state of the economy and critical success factors in the industry would influence organisations' definition or redefinition of their strategy and business needs. This suggests that the state of the economy plays a vital role in shaping the business strategy of organisations, while exploring the impacts of economic factors. It is important to define which impacts are directly caused by this particular factor and how other factors might also have an essential influence. Key internal factors involve organisational culture, structure, policies, employee skills and past strategy, while key external environmental factors include competition, government regulations, technology, market trends and economic conditions (Mello, 2006). Lundy (1994) also defines environmental factors as labour, educational, demographic, legislative and economic. According to these accounts, firms should assess the capability of their HRM before moving to select a strategic direction for HRM. Labour, social, educational, demographic, legislative and economic factors should be analysed from the standpoint of HRM. Specific HR functions should be incorporated with the organisation's structure and system. Thus, in the overall process of studying economic factors, it is also essential to consider the regulatory background and the stage of business growth. Truss and Gratton (1994) suggest five key aspects in this, including the external environment, the business strategy that affects and is affected by the SHRM process, the internal environment and the organisational context, should be present in any SHRM process

model. This resonates with many of the key factors identified in the well-known Harvard and Michigan models of HRM. In these, a focus on human capital also became a leading trend in the subject, with suggestions that cost-effective HRM may be the key to organisational survival and success.

Following the emergence of HRM models and the concept of SHRM, further development empirically tested the link between HRM and long-term success in terms of economic measures of firm performance (Paauwe et al., 2013). The outcomes of the value of SHRM were initially mainly focused on economic values such as productivity and efficiency, instead of employee wellbeing and societal wellbeing (Beer et al., 2015).

Similar to suggestions in the earlier HRM models, the recent literature still focuses on the notion that the implementation of an organisation's strategic business plan should be facilitated by a parallel HR strategy, creating capacity in the workforce in order to achieve the organisation's strategic objectives (Cascio and Boudreau, 2012). This requires a focus on planned major changes in the organisation, and on critical issues such as the HR implications of proposed organisational strategies, together with possible external constraints and requirements that might threaten or limit the achievement of those strategies (Kaufman, 2015b). This remains a topic to be explored in terms of why and how external constraints affect the planned HR strategy and implications.

Studies in SHRM have been facing changes in the recent and current literature regarding strategic HRM models and their influential factors. These changes and development have also raised debates between scholars. The two main changes emerging from Kaufman's arguments include a shift from the resource-based view as a guiding paradigm of strategic HRM towards a focus on an alternative economic-based view as a new approach for making HRM choices (Kaufman, 2015a). Another recent trend in HRM studies is the focus shift from external to internal factors (Kaufman, 2015b). On the one hand, the economic-based view has gained more attention in the research field, while the economic environment has been through dramatic changes in many countries. On the other hand, the trend towards shifting the focus from external factors towards internal factors might leave gaps that are underdeveloped in terms of exploring the impacts of the

aforementioned dramatic changes in the economic environment. Thus, this research is aiming at filling these gaps that potentially remain due to shifts in focus.

Earlier literature (Storey, 1992) has already pointed out that HR practices should not be considered in isolation. To further develop this, issues of increasing complexity and the challenges of completing taxonomies of the internal and external factors that shape HR strategies still require study. Rather than an insular approach to SHRM, Cascio (2015) argues in favour of the importance of models that reflect a broader view of performance, as well as complete taxonomies of internal and external factors that help shape business and HR strategies. More academic research is required to work in and with organisations to create models that reflect the full range of performance and complete taxonomies of internal and external factors. Exploring more deeply into specific economic factors within the category of external factor also contributes to the demands of creating full-range models.

These challenges bring insight to an academic area where there are new and emerging HRM models, which are developing not only from renewing insular approaches and systems, but also emerging from very different cultural conditions, economies and societies. Before moving on to consider issues of how environmental factors impact on HRM strategy, it is important to understand the paths by which these factors could impact on HRM. HR strategies have been described as matching certain strategic or organisational conditions with certain specified aspects of HR processes or skills. Meanwhile, changing business strategies could become one of the important paths through which external factors impact on HR strategy. Since HRM strategy is crucial to support business strategy to be implemented efficiently, while the business strategy could be formulated and affected by significant environmental factors, excepting the factors that directly impacting on HRM, it raised the issue that the formulation and adjustment of HRM strategy should be reactive to the environmental factors which affect the business strategy and in turn the HRM strategy itself.

As China is a particularly interesting context to look at as it is a case where economic change and the role of the state are closely connected. It is difficult to decouple these two sets of factors, and it would seem likely in the Chinese case that both could have a

profound effect - on each other and on systems of HRM. While this research is aiming to explore HRM adjustment, even though it is trying to find the special impact of economic factors, it is necessary to consider the impact of other factors such as political aspects. This research not only aims at exploring how specific forces relate to shaping HRM strategy, but also look at the multiple and mutual impacts between each influential factor.

2.2.2 Fit and non-fit for strategic HRM

Before going into these influential factors in more detail, this section discusses some of the most recognised approaches to categorizing these influential factors in SHRM and strategic fit. Wright and McMahan (1992) defined Strategic HRM as "the pattern of planned human resource deployments and activities intended to enable the firm to achieve its goals" (p. 298), which emphasises congruence or fit between HR and strategy. As mentioned in the last section, the elements that are suggested to be influential in forming HRM strategy are divided into internal and external factors in the mainstream literature (Schuler, 1992; Lundy, 1994; Truss and Gratton, 1994). Human capital and cost-effectiveness in HRM have been argued to be the key to organisational survival and success (Truss and Gratton, 1994). Two types of fit are thus seen as important in strategic HRM. Considering these two key drivers and alignment notions grounded in strategic contingency models, the it is necessary to combine two fits - the internal fit of internally consistent and externally relevant HRM bundles, and the strategic fit of HRM bundles with organisational strategy (Beer et al., 2015).

This fit theory is important when developing understanding of the SHRM process. 'Best fit' is a concept emphasizing the contingency perspective (Delery and Doty, 1996; Boxall and Purcell, 2011) of HRM, and stressing that HR strategies should be congruent with the business strategy, context and circumstances of the organisation. A configurational perspective of fit emphasis on the bundles between HR practices, to which several researchers refer it as 'system' of HRM (Croonen et al., 2016). These fit assumptions are in contrast to a universalistic perspective of 'best practice' HRM, which suggests a set of HR practices should support organisational performance in all contexts (Delery and Doty, 1996; Boxall and Purcell, 2003). This perspective and its related solutions face some challenges, including the regardless of external contexts (Lepak and Shaw, 2008), and

that more complex external challenges may not necessarily be profit or financial control and the outcomes may not be financial (Prowse and Prowse, 2010).

When exploring best-fit HRM and the external and internal factors that have been seen as influential in shaping HR strategy, the relationship between HR and business strategy is worth discussing, as it is important to find out the extent to which external factors may impact on HR through business strategy. Earlier SHRM models suggested that organisational effectiveness depends on a tight fit between strategy and HRM, with HR strategy formulated to match each particular organisational strategy (Cook and Armstrong, 1990; Boxall, 1991). Miles and Snow (1984, p37) argue in their portfolio model that 'the HRM system must be tailored to the demands of business strategy', and suggest that organisations may be categorized into four types, including 'defenders, prospectors, analysers or reactors', each reflecting the specific strategy they are pursuing and supported by a particular set of HR practices. Schuler and Jackson (1987, p209) argue that the pursuit of a particular competitive strategy creates 'needed role behaviours', with associated HR practices that will give rise to these. The value of SHRM impacting on organisational effectiveness can be addressed when HRM deployments and processes support an organisation's ability to address external and internal demands. For example, from the resource-based view, HRM can become a source of sustained competitive advantage because it can add value to the firm when effectively responding to changing market demands (Way and Johnson, 2005).

Researchers have also mentioned the concepts of vertical and horizontal linkage in strategic HRM. As Baird and Meshoulam (1988) mention, HR strategy should fit with the organisational life-cycle, as well as ensuring internal fit between components of the HR function. The vertical linkage of SHRM refers to how SHRM is consistent with other key organisational processes, while horizontal linkage refers to how HRM practices compatible with SHRM elicit congruent behaviours that are consistent with the organisation's HR conditions, instead of creating policy conflicts between them (McMahan et al., 1999). In other words, the external fit of HR strategies with business strategies is similar to the vertical linkage (Fombrun et al., 1984; Guest, 1987; Schuler and Jackson, 1987; Pfeffer, 1998). Thus, this linkage shows that when the business strategy needs to be adapted to the external environment, the HRM strategy should also adapt to match these changes. It is important to consider business strategy as a significant

determinant in adjusting HR practice. These internal and external fits can be considered as an approach to how influential factors shape SHRM systems and push their development.

Accordingly, SHRM is seen as an approach to making decisions about planned HRM activities, aimed at enabling organisations to achieve their goals and increase organisational effectiveness (Cook and Armstrong, 1990; Boxall, 1991). The integration of HRM strategies, policies and practices with business strategy, environmental factors, including technology, uncertainty, economic changes, demographic, changing demands and competition, can all affect the creation of HRM strategies (Geary, 1992; Semler, 1997; O.Reilly et al., 2011; Zagelmeyer and Gollan, 2012). On the other hand, the implementation of fit and the matching of business strategy and HRM strategy can be affected by contextual factors. These points will be developed with more details in the following sections.

However, fit does not always happen. When there are tensions, contradictions and anomalies in HRM resulting from external pressures that prevent the implementation of HR strategy, it could result in non-fit between business strategy and HR strategy. A tight fit may appear to be desirable but during times of transition and/or change a lack of fit might make adaptation and change more efficient (Lengnick-Hall and Lengnick-Hall, 1988). According to Truss and Gratton (1994), two fundamental issues which can restrict understanding of this relationship should be taken into account. First, the SHRM process is complex, and is not just a simple interaction between strategy and HRM. Other contextual factors may intervene between these relations. Second, a number of different frameworks have been developed for understanding and studying strategy (Schuler, 1988), but much of the literature fails to differentiate the process from the content of strategy (Boxall, 1991). Dyer (1985) argues that HR strategy can be either planned or emergent, and planned strategy may either be achieved or not following a formal planning process. Thus, there should be a more complex consideration of fit when planning and achieving HR strategy. This acknowledgement is critical for advancing our understanding of the process of SHRM. This also raises the demands of conducting research and study into organisational contexts and the interpretations of employers and employees. Wright and Snell (1998) developed a framework in which HRM contributes to fit and flexibility simultaneously without conflict between the two, but this framework has yet to be tested

in the Chinese contexts and the question remains as to in which circumstances fit might be more or less appropriate.

More specifically to see from perspective of environmental factors, Boxall and Purcell (2003) criticize best fit arguing that in a changing business environment companies and their strategies are subject to multiple alternating contingences and that it is merely possible to adjust entire HR systems to new challenges frequently. The economic development of in Asian had been considered as a recipe for fast economic growth and social development since 1990s' (Rowley, 1997; Warner, 2002)

Also, the capabilities of an HR manager can impact on fit. Wei (2006) argues that HR capability can impact on vertical fit through impacting on the effectiveness of designing and implementing HRM systems. The nature of vertical fit is the arrangement of HR practices to fit the firm's strategy, so that the establishment of vertical fit can be influenced by HR capability to coordinate HR redirection corresponding to strategic changes in the firm. Moreover, the achievement of vertical fit is influenced by HR's abilities to understand and analyse business strategy (Wei and Lau 2005; Wei, 2006). There is also evidence, at least in the UK, that HR professionals play only a small role in HR innovation (Guest and Bryson, 2009). This raises the question of who takes decisions about HR innovations. This also remains to be explored in the Chinese context.

Considering HRM systems' effectiveness and the choice of different HRM systems, some authors assume that high-commitment HRM systems are universally valid best practices that increase competitive advantage (Delery and Doty, 1996). However, within the contingency perspective of strategic HRM, authors have argued that an HRM system's effectiveness depends on an organisation's external and internal context, including industry specifics, labour market conditions, size, life cycle or business strategy (Jackson and Schuler, 1995; Jackson et al., 2014). Much of the current literature's results and conclusions have been derived under certain limitations.

A question may also be raised as to the extent to which control and commitment HRM systems are preferred and fitted in varied organisations. Much research in SHRM focuses on the analysis of systems of HRM practices and their effects on HRM outcomes and firm performance (Jiang et al., 2012; Jackson et al., 2014). Thus, the distinction between

control and commitment HRM systems can still be considered as a crucial distinction in many approaches to HRM systems (e.g. Arthur, 1992; Lepak and Snell, 1999, 2002; Su and Wright, 2012). Thus, the characteristics of organisations and the HR results they seek matter when they are choosing to become controlling or commitment-oriented. Different HRM models appear to distinguish between HR demands and results.

Going back to the arguments around the alignment notions of strategy and HRM theories, economic factors were the most discussed externally relevant factor. The linkage between economics and HRM was believed to bring many benefits, especially reflecting economic performance (Guest et al., 2003; Paauwe et al., 2013; Beer et al., 2015). However, Beer et al. (2015) argue that focusing on economic value (productivity, efficiency and financial outcomes) may result in diminishing returns. This is believed to be the reason that the focuses of a number of studies in recent years have shifted from this towards other more useful linkages, including in areas such as psychology and organisational behaviour (Nishii et al., 2008). The factor of industrial and employment relations in countries where trade unions play an important role in the situational context has become a key part of the work and employment literatures (Beer et al., 2015). The importance of corporate governance requires increasing attention from the HRM analysis point of view, where linkages have been indicated through the mergers and acquisition literatures (Cooke and Huang, 2011; Beer et al., 2015). Thus, it is worth exploring whether external economic factors impact on the development of SHRM from multiple aspects other than financial outcome and profit in Chinese contexts.

2.2.3 The role of external factors

The last section introduced the fundamental theoretical background of SHRM, especially the fit and non-fit of SHRM, and the influential factors shaping HRM strategy. This section reviews specific forces in more detail, to show how they shape HR strategy in the existing literature (Beer et al., 1984; Fombrun, 1984; Lundy, 1994; Kaufman, 2013; Kaufman, 2015a; Wright et al., 2015). HR practices are always socially embedded in their specific and broader institutional and environmental contexts. Much of the SHRM literature adopts quite a prescriptive/managerialist approach to understanding fit, but this neglects a close consideration of whether, why and how managers act.

Paying particular attentions to the left rectangles of Graph A, this section aims to develop a greater understanding of SHRM and the role of economic factors in shaping HRM systems. It is important to know how HR is formed by all the factors in general. Furthermore, it also aims at identifying the most significant economic factors that have closer connections with SHRM among all other economic factors. First, this section introduces literature that suggests ways of categorising all the influential factors in HRM. The second part focuses on developing an understanding of external factors by describing what they consist of, and where economic factors are sited among these factors.

In this research, the main focus of external factors is elements in a broader context, the economic environmental factors outside the organisation. However, economic environmental factors might impact on business, strategic and other functions within the organisation, making it possible to link all these external factors together when discussing their impact, which will be evident in the following discussions.

Focusing on aspects of these external forces, Fombrun et al. (1984) consider political economy as one of the elements that managers need to face, in order to work out an integrated combination of organisational structure, business strategy and HR systems. SHRM cannot put all firms at one end of the employment practice continuum because the configuration of employment systems varies significantly with external and internal context and variables (Fombrun et al., 1984; Kaufman, 2015a). Rather, as discussed above, SHRM's contribution is to encourage firms to improve their performance wherever they are located in the continuum, by using better fit and integration. At the same time, firms should redesign their systems to incorporate more participative human capital practices in order to move up the continuum. A consideration of stakeholders, including internal constituents such as employees and external constituents such as communities, unions, and governments, is also essential for a successful implementation of HRM and attaining corporate goals.

Truss and Gratton (1994) suggest that external factors provide opportunities for and constraints on HR functions in an organisation. Even though external environmental constraints are considered and recognised as playing an important role in the alignment

of HRM systems, there is a lack of evidence to demonstrate when and why firms choose different business and HRM strategies, and how this choice is shaped by external factors (Kaufman, 2015a). Jackson et al. (2014) require more SHRM studies including a business strategy variable to explain the choice of strategy.

As mentioned above, changes and developments have raised arguments around the notion of forces. Kaufman (2015b) suggests that the relative emphasis in the modern SHRM literature has shifted toward an internal focus, and emphasizes narrow and deep disciplinary specialization and tight theory and hypothesis formation in an analytical-scientific approach, with less consideration of outside environmental factors. However, Wright et al. (2015) argue that comparative research on SHRM requires a greater focus on external influences. Greater attention has been paid to institutional factors in Europe, which can still demonstrate the pluralist perspective in the study of SHRM. There is no doubt that there has been and still is a need for richness, diversity, and the development of research in this field. In the meantime, the distinction between internal and external factors starts to face more challenges when there is more research that requires a distinct focus on the analysis of the external context and the increasing complexity in this field. Thus, even though the main focus of this thesis is to research the impacts of external environmental economic factors, it will inevitably also make arguments about related internal issues, specifically workforce characteristics, business strategies, management philosophies and interaction styles (Beer et al., 1984), which have been shaped by external factors and in turn influence the HRM system as well.

Among all the recognised factors shaping HR strategy, the reasons why and how economic factors can impact on HR systems prompt particular interest in answering research questions about the environmental changes that employers believe drive reform in people management. This review looks at the wider literature in order to understand this relationship. It also aims to figure out which aspects of economic factors are likely to have more significant impacts. It then moves on to discuss the economic and HRM development in different economies and cultures. In order to examine the extent to which the economic environment can shape HR systems, the development and characteristics of HRM approaches used at different economic development stages are reviewed.

Much economic literature does not consider 'HRM'; rather, it sees workers as a factor of production, and discusses HRM from an outcome-focused perspective. The assumption in much literature is that workers are untrustworthy and uncooperative by human nature. A concept of so-called 'bad HRM' has been suggested as a potential result of the performance of economics (Ferraro et al., 2005). It has been suggested that organisation and management work is affected by system-wide features of the economy, and the study of work and employment relationships should be situated in a broader political economy. For example, the modern period of financialised capitalism has placed constraints on HRM practices, and has produced tendencies towards negative forms of HRM based on reduced levels of worker autonomy and job insecurity – and these features need to be at the forefront of critical scholarship on work and the employment relationship. Thus, understanding state policies relating to economic development is seen as essential when studying this relationship between economics and HRM.

In the HRM literature, among all the external environmental factors on the Harvard map of the HR territory, economic elements are one of the essential external environmental factors in forcing HR policy choices (Boxall and Purcell, 2011). As mentioned above, economic situations and forecasts influence both competition strategy and HRM strategy directly (Fombrun, 1984; Lundy, 1994). Fombrun (1984) demonstrates that the costs of the factors of production and their impact on the market system should be taken into account as a vital issue that requires institutions to respond. Manufacturing industries within industrialised nations and global competition should prompt concerns for efficiency, cost control and maximising productivity. Moreover, disruptions from the international economic system, including recession and some political activity, create additional uncertainty for organisations.

More practically speaking, what happens in the economic background in terms of the macro economy and individual product markets has a huge impact on recruitment, retaining staff, training and development activities (Harcourt et al., 2005). The ability of and costs to the organisation of buying staff also count. Reducing employment is sometimes considered as an alternative or an additional response to changes in pay arrangements. Moreover, re-organising working time, which involves curbing overtime and introducing short-time working, may also be implemented to increase payroll savings as well as minimising redundancies (Vandekerckhove and Van Gyes, 2012). Ellis (1982)

suggests that managing HR contributes to creating an organisational climate that is conducive to flexibility, practicality, and participation.

Over the last three decades, the definition and domain of SHRM has remained similar to the early models in the aspects of choice, alignment, and the integration of an organisation's HRM system in order to make its human capital resources contribute most effectively to business strategy objectives. However, SHRM has also evolved in several significant ways (Lin and Shih, 2008; Darwish, 2013; Kaufman, 2015a; Kaufman, 2015b). There are also many contributions that suggest strong evidence for the connection of market competition, HRM and firm performance. As discussed in section 2.2.1, using an alternative economics-based model, Kaufman (2015a) concludes that the likely effect of intensified competition is the opposite of the standard model, which proposes that more competition leads to less HPWPs. It is important to consider potential influence through business strategy changes according to performance criteria.

Seen from the discussion above, in much of the HRM literature discussing adjustments to HRM caused by economic factors at firm level, there is a lack of detail in exploring the reasons for employers' considerations and preferences for choosing HRM strategies in response, either via an active and positive approach or a more passive approach. These shortcomings in the literature open up new avenues and lines of enquiry for future research, in particular regarding the importance and role of employers in shaping the adjustment of HRM. The current study draws attention to employers' perceptions of the development of SHRM in their firms, through which it aims to understand this issue.

Different HRM systems are used in different economies and during different economic development stages. Whether specific HRM systems are appropriate to fit certain economic environments is an issue that has attracted the attention of scholars. For example, the existing literature suggests that control-based HRM systems are often seen as a traditional approach, which might not be appropriate in a modern economic environment (Walton, 1985; Kaufman, 2013). In order to achieve better firm performance, these systems are increasingly being replaced by commitment-based HRM systems, which are assumed to play a positive role in competitive advantage. Even though Hauff et al (2014) indicates that the effectiveness of HRM systems may depend on an organisation's external and internal context including industry specifics, labour market conditions, size, life cycle or business strategy (Jackson and Schuler, 1995; Jackson et al.,

2014), there is no one best approach between high commitment and control-based HRM systems. However, it is still shown in empirical research that commitment-based HRM systems outperform high-control systems in terms of HRM outcomes and firm performance measures.

Su and Wright (2012) show that a hybrid system combining both commitment and control HRM practices is more effective than high-commitment HRM systems in the Chinese context, which originally developed from a planned economy. It could be concluded that with the Chinese economy's development from an emerging economy through a transitional economy to a leading economy, firms require increasing competitive advantage, which drives change and development in HRM systems. This thesis explores how commitment-based HRM systems might be under-developed in terms of the transition of the Chinese economy and in the context of the strong tradition of using control-based HRM systems, where labour is replaceable in SOEs because an individual's impact in the labour process can be minimised. Some scholars believe that larger organisations are under pressure to implement commitment-based HRM systems due to the higher public attention they garner (Kalleberg, 2011). However, as suggested by Su and Wright's (2012) empirical evidence from the Chinese context, the components of control-based HRM systems may also play an important role to increase the effectiveness of HRM.

Much literature discussing HRM systems considers their relationships with performance and how to obtain competitive advantage, especially in developed economies (Flamholtz and Hua, 2003). The field become more tightly organised around and focused on the relationships between HRM and performance and between human capital and high-participation HRM systems, and how they are differentiated in many countries. An AMO-RBV explanation of the causal path between HRM and performance has become more strongly anchored, while operational and financial returns have driven a stronger shareholder-centric perspective and given more emphasis to positioning the HR function as a strategic player and a business partner. Meanwhile, the organisational and technological characteristics of the production process, the challenges of organisational change and transformational leadership, alternative stakeholders' interests, labour unions and employment laws, and balance and fairness in the employment relationship have become more popular as valuable forces to study, leading to a decline in the

considerations of macroeconomic and industry economic conditions (Boxall and Purcell, 2011). However, it is still worth exploring economic factors, considering the speed and variety of changes in the environment and their combination with other factors from a multi-stakeholder perspective, such as the political environment. This literature assumes that members of the firm operate in an established market-based economy, they are motivated to perform efficiently, and they do business within a relatively stable institutional framework.

However, some research has questioned the generalizability of this research to economies transitioning from a centrally-planned economy to a decentralized, market-based economy, which can cause institutional turbulence (Peng and Heath, 1996; Judge et al., 2009). Thus, HRM strategic choice may be fundamentally different within different economies. However, seen from the Chinese context, there is emphasis on the cultural and traditional influential historical factors when studying HRM outcomes. There still remain some gaps to explore, concerning the considerations and perceptions of employers when they determine and use HRM strategies and systems. There may also be other factors, such as the financialised capitalism mentioned above, that could become a positive method to improve HR systems, as well as causing constraints on the implementation of systems at the same time.

To sum up, the existing literature discussing the relationships between certain factors in the economic field and HRM includes the following elements (Arthur, 1994; Huselid, 1995; Wall and Wood, 2005). First, seen from the macroeconomic perspective and at the external environmental level, the types of economy provide a foundation for choosing HRM systems. There are different HRM practices to be considered as best practice in planned, transitional and market-based economies, while the varied history of the development of different economies may also result in the emergence of different HRM strategies. Within a single economy, economic growth and recession may also result in adjustment in HRM systems. Economic growth and increasing market competition may drive firms to change their HRM strategy to fit the requirements of increasing competitive advantage, while economic recession may raise issues to do with decreasing labour costs. Second, from the firm level, different business strategies and cycles require different financial performance to fit them. Changes in business strategy and production requirements lead to HRM adjustment to support them.

There may be different approaches that employers use to determine their HRM systems. Not only the choice of a basic system type may be influenced by the context, but also the choice of the specific components within a basic HRM system type (Baron and Kreps, 1999; Wall and Wood, 2005). A key focus of the mainstream literature is on HRM outcomes and HPWS (Huselid, 1995). The question of why and where different HRM systems are used can be answered in comparisons of contexts (Wall and wood, 2005). The current Chinese economic context of transitioning to a developed form has strong support from state policies for economic growth, but it is still largely under the influence of its long history as a central planned economy, which is likely to result in a different model of formulating HRM strategy in firms. Therefore, new questions arise regarding the development and adjustment of HRM with Chinese characters, especially considering the economic environmental factors.

2.2.4 HR adjustment in reacting to economic factors

The previous section highlighted how external economic factors impact upon HRM systems and approaches in organisations. In this section, attention now turns to look at the specific ways that HR practices are thought to change and adjust as a result of the economic cycle, where the connections are shown in the left part and bottom part of Graph A. Much of the literature in this area has explored this question through the lens of economic downturns and their impact on HRM practices. Through exploring examples of research that link the economic cycle and HRM, this section aims to understand the extent to which HR practices respond to and change with a specific feature of the environment. As discussed in the last section, most SHRM models emphasize fit and congruence (Boxall and Purcell, 2011). Fit is the main means through which HRM strategy is operationalised. On the other hand, there is an argument that the notion of 'lack of fit' should also be considered, because organisations might need a lack of fit during transitions and if they have multiple objectives. Semler (1997) suggests that there should be less attention paid to an organisation's internal alignment in order to be able to control and react to the external environment. SHRM reflects strategic changes in the environment in terms of uncertainty, technological innovation and demographic changes. In terms of further development of external economic factors, this section focused

specifically on HRM practices during economic recession, which is used as an example to demonstrate how all the possible approaches on HRM adjustment may be seen in a particular context.

National economic conditions could have an important effect on the labour force as reviewed by Genç (2014). Labour Demands (Zagelmeyer and Gollan, 2012), labour Costs (Felstead et al., 2012) are all changed accordingly. Stabilised economy growth increases the competition for qualified human resources (Boxall and Purcell, 2011; Genç, 2014). On the other hand, some developments in national economies will increase labour demand, and in turn, potentially wages and salaries (Genç, 2014). The position of national economies, in terms of stability and wealth, might attract qualified people from other countries, which provide better recruitment opportunities to firms (Kabene et al., 2006; Genç, 2014). In contrast to it, changes in the national economy directly or indirectly affect the HR activities of firms, in terms of recruitment, employment, redundancy implications, compensation and rewards/salaries (Genç, 2014). Recession in national economies results in a reduction in the workforce, or at least significant cuts in wages or salaries and social support spending in Western countries. The significant influence of the national economy on HR policies is pointed (Rosman et al., 2013), and organisations should predict the future of the economy and plan their functions accordingly (Mello, 2006).

Today, changes in the international economy affect all the national economies over a short time frame. This is because of the integration of world economies. Accordingly, any recession in a country which is important in the world economy might easily stimulate the same conditions in other economies. Boxall and Purcell (2011) suggest, therefore, that in the unstable terms of the world economy, bargaining between unions and firms may be harder. In other words, negative developments in economies would result in undesirable situations. That is to say, employment rates and sales may decrease, unemployment would rise, and the social status of workers may weaken.

Horwitz (2011) highlights the lingering effects of the previous institutional environment and state-directed political economies on the type of HR practices adopted. In particular, challenges to talent attraction and retention, remuneration systems, diversity, and cross-cultural management are considered. The implications of external labour market changes

and internal strategic choice, as well as institutional and labour market developments, for the configuration of HR practices in transitional economies should also attract more attention and studies. This is directly relevant to this study.

As seen from the following case, this raises the question of how changes in the necessary skills of labour can impact on HR adjustment, specifically according to environmental changes in the Chinese contexts. The required skills of employees can also differ in different economy structures, and therefore training programmes may be affected as well. Heyes (2012) suggests that EU member states should respond to the recession with vocational education and training measures, which involve introducing new training programmes to complement programmes, and negotiation between employers and trade unions for new entitlements to education and training. Heyes suggests that there are various training measures that have been adopted since the start of the global financial crisis, comparing countries with different types of training systems. Instead of a 'training-first' approach to unemployment as suggested by the European Commission, Heyes (2012) argues that 'work-first' principles should be more dominant. The change between full employment and unemployment is one of the effects resulting from the economic cycle, which causes a series of further issues. Using this topic as an example, there are a number of works connecting the effects of the two main focuses discussed above. Heyes' work explores HRM adjustment in EU contexts during the period of economic change. It is thus also possible to look at whether and how the required skills of employees have changed in other contexts, and what HRM adjustment should be made.

Seen from Rebitzer's (1988) work, it is also important to conduct research to find out how changing macroeconomic conditions can impact on the stability of long-term employment relations. None of this economic research on the effects of the cycle has thus far involved detailed qualitative research about the process. Economic factors could have multiple impacts on firms, impacting HRM through multiple approaches. Rebitzer (1988) suggests that when there is full employment in an economy, the labour markets are tight. This leads to an increase in wage growth, but a slowdown in labour productivity. Also, low employment does not produce adverse effects as much as full employment. In contrast, an improvement in long-term employment relations might reduce the unemployment rate, with the consequence that the job insecurity created by unemployment may become the central motivation in work intensity and discipline.

When unemployment and inflation rates are high, long-term employment relations become more costly than short-term employment relations. Therefore, when there are high unemployment and inflation rates, long-term employment relations are likely to be eroded.

Some of the detailed case studies provide insight into the tensions, contradictions and anomalies in HRM resulting from external pressures. From the perspective of employees, high unemployment levels can cause a fear of job loss. The changes in employees' work participation and efforts during the economic cycle are another important issue attracting considerable attention, because these are essential elements influencing productivity (Forde et al., 2006; Ramsay, 2000). Work participation and the threat of job loss are two factors driving worker productivity. In some cases there is a fear effect on productivity, especially in organisations with low levels of work participation (Forde et al., 2006), which would need firmer HRM adoption to maintain the motivation and commitment of the employees. Ramsay (1977) suggests that regaining labour compliance reduced by high employment rates may be implemented through employee participation initiatives. On the other hand, high unemployment creates low threats to management prerogatives, and in this case there is no demand for any preferential employment practices.

As mentioned above, HRM also has to deal with problems caused by uncertainty because of using professional abilities, skills and knowledge to go beyond industrial and organisational psychology (Zagelmeyer and Gollan, 2012). Geary (1992) specifically focuses on labour flexibility and mentions the use of secondary labour. It is noted that temporary employment and other non-standard forms of employment may help organisations to respond to market changes and productivity demands more easily, and also contribute to financial flexibility. Recruiting temporary workers helps to secure the jobs of permanent employees, allowing employers to dispense with temporary employees during difficult market situations. All this literature demonstrates the importance of considering the notion of external fit, and the fact that the external environment plays a significant role in balancing power in the employment relationship, and making HRM strategy to respond to the context (Paauwe et al., 2013). These studies provide insight into the tensions, contradictions and anomalies in HRM resulting from external pressures, and raise the question of how external factors impact on the implementation of HR strategy in reality while they are also shaping HR strategy.

Labour demands and labour costs are the particular issues that are affected by the reformulation of business strategy resulting from economic recession. There can be reform of HRM practice to increase operational efficiency. From the perspective of employers and organisations, Zagelmeyer and Gollan (2012) conclude that several issues affected the design of HRM architecture stemming from the economic crisis. First, the most critical one was the decline in product demand. This caused the demand for labour to decline as well, and this led to a labour surplus. Financial issues may also have an effect on labour management. Both of these pressures on labour surplus and labour costs require an HRM response. As a result of the labour surplus and costs, employers are likely to take HRM measures such as laying off and less recruitment, and/or changing training plans and budgets (Felstead et al., 2012). Operational HRM also needs to take issues such as social insurance policies and pensions into consideration, especially when reacting to the state policy regarding these factors. During previous economic recessions, organisations have usually adjusted their internal employment systems. Among all the approaches by which organisations may seek to adjust their HR systems, the adjustment of payment costs, which involves pay freezes and cuts, and changes to wage structures are the most frequently implemented (Cappelli, 2000). Pensions and compensation arrangement for the loss of jobs have also often been introduced during recessions.

Cook et al.'s (2016) empirical study concerns unemployment and the availability of jobs in the wider UK context, reviewing the link between economic recession and changes to HRM strategy. Cook et al. (2016) argues that staff turnover is massively reduced during recession, due to high unemployment and the low availability of jobs, and access to the external labour market is also consequently reduced. Opportunities for changing and intensifying HR strategy may be provided through the changing external job market and increased unemployment. Labour distributions also change in response to the variation of business strategy in relation to changes in customers' habits. These changes are reflected in working hours and working patterns, such as retention to fit with new productivity demands, which in turn require greater flexibility in the workplace and lead to further intensification of work to drive up profits. This provides a clearer understanding of how HRM strategy fits business strategy and external factors in a real setting. The nuanced findings here are promising in terms of identifying potentially fruitful future research areas.

Several solutions have been suggested to respond to these environmental changes. Lallement (2011) examines three types of adjustment, including segmentation, working hours and unemployment, in six European countries, proving that there are various labour market adjustments in response to economic crisis. The measures frequently used to respond to recession included freezing or cutting payment. A few firms that were less affected by the crisis raised their wages, such as the pharmaceutical industry. Training expenditure in organisations also fell due to lower recruitment, but management and leadership training remained at a strong level (Gunnigle, 2011).

In areas facing deep recession, such as Ireland, organisations respond by selecting from a range of possible policies in an attempt to adapt their HRM practice and working conditions, combining hard and soft HR policies (Roche et al., 2011). HR function plays a primary role in forcing changes in management practice. Restructuring is mostly related to HR practices and the downsizing of working patterns, including reductions in working time, lay-offs, concession bargaining and related changes in reward systems and working conditions (Gunnigle, 2011). Approaches to HRM and IR involve controlling or reducing pay and headcount, curbs on overtime, short working time and more rigorous work regimes. On the other hand, some companies do not simply seek methods to cut employment; rather, they develop and carry out a range of HR strategies and policies to address and solve their difficulties. A combination of hard and soft HRM policies aims at cutting payroll costs and creating productivity, as well as maintaining employee commitment and loyalty. These combined measures include intensifying communication and employee engagement efforts, retaining HRM initiatives, and the injection of as much fairness as possible into programmes, to ensure that the impact is spread evenly across all groups of employees including management.

To sum up, HRM and the economic cycle are linked in two ways, around which this section develops the discussion. As shown in Graph A, first, economic recessions and recoveries bring changes in a number of different areas, such as demanded skills of labour and demanded amount of labour (Zagelmeyer and Gollan, 2012), which directly impact on ways of managing people. The literature suggesting that firms should make wage determination, layoffs, adjustments to working time, hoard labour, change training strategies and change recruitment strategies is reviewed (Cappelli, 2000; Lallement 2011; Felstead et al., 2012; Cook et al., 2016). Second, in both the academic and practical arenas,

HRM can play an important role in addressing and solving business and management issues stemming from recession. Even though China has not faced deep recession, the Chinese economy has faced policy changes affecting and directing economic growth. Thus, it is worth exploring the extent to which China might be able to adjust HR practices in response to external economic changes. Therefore, new questions arise regarding how HRM responds to external economic events and factors, including economic restructuring and economic growth in the Chinese context.

2.3 The role of the state in shaping SHRM: a focus on China

Much of the research discussed so far has focused on HRM in Western countries. Shifting the focus to the right rectangles of Graph A, this section looks at the role of the state in shaping SHRM in the Chinese context. Starting with comparing Chinese approach to HRM to Western approach and discussing the historical development of HR practices and SHRM in section 2.3.1 and section 2.3.2 to provide an understanding on the overall approach to HRM in China, it then particularly looks at the indicators that are shown on Graph A - the role of the state in relation to the economic policies in section 2.3.3, and the impact of the state on the overall approach to Chinese HRM through labour legislations in section 2.3.4.

The Chinese economies is one of the largest emerging economies, which has been facing significant challenges. Zhou et al. (2012) suggest that Chinese context-specific management theory indicates the existence of a good deal of unique Chinese business practices (Tsui, 2006; Child, 2009; Barney and Zhang, 2009; Cooke, 2009a; Zhu and Warner, 2019). In addition, China has its own features that may influence environmental factors in different ways and pose unique questions for HRM research as well (Cooke, 2009b; Su and Wright, 2012; Cooke et al., 2016; Guo et al., 2016; Huang, 2016; Kim and Chuang, 2016; Ouyang et al., 2016; Wang et al., 2016; Zhu and Warner, 2019). Taking further consideration of environmental effects, especially the contemporary economic transition of China, the unique path of Chinese HRM reform varies from that in Western contexts (Child, 1994; Cooke, 2005, 2011; Lamond and Zheng, 2010; Warner, 2010; Chen et al., 2016). Cooke (2009b) suggests that the effect of contingent factors on HRM practices, including national, industrial, organisational and individual factors (Boxall and

Purcell, 2003), is arguably more prominent across different types of business ownership in China because of the markedly different institutional environment under which these businesses operate (Cooke, 2005, 2009b; Tsui et al., 2006). Similarly, Zhu and Warner (2019) indicate that sub-national investigation, including public/private sector difference analysis should be conducted in contextualization of HRM research. Zhu and Warner (2019) emphasise the importance of context at a particular time, such as different political environments, different stages of economic development, in different sectors - public or private - and institutional development. Warner (2008) pointed out that during its economic reform, China did not merely replicate foreign models uncritically. Where they have implanted overseas economic management practices since the late 1970s, they did so by incorporating them into the Chinese “way of doing things” (2008, p.771). Therefore, if it is seen from the from the universalistic perspective, the so-called ‘HRM model with Chinese characteristics’ is not simply the duplication of certain kinds of HRM best practice from Western literature. The applicability of HRM models has been examined in different national and international settings, comprising a considerable comparative literature (Budhwar and Debrah, 2001). However, in some firms the concepts and system-building of HRM were transferred and learned from Western countries and have been adjusted and used, while other firms have developed their own HRM strategy. Cooke (2009a) also suggests the need for more studies to capture the changes in HRM in China over time. Thus, seen from the perspective of how these approaches to HRM may emerge and be shaped, there are clear gaps to explore in the HRM theoretical literature.

Years ago, HR posts were seen as positions for ‘aged people’, suitable for those who want to live a lifestyle similar to retired people. The HR and personnel departments in organisations were sometimes described as ‘eldercare homes’. To some extent, the image of HR workers reflects how the HR system and its functions are viewed, how efficiently these systems may influence people’s work, or how important the system is considered to be. Obviously in times past, it was very rare for people to think that their people management system could play an important or influential role in the operation of an organisation. It was also not thought that HR work needed high levels of skill or experience, or was even strategic. More recently, it has been repeatedly claimed by the state that the people management system in China should be changed and developed towards a direction that is more people-oriented. Whether these stereotypical images of

HR departments have changed is, to some extent, still open to question. At present, when talking about existing HRM models and the effective application of SHRM in China, those who work in Chinese industries always think that it is hard to believe in the reality of these systems, due to the historical influence of state-owned systems and the planned economy. The reasons for this are likely to be even more complex than the economic factors alone. However, the economic drivers of change are still an issue worth exploring, and they may contribute to our understanding of the reasons for difference, in terms of either SHRM concepts or functions.

The following sub-section first compares existing key features of the Chinese approach to HRM with different and similar theoretical propositions in Western literatures. Second, it pays close attention to the development of functions and practices from history. It then gives an overview of the Chinese context in terms of economic conditions, the legal environment, and research investigating the relationship between HRM and economic factors that has been conducted in China. Section 2.3.3 pays particular attention to the role of the state regarding the economic environment. Chapter 7 will provide further empirical evidence regarding this issue, including a discussion in relation to the evidence on HR activities, which will be discussed in Chapters 5 and 6.

2.3.1 Chinese vs Western approaches to HRM: similarities and differences

This section starts by reviewing key literatures indicating the connections between traditional HRM models and the Chinese approach to HRM, and then shifts to focus on the historical development of HRM systems in China. It also reviews debates on the efficiency of the Chinese HRM system in relation to some HR theories and models in Western literature, as mentioned in the previous section.

China has a long history of HRM systems involving an idea that is similar to high-commitment work systems in the Western literature. Reflecting the people management system in place before economic reform, the key Chinese characteristics embedded in the traditional model include the ‘iron rice bowl’, lifetime employment, egalitarian pay, and ‘cradle-to-grave’ welfare (Ding et al., 1997; Warner, 2008). Former labour policies from the 1950s aimed to guarantee employment to all workers (Yuan, 1991; Chen et al., 2016).

The 'iron rice bowl' system and lifetime employment, as discussed in the last section, were originally introduced in the labour policies associated with the unified job assigning system, which was embodied in the 'Instruction on Relieving Unemployment Workers' published by the State Council (1950). Under this unified job assigning system, employers recruited workers assigned by government-authorized employment agencies. There was no choice for either employers or employees (Leung, 2012; Chen et al., 2016). All employment relationships between employees and employers were created by the state. Lifetime employment security were also guaranteed, and the 'iron rice bowl' system played an important role in shaping old Chinese personnel management; indeed, it is still having an influence in current HRM systems in China (Ding et al., 2011). Under this system, because workers were offered lifetime employment, managers kept their jobs with low regard for performance and managers also had no control over salaries and reward systems, so that workers received the same pay as those who worked harder or less hard. Changes in these policies have since taken place during the marketisation and reform periods.

Two questions may be raised. First, the old people management system in firms was mostly shaped by labour policies rather than any other factors. This raises the question that while transiting from a planned economy to a market economy, and from no labour market to a free labour market, firms may have faced significant problems in shaping their HRM systems. This may also be seen in the development of labour policies and regulations. Second, China had a long history of a planned economy. Institutional factors such as trade unions were considered as important, and inevitably influenced the shape of traditional HRM systems. However, China's trade unions often served as the Chinese Communist Party's spokespeople or a company-based department, rather than directly representing the employees' interests (Zheng and Lamond, 2009). These two points are different from Western countries, where most of the HRM literature and theories were derived.

For particular HR practices, some scholars demonstrate that high-performance HR is positively related to firm performance (Zheng et al., 2006; Sun and Wen, 2007). Similar to Western contexts, they confirmed the connections between HRM and performance in the Chinese environment, indicating that a valid set of strategic HRM practices (training, participation, results-oriented appraisals, and internal career opportunities) affected both

product/service performance and financial performance. Employment security and job descriptions contribute uniquely to product/service performance, while profit sharing contributes uniquely to financial performance. Thus, since performance is a strong indicator of shaping business strategy in China, the relationships between SHRM and its influential factors are potentially similar to those in Western contexts, where external factors may impact on SHRM both in a direct way and through business strategy. However, other scholars have argued that some high-performance Western work practices may be not effective in China (Björkman and Fan, 2002). For instance, some practices, such as employment security, which is often considered as an element of HPWS, may be seen as a sign of inefficient 'iron bowl systems' (Xiao and Björkman, 2006), and will not enhance employees' behaviours in China (Gong and Chang, 2008). There are also some studies that have failed to find positive relationships between HPWS and firm performance in China (Zhang et al., 2009).

China has unique experience in industrial revolution and the history of adoption of Taylorist scientific management (Su and Wright's, 2012; see Zhu and Warner, 2019). In an earlier account, the emergence of scientific management in China in the 1920s and 1930s has been well documented (Warner, 2014). According to Zhu and Warner (2019), a more recent review of literature conducted by Chen et al.'s (2016), which includes several reviews of HRM within the Chinese context (Cooke, 2009a; Lamond and Zheng, 2010; Zheng, 2013; Zheng and Lamond, 2009a, 2009b), highlights the lack of research that explicitly examines the prevalence of scientific management and HR practices in the period since 1980. Su and Wright (2012) studied Chinese HRM and noted the main differences in the history of the development of Chinese industrial relations and management in comparison with Western contexts. First, compared to industrial revolution or Taylor's scientific management, China had a longer history of paternalistic management (Su and Wright 2012; Warner and Rowley, 2014). The foundation of the development of management and HRM is different. In addition, most Chinese workers lack the discipline and professionalism that is required by the industrial era. Zhu and Warner (2019) suggest that China has a long history from a feudal to a modern and industrialized society, with the rich experience of the nation closing and opening its doors to stop or speed up interactions between East and West over the last hundred years, and in particular its unprecedented transition from a planned to a market-driven economy over the last four decades. The previously planned economy and the 'iron rice bowl'

employment system induced non-productive behaviours in employees; these differences were entrenched in Chinese firms before 1978 when economic reforms began. How far they have retained their influence since the economic and HRM reforms is worthy of exploration. Compared with Western firms, which focus on developing employees' potential and improving their commitment and discretionary work efforts in order to further improve firm performance, in China the more important question faced by employers is how they can make employees complete their assigned duties with a responsible attitude (Su and Wright, 2012). Zheng (2013) indicates the need to examine the influence of Western theories on local practices and areas in China.

Thus, some dimensions that have rarely been defined as 'best practice' in the Western SHRM literature are seen as effective HR practices in China, such as competitive mobility and promotion systems, and employee discipline management systems (Su and Wright, 2012). However, these dimensions arguably belong to previous personnel management models. Thus, it is reasonable to argue that the unique Chinese management contexts have resulted in a unique Chinese approach of effective HRM dimensions and elements, which may be different from the norm in Western literature. SOEs still represent a drain on the Chinese economy. Some firms may have been privatised from or merged by SOEs, but even though they may transform themselves into world-class competitors, they often still carry the stigma of being state-owned. They are less likely to pursue HR best practice than foreign equity-structured enterprises (Wellins et al., 2005).

Focusing on the early stages of HRM reform in China, from 1994 marketisation reforms caused the responsibility for labour allocation to shift from a centralized planning authority to planning departments within China's enterprises. Zhu and Dowling (1994) observed that policy shifts in China would trigger changes in the country's HRM practices. The emphasis of egalitarianism in production and reward systems started to decline, and a stress on performance emerged.

Similar to most of the other emerging economies, which have begun to develop more sophisticated competitive strategies within a business environment of rapid changes, Chinese firms have reformed and adopted a market-oriented approach in order to enhance their competitiveness. HRM is one of the organisational processes affected by the new orientation. China has benefited from institutional changes brought by the market orientation economy instead of the previous highly centralized planned economy (Peng

et al., 2001). The HRM advantage in the Chinese labour market is usually considered to come from its status as the largest population in the world, providing a plentiful labour force from a resource-based view (Barney, 1991; Zhang, 2012). On the other hand, union power in China is relatively weak. This allows labour costs to be kept at a competitive level (Warner, 2009; Zhu and Warner, 2005). These regulations have effects on HRM practices and managing workforces in two ways, which aim to lead to effectiveness, competitiveness and social wellbeing. A new role for Chinese HRM is likely to evolve to cater for the enterprises and ventures influenced by these regulations. These enterprises have faced fewer problems of overstaffing since the reform. There has been an increasing trend for key employees to be offered better conditions – for example, “more autonomy, higher salaries and more benefits in compensation, than those available in state-owned enterprises” (Zhu and Dowling, 1994, p. 10). Modern HR practices are being implemented in these enterprises with a clear effect upon their efficiency and profitability. The legitimization of some HRM practices, such as the distribution of performance-based bonuses and the right to fire employees, will be significant in facilitating improvements in productivity. As mentioned above, since China already has the functions of lay-offs and performance-related compensation, the extent to which these have been adjusted according to external factors is worth exploring in this research.

Existing studies also provide evidence of the connections between specific HR functions and economic changes, while also indicating the differences in the Chinese approach to HRM compared to Western models. Across national and cultural boundaries, Warner (2010) suggests that the Chinese approach to HRM may not be generalizable to Western economies, where employment and compensation are highly regulated and the focus of HR diversity management may be different. Among the HRM practices, compensation management and recruitment and selection diversity management are salient HR functions in China.

Within a context of rapid economic development, HRM practices in China change frequently. There remain significant differences between the HRM practices in organisations in China and those in other countries, and between Chinese organisations and foreign-owned firms and multinational corporations (MNCs) in China (Iles et al., 2010; Jaussaud and Liu, 2011). Jaussaud and Liu (2011) undertook a qualitative comparison of the HRM practices of several MNCs, Chinese and foreign-owned

enterprises to investigate differentiation during the global crisis. The results suggested that both Chinese and foreign-owned organisations reacted to the new labour laws in a similar way, using greater control over HRM practices to adopt a wide range of cost reduction measures including job rotation. In attempts to deal with continuing growth both abroad and in domestic markets, it is also suggested that comprehensive, formalized and balanced HRM policies are in great demand in large industrial firms. Peña and Villasalero (2010) indicates that banking industry met the requirements of being a well-defined, labor-intensive, service industry in Europe. Chinese financial services sector is also considered as a well-defined industry. This research also has the interests to explore the unique and distinctive aspects of Chinese financial services sector.

2.3.2 Development of HR practices and SHRM

A prominent theme in current Chinese HRM research is the notion of fitting Western HRM into the Chinese context (Warner, 2012; Zhou et al., 2012; Jia et al., 2012; Cooke, 2012; Leung, 2012; Ouyang, 2016). As the notion of HRM has gained increasing attentions in China, a growing number of HR initiatives, including performance management, team building, organisational culture management, employee involvement, knowledge management, and learning organisation, which are often promoted as advanced Western HR techniques, although some of them have long existed in China in primitive forms, feature regularly in management writings and corporate HR policy statements (Cooke, 2009b). Many Warner's works (2008; 2012) on Chinese HRM focus on making sense of Chinese HRM and are in comparisons with Western HR system and practices. Comparing with HRM literatures, Chinese HRM literatures take account on historical development factors and cultural factors and essential elements in understanding Chinese HRM and HR practices. Including HR planning, recruitment, selection, appraisal, reward and job losses, most HR practices have their own feature in Chinese literatures (Cooke, 2009a, 2009b; Warner, 2008, 2012).

However, as mentioned above, there remain gaps in knowledge. China's economic reforms have deepened over the last three decades, and the evolution of HRM in China has attempted to move it from the token to the substantive (Warner, 2009). As the economic reform proceeded, the state found that the traditional personnel management

models became inefficient. They therefore initiated HRM reform, during which there were ‘three old irons’ to break (Ding and Warner 2001; Warner, 2008). These consisted of the lifetime employment promise of the ‘iron rice bowl’ system, discussed in the last section, the traditional centrally administered egalitarian pay system known as the ‘iron wage’, and the traditional ‘only up, no down’ appointment and promotion system known as the ‘iron chair’ (Ding and Warner, 2001, p.315). After the reform, the most effective HRM system in Chinese firms is considered to be a hybrid of commitment and control practices (Su and Wright, 2012).

For performance management systems, performance management is being promoted as a modern western HRM concept in China while performance appraisal practices have long existed in China with strong Chinese characteristics (Cooke, 2008). Ding et al. (1997) noted that there was no formal or systematic approach to conduct performance appraisal, apart from broad and qualitative assessments with no clear performance objectives. Neither did they have linked performance, or use the results of performance appraisals to affect workers’ income or promotion. A results-oriented performance appraisal system was developed along with the reform of the reward system in China, which also produced incentive measures for employees to improve their performance. Moreover, performance evaluations in some SOEs continue to follow a similar format as for civil servants. Performance management criteria, such as ‘morality, capabilities, diligence and merit’, are too general to evaluate employees’ performance (Brødsgaard and Li, 2014, p.2047; Chen et al., 2016).

During the reform of the employment system from the traditional ‘iron rice bowl’ into a flexible system with autonomy in hiring and firing employees, the development of the recruitment and selection system did not begin straight after the reform in 1979. There were years even after the economic reform when many firms, especially SOEs, still had no autonomy to make recruitments, selection or lay-offs. They continued with the old selection model under the job allocation system involving central or regional government, who planned and distributed graduates and workers to every enterprise (Hassard et al., 1999; Han and Han, 2009). The labour market is more open today than it was forty years ago since it is open for employers and workers to have self-determined choice and two-way choice from 1996 (Warner, 2006). Recruiting and selecting the necessary employees has become a basic function of the HRM system for both SOEs and JSCs in China.

However, whether the long-term history of recruitment under the planned job allocation system still impact on the way employers select employees in their new recruitment system, is worthy of exploration. Especially in SOEs, is the state still planning the labour market through their role on boards in firms? This is a question worth exploring in this research.

In order to break the traditional centrally administered egalitarian ‘iron wage’ system, or ‘one big pot’ (which means that everyone has an equal chance to share the outcomes), and reform it into a flexible system with autonomy, one measure was to enlarge the income gaps between employees based on their measurable outputs. The traditional centrally administered pay system in China is similar to a traditional model of public sector in the UK when pay and conditions of employees were determined by the centralisation of pay bargaining consulted by the state and unions, and local management or employees were little involved (Prowse and Prowse, 2007). As there was a trend of decentralisation, privatisation the management practices in the UK (Prowse and Prowse, 2007), the development of pay system in Chinese firms are also adjusted at the management level, however, still being impacted by the traditional system in certain level. A compensation system was then set up in most Chinese firms to equate to a performance-based pay system (Warner, 2008). Though it is questionable whether incentive or egalitarian pay systems should be seen as high-performance work practices in the West, in China evidence shows that employees prefer to accept performance-based compensation, and prefer to enlarge the income gap rather than receive an egalitarian wage (Chen, 1995). Thus, a performance-based compensation system may improve Chinese firm performance by effectively motivating employees to work hard. However, the autonomy of SOEs to decide their pay system is limited. They have autonomy to decide their internal distributional mechanism, however, with budgets controlled by the State-owned Assets Supervision and Administration Commission (SASAC) (Liu, 2009; Chen et al., 2016). As mentioned above, since the performance appraisal format in some SOEs is still similar to civil servants’ performance management systems, the criteria for performance management are too general to evaluate employees’ performance (Brødsgaard and Li, 2014; Chen et al., 2016). In this context, the extent to which this may still restrict their discretion to develop more competitive and adaptive compensation systems is worth exploring in this research in order to examine HRM adjustments.

Reform of the traditional ‘only up no down’ appointment and promotion system (the ‘iron chair’) to a flexible model has also been undertaken to try and promote competitive mobility. In the traditional system, employers could not fire or punish any employees, which may result in low productivity as discussed in the last section. Functionally, managers can be demoted if their performance does not meet the standard or is worse than their peers. This reform was suggested in an attempt to help overcome non-productive behaviours and improve the work efforts of employees by exerting competition among managers. In comparison to earlier HRM models, Akhtar et al. (2008) examined strategic HRM practices and their impact on company performance in Chinese enterprises. They suggested that most Chinese firms have begun to dismiss or transfer unqualified employees, and so job security is no longer guaranteed. The question of whether there any tensions created by this reform in reality and implementation is worth exploring.

Even though the reforms have been suggested for three decades, it is still arguable whether ‘token’ HR reform has really changed to ‘substantive’ change (Warner, 2009). Bersani (1993) suggested twenty-five years ago that the state should start to promote ‘SOE privatisation with Chinese characteristics’. Even though there had been continuing development in HRM to break the ‘three old irons’, this raises questions of whether SOEs, especially SOEs in industries that are considered to be the ‘lifeblood’ of the economy, are still considered to be ‘iron institutions’. However, it has also been suggested that some traditional institutions coordinated well with the traditional iron system. For instance, SOE governance institutions and the Hukou system, which survived the reform, coordinated well with the pre-reform ‘iron institutions’, and remnants of the ‘iron institutions’ are observable even after three decades of reform (Chen et al., 2016). Thus, the development of HRM in SOEs may still be greatly influenced by coordinating effects, and restricted by remnants of the pre-reform institutions. It is a question to be explored in this research whether Chinese HRM policy and practice are market-oriented, and if so, how much.

Developing within the environment of a market orientation economy, the impact of the marketisation movement on employment practices includes the pursuit of competition, efficiency, flexibility and labour-cost minimization (Zhu and Dowling, 1994, 2000; Chow et al., 2008). However, some problems caused for HRM implementation by the traditional

Chinese culture, such as recruiting and promoting unqualified employees due to their social connections, may be alleviated by adopting Western HRM practices such as competency-based selection and a performance-based reward system (Zhang, 2012). It is hard to compare the benefits and harms of social connections, or conclude that these problems may be easily solved by any system, but this issue provides a direction and approach to improve the situation. How these directions and approaches have impacted on the development of SHRM in reality will be an interesting question to explore in this research.

In general, Chinese organisations are in a period of looking for solutions to management issues in a sustainable developing economy. Organisations of different types and from different industries have been facing different impacts as a result of the financial crisis. In Jaussaud and Liu's (2011) research most organisations benefited from the impact of the new labour law enforcement, no matter whether they were significantly or lightly affected by the GFC 2008. The measures implemented in reacting to the crisis included reducing hiring and working time, reducing working hours, intensifying training programmes, reducing outsourcing, shifting from external to internal training, reducing the workforce, and wage increases. Even if they were not significantly affected by the crisis, some organisations strengthened their control of HRM practices in order to guarantee strict compliance, limit employment and reduce operating expenses. The measures employed to respond the new labour law enforcement included internal arbitration mechanisms for individual labour problems, and strengthening control over HRM practice. This raises the question of the extent to which the adoption of legislative changes, HR changes and external economic changes may create conflict or may fit with each other.

In addition, apart from wages and salaries Chinese SOEs and JSCs usually provide more advantages than foreign-owned firms in terms of remuneration practices. This is due to the tradition during the planned economy of offering advantages to cover shortages in basic consumption goods. These advantages might include shopping coupons, petrol coupons or meals. This indicates the differentiation in various Chinese industries and sectors, as well as some common HR actions across sections. These diversifications should be taken into account when conducting research, but it is important to see the difference in different sectors.

In the existing Chinese SHRM literature, Cooke (2009) suggested that SHRM is still a small category in Chinese HRM studies. Most of them are performance oriented with some exploration of high performance HR practices, informed by the high-commitment/performance model of HRM, the resource-based view, the resource dependence view, and institutional theory that is commonly found in Western studies. These Western SHRM models and hybrid HRM may conform to the real landscape to some extent, but there is still space to explore efficient SHRM models and the adjustment of HRM with regard to the nature of current Chinese HRM. Considering all the discussion and questions mentioned above, there are research gaps in terms of the exact Chinese approach to an effective SHRM system.

2.3.3 The role of the state in the business and economic environment in China

At present, issues of SHRM have broadened. Meyer and Kirby (2010) argue that there is a research gap in our understanding of the role of leaders in developing a multi-stakeholder perspective. When leaders do decide to move to a multi-stakeholder perspective, are we able to help them with ideas about how to do that? Even though in practice the numbers of leaders who are deciding to move to a multi-stakeholder perspective seem to be increasing, the gaps in the literature are still too significant to indicate a clear answer or provide examples for how to identify the kind of transformation that would be required, or to be able confidently to assist firms to move to the new perspective (Meyer and Kirby, 2010; Searle and Dietz, 2012; Beer et al., 2015). In Chinese contexts, the state plays an important role as both the national policy maker and the organisational leader in SOEs. Thus, it is important to take into account the complexity of the roles played by the state as stakeholder and leader, and the different dimensions by which the state affects the HRM changes taking place in the country. Therefore, the role of the state becomes a significant factor to be studied in this research. Seen from Graph A, this section particular looks at the role that the state played through the economic environment and policies, where it has been impacted through multiple indicators as the economic factor and as the role of the state.

Most directly, the state plays a key role at the political level. As Warner (2013) reviewed, it impacts on HRM through the staffing positions mechanism. The Organisation

Department of the Communist Party of China is one of the most important organs of the Central Committee of the Communist Party of China (CPC). It controls more than 70 million party personnel assignments throughout a national system across a wide range of official capacities (Shambaugh, 2009; Warner, 2013). The personnel assignments for executive positions in SOEs in 'key industries' in China are made under the 'cadre rotation' system (Ganbu) (Brødsgaard, 2012, p. 634-639; Warner, 2013). They are responsible for assigning the employment of key positions in participating SOEs, including the president of the head office and the party branch secretary, who all play an important role on boards and who will influence the running of those firms in many aspects through corporate governance. "The CEOs of key firms such as the top banks and big corporations under the SASAC, which runs the marketized residue of the old state enterprise (SOE) system, are said to be competitively selected from a pool of candidates (Brødsgaard, 2012, p.634)" (Warner, 2013, p.11).

Apart from the direct impact, the Chinese state also affects economic environmental changes taking place in the country. Some empirical evidence indicates that China has been experiencing a continuing economic reform process. HRM has emerged as a new system to adapt to the changing environment. Ding et al. (2004) specially focus on how people management is structured in firms within a changing economic environment, context and strategy, in the aftermath of the Asian crisis in China. When formulating new strategy, corporate ownership and governance restructuring with accompanying HRM practices is changed and diversified. The links between economic environmental, contextual, strategic and structural factors, particularly for the HRM practices discussed in earlier sections, are indicated in China. Even though the impacts of the crisis itself were limited and short-term, HRM practices have developed in response to the challenge of an increasingly competitive economic and business environment, with organisations looking for clear property rights and trying to formalize institutional and organisational structures. Thus, it is essential to recognise that as influential factors of HRM practice, the economic factors themselves are integrating with each other so that their impacts should be considered from a broader perspective.

The role of the state in Chinese economic development has been complex and multifaceted. On the way to economic transformation, China, currently the second largest economy in the world, has come to a position of a mixed central planned and market

economy. Chinese economic development, including marketisation, structural reform and increasing integration into the global market, has raised many debates for scholars over the past decades. Changes in the economic environment are necessarily a complex process with multiple determinants. As reviewed by Lo and Wu (2014), the vital role that the state played in the development process has been suggested by a large amount of research economy (Kotz, 2005; Heilmann, 2009; Poon, 2009; Gabriele, 2010; Felipe et al., 2013; Lo and Wu, 2014). The state influences Chinese economic development through the approach of direct intervention with an enabling environment and encompassing industrial policy. The state has played a significantly interactive role in Chinese economic development in terms of promoting structural change and thereby growth in GDP and employment. However, many of the existing studies that consider the role of the state are to be found in the fields of industrialization and industrial policy. Cooke (2009) suggests the need for follow-up HRM studies on the key management changes that resulted from radical social and organisational transformation, which will be addressed in this research.

State ownership exerts strong control over economic activities in China. Before the shareholder reform the state dominated the economic development, and during the marketisation period state ownership has remained a significant part of the economy. State industry is mostly made up of large-scale, capital-intensive SOEs. SOEs are characterised by a much higher capital-labour ratio than other enterprises. SOEs have continued to command Chinese industry. Meanwhile, there is continuing state control over the allocation of financial resources in the economy. As of 2010 state banks still, directly or indirectly, accounted for more than 70 percent of the total assets of the banking sector (Lo et al., 2011), and the banking sector has remained a predominant part of the financial system as a whole. This sheds even more light on the importance of studying SOEs and the financial sector in the Chinese context.

The state directed further restructuring of the economy in 2003. SOEs in financial service sectors were listed on the public market through the IPO. A decentralization of state power has characterised the Chinese economic transformation (Lin and Liu, 2000). State firms have become increasingly profit-oriented over the reform era. This shift happened during the continuous expansion of joint-stock and private firms, alongside an increase in competition in the market environment due to both internal and external marketisation.

One indicator of marketisation is the function of the commercialized state banks, which are representative of the workings of the mixed economic system. This raises the question of whether these further developments have driven the development of SHRM to a different level.

Discussion of the role of the state in Chinese economic development and the legal environment of business should be viewed in connection with the evolution of the policy orientation of the state, particularly with respect to labour and broader social development. Following the East Asian financial and economic crisis, China's state leadership adopted a range of economic policies to reverse the unidirectional pursuit of market reform (Lo and Zhang, 2011). Although these were designed to be short-term anti-crisis measures, the policies have become an essential part of the new policy line known as "constructing a harmonious society", in order to build a model of economic and social development that avoids an increase in social polarization under market reform (Lo and Wei, 2014). Under this policy orientation, the assessment of the economic role of the State may go beyond the discussion in the next section around labour legislation.

Since the form of ownerships naturally impacts on the shape of HRM systems, there is also a need to study the 'Chinese characteristics' in relation to these different types. However, both comparison studies and studies that point out the significant differences between different forms of ownership are still limited in terms of either the number of research studies or the coverage at firm-level. Chapter 7 will provide further empirical evidence regarding this issue, together with a discussion in relation to the evidence for HR activities, which will be discussed in Chapters 5 and 6.

Another factor that should be taken into account when exploring the role of the state in shaping the Chinese approach to HRM is cultural factors. Mainland China has shared similar issues with Hong Kong in terms of cultural factors mitigating against flexibility. Creating more flexibility is an important element when facing uncertainty (Zagelmeyer and Gollan, 2012), as discussed above. Less flexibility has been suggested to result in reduced ability to generate and sustain employee creativity in organisations in Hong Kong (Kamoche, 2010). Kamoche's (2010) study explores the facts and reasons for managerial control in terms of HRM functional approaches, responding to turbulence in hotel industry in Hong Kong. According to their research, one of the main HRM adaptations is to create more flexibility in facilitating change and innovation. There is also a significant

variation between different sectors and industries in the mainland Chinese market in terms of the influence of the economic recession. This should be taken into account when designing research to investigate the influence of less flexibility in employment during changes in the economic cycle.

It is also time to move the focus to the current Chinese labour market and the existing issues it faces. The main features of the Chinese economy since 2000 have consisted of extraordinary growth in the Chinese market economy, with corresponding changes in the social and economic structure. At the same time, the main problems are growing inequality, widening income gaps and a decline in the wage share of GDP (Lee, 2009). IR developments have rapidly increased. In response to these changes in the economic environment, as well as the increasing social conflict caused by emerging labour disputes and collective protests, a number of major labour laws and IR structures has been developed or revised.

One of the difficulties in research exploring the relationships between economic factors and HRM strategy lies in distinguishing the reasons for changes in the business environment, which may result from the impacts of economic factors or the business system itself. The questions of whether Japanese HRM practice has been changed, and if so, whether the change results from the economic downturn in Japan are addressed in research conducted by Benson and Debroux (2004). They suggest that Japanese firms implemented changes at the practice level, although there was little attempt to modify strategic policy decisions and system architecture. Meanwhile, they agree that economic forces may drive adjustments in all systems regardless of the reasons for the changes in HRM systems, whether these relate to economic crisis or the revision of business systems. Compared with Japan, China has also been facing changes of reform and marketisation over the last few decades. It is important to take all these related variables into consideration when exploring the adoption of HRM and changes of IR in economic cycle.

2.3.4 The legislative environment of the Chinese labour market

This section shifts the focus to another significant indicator of the role of the state played in shaping Chinese SHRM – through the labour legislation and labour market. China's

economic reforms since 1978 were not only the milestone for the modern Chinese economy, but also for Chinese employment relations (Wang et al., 2016). Legislative and regulatory factors (Kim and Chuang, 2016; Wang et al., 2016) are influential to Chinese employment relations. HR policies in organisations should be set in accordance with national legal necessities. HRM implementations should be adapted to the regulations of countries (Tiwari and Saxena, 2012; Genc, 2014). As discussed above, Mello (2006) argues that legislation and regulation have impacts on every function and activity of an organisation, including HRM decisions. Firms should behave within the framework of regulations, which are the implementation of law in practice.

Before moving to the current labour law and legislation development in China, it is essential to look at the political orientation, i.e. what the state has been attempting to achieve through these policies. Emphasis on “labour compensation-enhancing economic growth”, rather than on growth based on “cheap labour”, became one of the main elements in the formation of a new economic development model under the new policy line of “constructing a harmonious society” (Lo, 2007, p.193). Policy measures that are set to achieve this include “increasing protection of labour rights, the enforcement of proper employment contracts, the implementation of minimum-wage legislation, and the promotion of the establishment of trade unions” (Lo and Wu, 2014, p.322). It is of note that before the turn of the century, the Chinese state leadership announced a move towards a liberalization approach to employment, particularly outside the state sector. The declining and rebounding trend of the only existing official trade union, the All-China Federation of Trade Unions (ACFTU), with union membership as a proportion of the total number of employees in the secondary and tertiary sectors decreasing from 49 percent in 1981 to 29 percent in 2000, and then recovering to 36 percent in 2005 and 50 percent in 2010 (Cooke, 2016), has particularly showed the government’s push towards marketisation in employment share. The rebound in unionization owes much to enforcement by the central government of the stipulation that enterprises of all types of ownership are required to allow unions to be set up and for workers to join unions. For a long time local governments, private employers and most notably foreign capital-funded enterprises have fiercely resisted this requirement. The state leadership suggested that this requirement is essential to the promotion of collective bargaining over pay and rewards.

Lo and Wu (2014) suggest that under this orientation from the labour sector policies, broader social development policies have been incorporated into the policy line of “constructing a harmonious society” (Warner, 2008), such as the expansion in social welfare provision and the attempts to reconstruct a government-funded health-care system. There are two suggested pathways of economic development over the last decades in China - the transition from labour-intensive to capital-deepening industrialization is consistent with the priorities of the new policy line, which puts labour compensation enhancement on a par with employment and productivity growth. In the period from 1992 to 2010 both output and productivity growth accelerated, while employment growth lagged slightly behind the growth of the labour force. Staying on the central path of economic growth and employment expansion, with relevant state policies, depends on whether the productivity gains in industry can be effectively channelled into the development of the labour absorption capability of the services sector, especially in SOEs. The fast productivity growth associated with this development path forms the material base for the pursuit of the policy objectives.

According to Schucher’s (2009) work on China’s employment relations, the most significant issues in the current Chinese labour market include the enforcement of new labour standards, the strengthening of social insurance mechanisms, and the fostering of labour mobility and re-employment of laid-off workers (World Bank, 2007). According to Chan (2012), these three issues have also been debated around two shortages: first, the extent of unemployment and the shortage of jobs for new entrants, especially rural migrants from China’s interior regions and qualified college graduates, but also including laid-off former state-sector workers; and second, the lack of social insurance and social assistance provision, with associated risks and social, political and economic implications for wellbeing, social stability and domestic demand. Economic growth has been presumed to be the best remedy by the government so far, and still seems to be regarded as such.

On the way to transforming into SHRM, Chinese firms have faced regulation changes as well as economic changes. The introduction of the new LCL was influenced by the development stage of the economic transformation. The new LCL has been in force since 2008 and acts as a corrective to imbalances in Chinese economic life (Warner, 2008). The government has been increasing its awareness of emergent social tensions arising from

power imbalances in the workplace and the less egalitarian income and wealth-distribution now found in China (Zhu et al., 2011). Policies that should be considered when responding to the economic crisis have been aimed at several aspects: easing the enterprise burden, increasing employment opportunities, curbing labour disputes, and post-crisis development (Chan, 2012). The legislation and regulation issued by government departments to ease the enterprise burden include freezing the adjustment of minimum wage (Liu 2008), further rebates on the export of some labour-intensive commodities (Cai and Wang, 2010, p202), and the opportunity for enterprises in difficulty to benefit from implementing an unemployment insurance fund to maintain the stability of employment relations (Chan, 2012). Imbalances in Chinese economic life have been always existing in different forms alongside the development of economic growth. These circumstances raise the question of how HRM development in firms, particularly while transitioning from personnel management to SHRM, may be influenced by changes in labour regulations aimed at solving other issues rather than being strategically focused.

One of the other issues that the LCL has attempted to resolve during the period of economic change has been to directly increase employment opportunities and reduce unemployment. The Chinese government has actively promoted entrepreneurship and self-employment. Measures include easing market entry, strengthening supportive policies, widening credit channels, and strengthening entrepreneurship training (Chan, 2012). In order to solve the issue of the shortage of job positions for new entrants, the government launched policies to encourage and support graduates from higher education institutions to set up their own businesses. At the same time, the newly launched economic stimulus plan also affects the unemployment rate. Even though the economic stimulus plan was launched to maintain economic growth, stimulate domestic demand and adjust economic structure, it contributes to creating employment opportunities (Cai et al., 2010). Economic transformation has also been pushed during the recession. Thus, this raises a question of how these labour policies that encourage more employment opportunities affect HR reform during the economic transformation. Whether the release of market entry and widening credit channels can result in a higher level of labour costs or impact on recruitment in traditional types of firms is also worth exploring.

Another issue that the new regulations are trying to solve is to manage and reduce labour disputes; the protection of labour rights was strengthened in the new LCL. Considering

employment relations, the study points out that these findings should be interpreted in relation to the Chinese context, in which rigorous performance appraisal and the lack of training and development opportunities are not the major causes of labour disputes. In comparison, compensation and recruitment and selection-related issues have resulted in a much larger number of disputes. As a result of the economic reform, job insecurity, unfair payment or not getting paid at all have been the dominant concerns of Chinese workers (Warner, 2010). Labour disputes have had to be resolved, especially in worsening economic situations when conflicts between employers and employees become acute. Enterprise confederations have been asked to actively guide and encourage enterprises to avoid redundancy as far as possible through measures such as on-the-job training, rotation of duty and leave shifts, and wage negotiations, in order to do their best to avoid or minimize layoffs. Enterprises with difficulties in production and operations were encouraged to adopt measures such as “flexible employment, flexible work hours, flexible wages, and training to stabilize job positions and labour relationships” through collective negotiation with employees (Chan, 2012, p31). Enterprises may be guided to pay economic compensation according to the law, and to pay all outstanding wages (Chan, 2012). As shown in these policies, the state is aiming at maintaining stable and sustainable economic growth and a labour market with less disruption. Compared with Western contexts, where there is a trend of trade union decline, China is facing a trend of strengthening labour protection, even during periods of difficulty with production or finance. Thus, this research will address questions of how to keep the balance between reducing labour disputes and fitting the business strategy.

In terms of post-crisis development, China’s economy began to recover in 2009. After the signs of recovery became apparent, minimum wages began to raise (Xie, 2010) in order to narrow the income gap and avoid social unrest. This was a new sign that a different economic structure and law system was shaping industries more effectively, as well as the importance of political economic factors, along with the building of a law system that will play an increasingly important role - perhaps the most important role when shaping business strategy in firms (Chan, 2012).

In addition, regulation of the concept of labour dispatch, which is similar to the UK system of temporary agency work, was been provided in the LCL for the first time. This was a result of recognising the rapid expansion of this form of employment. Labour

dispatch is one of the pathways that used in subsidiaries in the Chinese banking sector in order to save labour costs for positions with standardised working processes. In China, labour dispatch refers to the employment relations under which employees are dispatched to a firm by a human resources agency specifically engaged in the labour dispatch business. This raise the question of how these developments in labour regulations may impact on the HRM development, at the same time as HRM reform is being shaped by the economic reform.

2.4 Conclusion

This chapter reviews literatures from, as shown in Graph A, first, a broader fundamental theoretical perspective on why economic factors could matter for HRM, and second, the particular Chinese labour market contextual perspective, wherein employers shape their business and HRM behaviour and formulate strategy.

Fombrun et al. (1984), Beer et al. (1984), and Cascio and Boudreau (2012) all devote specific attention to an array of environmental forces outside organisations. Kaufman (2015a) argues that certain dimensions of SHRM models have remained relatively similar. At the same time, differences and areas of change also exist. During the last three decades, a positive relationship between HRM practices and financial performance has already been focused on and largely recognised as providing important insights, while companies also have been beginning to move beyond economic value_{SEP} creation as the only purpose of their firm. HRM researchers are trying to adopt a normative perspective around multi-stakeholders. However, economics itself, as value creation as well as an environmental factor, could also relate to and shape the engagement of stakeholders. The relationship between financial performance and HRM is now clear enough, while the environmental economic factor still remains to be explore over different time periods. How HRM practices such as performance, pay and rewards, recruitment, talent management, and leadership development change in the context of a multi-stakeholder firm under a changing environment is crucial to explore. Economic changes alongside political changes have attracted the most significant attention during the last decade, and it is time to answer these questions to enable practicing managers to achieve their goals and contribute more effectively to business transformation.

The large amount of comparative research on SHRM requires a greater focus on external influences than in the past. One of the most significant changes is that the emphasis and attention on forces and factors have shifted from external to internal in recent years. The development of SHRM models has been facing shifts in focused alignment notions from economic factors to broader issues. However, the notable changes in the global economic environment over recent decade have required some return of attention from scholars, as we have argued.

Moreover, there are already signs of the integration of values into the study of HRM, particularly reinforced by comparisons between US studies and those in other cultures such as China (Warner, 2013). The field of HRM in China has to catch up with the growing commitment to sustained economic and social value creation, as well as building high-performance firms.

Seen from the first perspective, an understanding of economic factors matters for HRM for two main reasons. First, HRM strategy should fit with organisational business strategy, which will be affected by economic factors. Second, economic factors affect the labour and job markets, which require responses in HRM strategy. Since there are external factors requiring less fit in order to react to changes in the environment, this raises the research question of which economic factors can affect the formulation of HRM strategy in a particular context, and how this occurs.

The second perspective reviews the fundamental contexts of the Chinese economy and labour market. All business and HRM behaviours are socially embedded in wider national contexts. According to the discussion in this review, the main feature of fast growth and the main focus of government policies in terms of the labour market and economic development plan should be taken into account when conducting research. It also provides evidence from previous empirical research in Asian contexts of how different environmental factors require different focuses and responses from HRM strategy. It compares different Asian economies with the Chinese economy regarding specific factors which are demonstrated be influential in formulating HRM or IR system in these economic environments. These factors and concerns should be taken into account when conducting the proposed research.

Overall, the main objective of the proposed research is to explore the economic factors that employers have recognised as having an impact on their HRM strategy, and how they respond to them when formulating their strategy. This consideration of the national contexts and organisational internal contexts requires interpretive data, and the research will therefore be conducted through qualitative methods.

In reviewing these literatures, a question has emerged: “is the Chinese approach to HRM a completely different concept from Western countries?” Should it be understood differently right back to its initial starting point? Every different culture and social element may result in different adaptation and practice (Yu, 2011). As mentioned in section 2.3, China has its own features that may influence environmental factors in different ways and pose unique questions for HRM research (Cooke, 2009b; Su and Wright, 2012; Cooke et al., 2016; Huang, 2016; Ouyang et al., 2016; Zhu and Warner, 2019), particularly the legislation and regulatory factors (Kim and Chuang, 2016; Wang et al., 2016), and the role of the state (Guo et al., 2016) Although the existing literature indicates that there is a positive association between strategic HRM practices and firm performance across different organisational settings in Western contexts, further studies examining the linkage between HRM practices and employee creativity in the context of the emerging market economy of China are still worth to be conducted (Jiang et al., 2012).

Developed from a closed economy with ‘hard’ worker protection and then moving to the current stage with an open door to ‘soft’ labour rights, however, the emphasis on soft regulation and the downplaying of the role of the state have been criticized by many labour and industrial relations scholars who put the state and workers’ organisations at the centre of their inquiries (Chan and Nadvi, 2014). It is also uncertain whether globalization with more ‘managed’ employee entitlements will be evident after the crisis period in China, whether the state may have to go further than advocating the ‘harmonious society’ to cope with enhanced economic stresses and social tensions, and whether a new kind of HRM will emerge in the coming years. Divergence of requirements of the LCL remains with regard to enterprise types. Private owned firms face more pressure and challenges subject to intense economic pressures and lack of funds, labour and technological support (Wang et al., 2016). These questions will be debated in this empirical research and analysis.

While there is now a great deal known about the nature of HR strategy, the matched HR practices of each model, and their impacts on performance, there are still gaps in our understanding of how and why such strategies are actually formed and work under certain circumstances. How environmental factors impact on the adjustment of HR strategy has also been recognised at a fairly general and standardised level, rather than taking the increasing complexity of these influential factors into account. Such gaps are perhaps not surprising. Much of the SHRM research to date has been based on firm-level quantitative approaches that focus on HR practices (Guest, 2011) rather than on other aspects of the HR system.

In order to fill these gaps, the contributions of this research will be in answering the following questions: a) how strategic HRM is being configured in the Chinese context, shaped by economic changes and external factors; and b) how strategic HRM, in the context of these changing economic factors and external context, is being used by the state to push firms in the financial sector towards a new model of 'people management'. General SHRM models explain the fit; but due to specific internal and external factors, they have to be modified in order to be applied to organisations in the transitional Chinese economy. By analysing the current state of HRM and the HR context in China, and the reasons why the influence happens, this empirical research aims at developing a conceptual SHRM model for the Chinese economy. The model introduces a new specification of the HR context emphasizing HR facilitators, and an additional moderating construct of HR power, to give more explanatory power for studying the fit and links between HRM and the external environment.

Chapter 3 Methodology

3.1 Introduction

Following the discussion and review of the debates on SHRM and Chinese approach of HRM in existing literature, this chapter addresses the research methodology of this thesis. The design of research methodology is essential to solve the research problem scientifically. This section introduces research methodology used for the conducting of this research, and also the process of data collection, data analysis and the development of theory. The main aim of this thesis is to explore the external impacts on the development of SHRM, the fit and adjustments of HRM in China. Thus, the whole process of designing and conducting this research reflects the nature of the research question.

This chapter starts with introducing the research objectives and research questions, and how these should be addressed when choosing the research methods. Firstly, the introduction of the research objectives and the approaches to linking qualitative methodology to them are provided. It then presents the adoption of philosophy with discussing the ontology and epistemology. The subsequent sections describe the methods used in the data collection process for this empirical research, which consist of case study and interviews. The case study was a single industry with multiple firms, and the approach of semi-structured interviews. The research design and process of conducting fieldwork will be introduced with outlines and details. Research methods in existing HRM literature are reviewed, which provide the background and insights of understanding the research methods used in HRM/IR studies.

3.2 Research objectives and the nature of the thesis

As the main research topic is: the development of SHRM in Chinese financial services sector and understanding the roles of external economic factors and the state. This examination of fit and non-fit is explored from the viewpoint of employers in the context of economic development in a transitional economy. Employers' responses to external

economic factors in the perspective of HRM would be the key perspective to take to explore this research topic. The prime objective of this research is to develop understanding of how economic factors, especially economic cycle, impact on the HRM decision making of employers. Based on this fundamental approach, the results could contribute to filling the gap of the relationship between external economic factors and HRM in the Chinese context.

The research questions are:

1. What environmental changes do employers believe drives the reform in people management in China?
2. How have employers experienced and responded to the development of the Chinese approach to HRM during reform in banking sector?
3. What role does the state play in setting and implementing HR strategy in the Chinese financial service sector?

In order to explore these questions, the proposed research is going to be conducted through qualitative research methods. There are two reasons why qualitative research methods are chosen. Firstly, many of the previous research were exploring the facts of the relationship and conducting quantitative research methods. The nature of the research questions aims to find out the interpretation of what the impacts are, why the impact exists in specific contexts and how the responses are created from employers and employees. Since several problems and concepts need to be clarified through the process of research, such as how the employers think of the relationship between the changes of the economic cycle and the economic and labour market policies, this proposed research is closer to an interpretivist position than a positivist mode of enquiry.

3.3 The philosophical foundations of intensive research

The process of formulating any research approach includes making a choice from a range of research methods, decision data collection, and approaches of theorizing the results.

Before starting this process, it is important to consider and understand the ontological and epistemological positions that this research rest upon. The proposed study aims to explore the interpretation of the relationship between external economic factors and HRM strategy from employers and the experience about it from employees. This suggests it to be studied through an inductive qualitative research and hold an interpretivist perspective. According to Tsui (2006) and Tsui et al., (2006), ‘outside in’ research on exploratory studies on Chinese HRM is useful in explaining and to exam how topics are manifested in the Chinese context (see also Sheldon and Sander 2016; Sander et al., 2017). The position and approach that have been chosen provides the foundation of considering what the study is about, what kind of data is required, what the methods should be to conduct research and collect data, how the data can be analysed and how conclusions can be draw from the research.

The research questions of how employers experienced and responded to the development of the Chinese approach to HRM require the research to be conducted through an approach that is more applicable for gaining organisational culturally and environmentally situated knowledge instead of generalizing to predict practices in the future. According to Tracy (2010), in contrast with quantitative generalization, qualitative research is more applicable for historically and culturally situated knowledge.

Weber (1991) argues that there is rule-governed method in natural science while the actions of human beings are more related to idiographic methods than general laws of nature social sciences. Therefore, human behaviour should be understood and explained differently. Researchers also hold different positions and approaches when considering how to study social science. A positivist approach suggests following the methods of natural sciences when studying social science. The main consideration for positivist and quantitative research in social science is to become “allegedly value free, detached observation”, aiming at identifying general and universal features of humans, society and history which allows predictability. In contrast, an interpretivist approach seeks culturally derived and historically situated interpretations of the social world (Thomas, 2003). Listening to those who are studied and observing them is important to gain information about their experiences and perception and access this information, which is also

important to achieve the research objectives of exploring the employers' perception and explanation on economic factors.

Further conflicts exist between positivist approach and interpretivist approaches. Building research methods of natural science used to be the main focus of positivist approaches. It also provides early models for social sciences. Some interpretivists even believe that social science should be treated differently from natural science and cannot be studied by using scientific methodology (Benton and Craib, 2011). Seen from interpretivist positions, human beings cannot be treated the same as the material world, thus, the methods for investigating humans should differ from studying matter (Holloway and Wheeler, 2002). The important point that forces this research to hold an interpretivist position is that the data should be analysed and understood deeply from a subjective perspective (Benton and Craib, 2011). Researchers' subjective opinion can also contribute to interpreting the situation and contexts of the research. For this research, one of the main aims is to explore how and why employers interpret the impacts of economic factors on their organisation. The nature and the aim of the study determines that it is more suitable to employ interpretive research, especially when exploring the response of employers.

The main research objectives are to explore how employers respond to, and employees experience, the impacts of external economic factors. It is not only aimed at figuring out actions, but also the reasons why they make these decisions and how they implement them. As discussed in earlier sections reviewing influential factors in formulating HRM strategy, influential factors can be complex and the process is more than a simple interaction between one factor and the strategy (Schuler, 1992; Lundy, 1994; Truss and Gratton, 1994). According to the review of the HR responses to external environment, it is obvious that the economic, political and cultural environment of these responses have gained changes during different time periods and across regions. Under this consideration, two points are addressed to reject quantitative research and deductive research for this study. At the first point, there could be considerable numbers of factors influencing and moderating the results, which makes it less possible to predict all of them before the research. Deductive generalizations are a procedure of formulating a hypothesis to draw testable consequences (Yin, 1984), however, the interaction of factors makes it too complex to set up hypotheses. Thus, rather than testing a theory or proposition, the

approach of building a theory is more applicable for this research. Secondly, HRM strategy is formulated by both external and internal factors of organisation (Lundy, 1994; Schuler, 1992; Truss and Gratton, 1994; Beer et al., 2015). Thus, instead of making generalized conclusions, this research intends to make more contextual interpretive conclusions. At the same time, even though the generalisability of every single case could be limited, it is still contextually relevant in similar cases or those who share similar features. Thus, as well as drawing interpretive conclusions, some points from them could still be generalizable.

When designing the research, a variety of research methods are available. Before making a choice of the research methods, it needs to be clarified what the points are to focus on and study. It should allow the covering of the complexities of interaction between external factors and internal HR operations. Concerning the ontology and epistemology of this research, in order to answer the research questions, the information needed to be gathered includes employers' interpretation about what economic factors that they have recognised have already impacted on their business and HRM strategy, what factors have the potential to impact strategy in the future, what changes they have made and how they evaluate their decisions. The data needs to generate descriptions, interpretation, reasoning and evaluation for the economic impacts as well as the response.

An objectivist approach focuses on structures, actions, behaviours of the employers and employees, while a subjectivist approach focuses on employers and employees' human experience of interpretation, interaction and construction of their world (Cunliffe, 2011). This research concerns the interpretation and interaction as discussed above. Subjectivist approaches would be used to explore the interpretations and meanings of the employers' response, as well as the differences and similarities. The research methods include semi-structured interviews with employers and employees. The internal environment of each organisation is different, however, different objectives during the recession were followed by each organisation, while might also be comparisons drawn from those sharing the same goals. This suggests that even though the main object of this research is not making generalized conclusions, rather interpreting and illustrating behaviours, the cases cannot be studied separately from context and there may still be findings that can be generalised. Thus, social constructivism influences this research, more than positivism.

3.4 Research methods and Participants

This qualitative study is conducted through different levels of research strategy, including one of case studies and the research method adopted is interviews. The overarching research strategy is a case study of the Chinese financial service sector. Employees and employers from multiple firms of Chinese financial service sector, and relevant policy makers are involved in the interviews to explain their experience of the changes of economic factors and how they have reacted toward it. External elements include environmental factors, such as the changes in the legal environment and competition intensity in the economic cycle. Employee attitudes towards management also can be found through both interviews.

Due to the fact that resonance can emerge across cases (Tracy, 2010), as well as comparing the diversified interpretations, this research aims at building theories in multi-business sections. These individual interviews were conducted in organisations including SOEs, public sectors and Joint-stock sectors in China. Financial sectors are chosen because they have been most directly affected by economic growth and downturn.

3.4.1 Case Study approach

When choosing a method for research, it is important to consider the type of the research question posed (Yin, 1984). Case studies are considered particularly useful for addressing the ‘how’ and ‘why’ questions. The research questions of ‘how employers experienced and responded to the development of the Chinese approach to HRM over time since the reform in banking sector’ is a central ‘how’ question to explore, while the other research questions of ‘what environmental changes do employers believe drive the reform in people management in China’ and ‘what role does the state play in setting and implementing HR strategy in the Chinese financial service sector’ are substantially ‘why’ questions addressing the discussion around the development of Chinese SHRM.

There are a number of strengths in using case studies for this research. The detailed qualitative accounts often produced in case studies not only helps to explore or describe the data within its contexts, but most important “is to explain the presumed causal links

in real-life interventions that are too complex for survey of experimental strategies” (Yin, 2008, p19). This helps to explain the complexities of real-life situations, which may not be captured through experimental or survey research. Case studies allow the data collection process to be mostly conducted within the context of its use (Yin, 1984), and for this research, the situation in which HR activity takes place. The case study in exploring the employers’ experience of SHRM in China can give access to not only numerical information concerning the strategies used, but also the reasons for strategy use, and how the strategies are used in relation to other business strategies and external environmental factors. As SHRM development in firms involves complex cognitive processes, it cannot be examined in isolation but rather in relation to other factors. For case studies in various organisations, the process of discovering the same concept of SHRM might reveal some insights, and understanding of their different approach to policy integration, formulation and its implementation process.

Apart from strengths, there is also criticism of the case study method. The main concern that case studies are often accused of, as Yin (1984) discusses, include lack of rigour, making it difficult to generalise if they use a small number of subjects, and difficult to conduct and produce a large amount of documentation, which is more positivist in perspective. It is also important to take into account that equivocal evidence or biased views may influence the direction of the findings and conclusions (Yin, 1984) when analysing data.

However, for the issue of being criticized for lack of generalisability, Mitchell (1983) argues that multiple case studies can produce valid and illuminating research. Thus, even though this research focus on a single industry of financial service sector, multiple firms are involved including different types of ownership. This approach helps tackle the generalisability issue. Bryman (1988, p90) notes that case studies are not drawn from a ‘wider universe of such cases’. A similar point is suggested by Yin (1994), that the setting of parameter establishments and objectives of the research are much more important than a big sample size for the case study method. Generalisability thus should be obtained in relation to theoretical propositions rather than statistical populations.

Stake (1995, 2005) suggests qualitative case study research discovers meaning and understanding of experiences in context. Cases selected based on the topic of interest and

the aim and conditions of the study, are either interesting in themselves or are able to facilitate the understanding of insights or new insights on topics and issues (Stake, 2005; Yin, 2008; Merriam, 2009; Harrison et al., 2017). Rather than focusing on a specific variable, case studies help to achieve the goal of analysing outcomes in context, discovering new information rather than confirmation of an existing theory or proposition (Merriam, 1998). Thus, to conclude the debates on the issue of generalisability, the idea of 'in context' itself should already shift the main focus from 'universal' into 'specific' and particular. Taking into consideration the generalizability for the selected cases, this research involves the leading organisations in both SOEs and Joint-stock sector of Chinese financial service sector.

Stening and Zhang (2007) researched methodological approaches in Chinese HRM. Questionnaire surveys have been the main method deployed for data collection as researchers have to overcome logistic and practical challenges. Cooke's (2009a, p16) review work on Chinese HRM literature suggests that more 'in-depth case studies at the organisational level are needed to narrate the nuance and delineate the trajectory of development of HRM in China'. Cooke (2009a) also suggests this methodological gap requires more in-depth comparative studies of different ownership forms to identify the extent of ownership and/or country-of-origin may affect the shaping and implementation of HR practice in Chinese organisations (Wilkinson et al. 2005; Walsh and Zhu 2007). Thus, the extensive use of snapshots and pragmatic approaches to data collection leads to more demands on in-depth case studies at the organisational level. This research was conducted across a number of sites where principal employers and employees were interviewed, which are detailed in the following sections.

3.4.2 Research Location

The field research was conducted in the financial service sectors in Beijing, China. China is the second largest economy and has the largest population in the world, while there is limited strategic HRM research within organisations. As discussed in chapter 2, the development of HRM in practice is still at the stage of exploring the scientific system rather than carefully considering further issues in work and employment relations. The

development of HRM as a subject does not have a long history. Also, most of the head-offices of the participating organisations are located in Beijing.

For the gaps of research, at the country level, Cooke (2009a) suggest that variations, in their approach to HRM, including labour-market constraints, level of adoption of modern/Western HR practices, need to be identified in more comparative case studies between China and other emerging economies. Not only for comparative case studies between emerging economies, HRM system adjustments in China itself it interesting, as discussed above.

Furthermore, Wright et al. (2002) discuss this challenging task, as researchers inevitably face additional barriers to data collection in emerging societies like China. The researcher of the present research is originally from this city and country and is familiar with the culture where the sites are based. Access to participants was initiated through gatekeepers who were personal contacts of family and friends of the researcher. Having the knowledge of 'common sense' of meaning of interviews helps deeper and accurate understanding of the data.

3.4.3 Case study organisations

For this project, the main focus of the discussion is on the banking sector. Discussion of non-bank financial service intermediaries including insurance companies, trusts firms, funds firms and security firms are also involved though to a lesser extent. The banking sector has a longer history within Chinese financial sector and still possesses the largest capital and market share in this industry. The issues emerging in the banking sector are more representative for this industry. The research involves the sector in two types of ownerships - SOEs and JSCs. In the strict definition of ownership, all the SOEs and JSCs discussed in the present study are all currently belonging to the joint-stock sector in broader concept, because both the state and private sector own shares of these companies. The distinction of the SOEs and JSCs discussed in this thesis considers how their ownership has been transferred since establishment. SOEs stands for those firms that were originally established as wholly state-owned and have been through the share structure reforms. Their share-structure is currently still largely owned by the state and these firms are still commonly recognised as state-owned. The joint-stock firms are established as joint-stock firms and the state is not the biggest shareholder. It is important to make this

distinction because the ownership structure has a strong influence on the management system in Chinese contexts and is making a significant difference in the results of these studies. The majority of material discussed in this chapter draws from interviews with employers and employees from middle management, and documentary evidence from the participating workplace.

Using the whole financial services sector as a single case study of an industry is due to the nature of the research question: understanding the external environmental factors and the state. Exploring from an industrial level is useful in considering the impact of state policies and the economic factors, while it is also focused enough to providing a good level of deepness and details with multiple firms and multiple types of ownership. Cooke (2009b) and Zhu and Warner (2019) emphasises on the importance of exploring the relations of HRM and the influential factors in different ownerships. Due to having longer history, SOEs in general have a stronger tradition of socialist values which is reflected in their management practices, in which they have established company procedures and clearer lines of control in the management structure. Organisational leaders are considered to have less discretion in management decisions (Tsui et al., 2006; Cooke, 2009b). Privated owned enterprises are comparably smaller while tend to have stronger adaptability to market trends and are highly profitable driven (Cooke, 2009b). The data from these two types of ownerships is likely to offer more comparative insights for this research.

For the participants, the main focus of the discussion is also based on employers' perspectives. Employers are more familiar with the control of HR and business strategy inside firms as well as the knowledge of state policies and environmental factors. This comprehensive and overall knowledge and understanding for the whole industry, state policies and their own firms is more likely to become an entry point for exploring the research questions of the development of HR systems and the role of the state and environmental factors in their development.

Interviewees include policy makers, executive managers, general managers, HR specialists and employees. Employers and HR specialists are going to be interviewed to interpret the way they use HRM strategy to react to economic factors, while the

employees are going to be interviewed to interpret their knowledge about the changes concerning the HRM strategy of the organisation. According to the proposed research objectives, the results should be made up of two main components, which are the HRM response towards external changes from employers and whether the changes fit and support their business strategy. For both parts of the research, analysis will be conducted to investigate documentary data.

The total number of interviews was 59, including 6 policy maker interviews, 35 employer interviews (including 28 general managers and 7 HR interviews) and 18 employee interviews. As shown in the table 2 and table 3 below, 30 participants are from 12 state-owned financial service sector (SOEs), while 22 participants are from 10 joint-stock and private sector (JSCs). Among these, 7 institutions were engaged with the pilot studies.

The first group of participants are relevant policy makers and monitoring institutions of financial service sector in China (See table 1).

Table 1. Case study - organisations and participants of Policy makers

<i>Codes</i>	<i>Institutions</i>	<i>Managers</i>	<i>HR Directors</i>	<i>Non- Manager</i>	<i>Total</i>
<i>Policy maker A</i>	<i>Policy making</i>	1	1	1	3
<i>Policy maker B</i>	<i>Monitoring institution</i>	2			2
<i>Policy maker C</i>	<i>Monitoring institution</i>	1			1
<i>Total</i>		<i>4</i>	<i>1</i>	<i>1</i>	<i>6</i>
<i>Codes</i>		<i>Policy Maker A-C Manager 1-4</i>	<i>Policy Maker A-C HR</i>	<i>Policy Maker A-C Employee</i>	

As introduced above, categorizing the participating organisations for different ownership types, interviews are divided into two main groups, state-owned enterprises (SOEs, see table 2) and joint stock sector (JSCs, see table 3).

Table 2. Case study - organisations and participants of SOEs (Employers include Executive and General Managers)

<i>Codes</i>	<i>Organisations</i>	<i>Employers</i>	<i>HR Directors</i>	<i>Employees</i>	<i>Total</i>
<i>SOE A</i>	<i>'Big Four' State-owned commercial Banks</i>	3	1	6	10
<i>SOE B</i>		1	1		2
<i>SOE C</i>		1			1
<i>SOE D</i>		1		1	2
<i>SOE E</i>	<i>State-owned commercial Banks</i>	2		1	3
<i>SOE F</i>		1			1
<i>SOE G</i>		1	1		2
<i>SOE H</i>	<i>Securities company</i>	1	1		2
<i>SOE I</i>	<i>Securities company</i>	1		1	2
<i>SOE J</i>	<i>Insurance company</i>	1			1
<i>SOE K</i>	<i>Asset management Co</i>	1			1
<i>SOE L</i>	<i>Asset management Co</i>	1			1
<i>SOE M</i>	<i>Non-financial sector</i>	2			2
<i>Total</i>	<i>12</i>	<i>17</i>	<i>4</i>	<i>9</i>	<i>30</i>
<i>Codes</i>		<i>SOE A-M General Manager 1-17</i>	<i>SOEA-M HR 1-4</i>	<i>SOE A-M Employee 1-9</i>	

In Table 2 and Table 3, the perspective of HR decision making is captured from the employers' point of view. Considering the nature of the research questions, a central point is to explore how the external environmental factors impact on the HR decisions. In current Chinese sectors, major HR decisions at the firm's level are made at the board. HR strategy and decision making related data are more likely to be collected with general and executive managers. Furthermore, those group of participants are more likely to provide their perceptions on the external economic and political impacts on their firms. HR managers and specialists, in contrast, play a role of implementing the HR decisions

instead of decision making. This can be easily evident from the collected data. That is the reason that more employers (general managers) than HR specialists are selected to be interviewed in this research.

Table 3. Case study - organisations and participants of JSCs

<i>Codes</i>	<i>Organisations</i>	<i>Employers (General Managers)</i>	<i>HR Directors</i>	<i>Employees</i>	<i>Total</i>
<i>JSC A</i>	<i>Joint-stock Bank</i>	1		1	2
<i>JSC B</i>	<i>Joint-stock Asset management</i>	1			1
<i>JSC C</i>	<i>Joint-stock Bank</i>	2	1	3	6
<i>JSC D</i>	<i>Joint-stock Bank</i>	1	1		2
<i>JSC E</i>	<i>Joint-stock Bank</i>	2	1		3
<i>JSC F</i>	<i>Joint-stock Bank</i>	1		2	3
<i>JSC G</i>	<i>Non-Bank sector</i>	1			1
<i>JSC H</i>	<i>Non-Bank sector</i>	1			1
<i>JSC I</i>	<i>Non-Bank sector</i>	1			1
<i>JSC J</i>	<i>NGO</i>			1	1
<i>JSC K</i>	<i>MNC</i>			2	2
<i>Total</i>	<i>10</i>	<i>11</i>	<i>3</i>	<i>9</i>	<i>23</i>
<i>Codes</i>		<i>JSC A-K General Manager 1-11</i>	<i>JSC A-K HR 1-3</i>	<i>JSC A-K Employee 1-8</i>	

Most SOEs in this research are large in terms of numbers of employees, total assets and the coverage of their market. The ‘Big four’ commercial banks of China (SOE A-D), including the largest bank in the world by total assets and also the world’s largest IPO at the time, all participated in this research. The data collected from the big four contain more relevant information to the research questions and aims. 10 of the 30 SOE participants are from SOE A, making SOE A based on stronger data. For a similar reason, JSC A is a stronger case among all the JSC and private firms, according to the data they generated.

3.4.4 Interviews

As discussed above, listening to those who are studied is important to access employers' experience and perception of economic factors, interviews are therefore conducted for collecting data. This research uses in-depth interviews because the research topic is related to complex subject matter and detailed information from employers is needed. The research topic is also related to sensitive subject matter when it relates to the business strategy of the organisations. Because of the ontology and epistemological position of the proposed research, interpersonal contact is important and it is also important to seek opportunities for following up and developing further comments on the interesting points occurring during the conversations. Because the research is conducted from a subjectivist perspective, the data will be collected through semi-structured interviews to explore different meanings, perceptions and interpretations of organisational members (Cunliffe, 2002, 2011).

Semi-structured interviews were conducted with all participants. This enriched knowledge and understanding of employers and managers' perception and experiences around the decision-making and implementation of SHRM and HR adjustments. Employers were given space to express their opinions on the role of HR, their role of their firm, the problems faced, the inception and formulation of HR policies. Interviews can be particularly helpful to 'find out what is happening and to seek new insights' (Robson, 2002). Semi-structured interviews may also be used in relation to an exploratory study. This research set up basic and general questions relevant to the research questions to guide discussion in interviews but left enough freedom to talk more about their particular interests and understandings on these topics.

The structured parts of the interviews included questions to keep consistency, ensuring every interview following the same direction towards the research question, followed by open ended questions aiming at eliciting rich, detailed material (Lofland and Lofland, 1995). The semi-structured interview is beneficial for keeping the balance between comprehensive coverage of topics and deep exploration on a set of questions requiring more focus. In addition, interviewees' perceptions cannot only be captured from their words, but also from their behavioural expression. Overall, in-depth interview is more suitable for this research because it can firstly help to reach rich data, details and new

insights; secondly, it provides opportunity to explore specific topics and emerging interests in depth; thirdly, it allows more explanation to clarify questions.

In order to leave the participants an open space of sharing the details of the facts and their perceptions, after each section of the semi-structured questions, the following non-structured questions were asked (depending on the data collected): Why did you say that? Can you please give me more details about this? Do you have any examples? What happened when you said that? Is it correct that? (Yin, 2003).

3.5 Conducting the research

Desk-based and archival research had taken place before the interviews and throughout the research (Ramsay et al., 2010). The first step of field research started from gathering information from previous literature to identify the related problems and review organisations' HRM policies and financial related documentary data in order to finalise interview questions. The documentary evidence was then referred to throughout the whole research process in order to add validity to the data and improve understanding of details. The sources of documentary data include organisational profile and websites, annual reports for the last decade, HR policies if they are available. Other regulation, state policy and organisation's documentary evidence were collected from public information archives and reports from National Bureau of Statistics of China, China Securities Regulatory Commission (CSRC) and China Banking Regulatory Commission (CBRC), Ministry of Human Resources and Social Security of the People's Republic of China (MOHRSS).

For the interview stage, it includes three groups of participants – policy makers interviews, management interviews from employers' perspective, and employees' interviews. The whole process consists with three phrases: the pilot study with general managers from 7 companies; the first phrase of key interviews with policy makers and employers; and the second phrase of interviews with employees.

The majority of interviews were recorded digitally with the consent of the participants. Some interviews were not recorded, where participants were uncomfortable being

recorded. For the non-recorded interviews, detailed notes were taken. Consent forms were signed by all participants. No covert role or any element of deception is adopted in this research.

3.5.1 Policy maker interviews

Guest (2011) discusses the use of multiple sources and its importance in validating and enriching data. This research includes participants from outside and inside of organisations. Policy makers are employed from outside the commercial firms and from the governmental sectors. Policy makers are interviewed to help with developing the understanding of relevant state policies and the aims of these policies, the expected results, so that these could be then compared with the employers' voices from inside firms. The perspectives that captured from this group of participants aims at enlarging the interpretation on the external environmental factors. They were also asked to share their interpretations on the overall development targets and organisational performance in terms of HRM and IR relevant topics of this industry such as monitoring on performance related risk management, executive training that provided for the employers. The interviews of this group lasted around 2 hours with each of the participants.

Table 4 Interview details of policy makers

<i>Sectors</i>	<i>Organisations</i>	<i>Code</i>	<i>Job position</i>	<i>Length</i>
<i>Policy makers & Regulators</i>	<i>Financial regulation</i>	<i>Policy maker A</i>	<i>GM 1</i>	<i>2.5hour</i>
			<i>GM 2</i>	<i>2hour</i>
			<i>Employee 1</i>	<i>1hour</i>
	<i>Monitoring institution</i>	<i>Policy maker B</i>	<i>GM 2</i>	<i>1hour45min</i>
				<i>1hour</i>
	<i>Monitoring institution</i>	<i>Policy maker C</i>	<i>GM 1</i>	<i>1hour</i>
<i>Total</i>	<i>3</i>		<i>6</i>	

3.5.2 Management interviews

Pilot interviews were conducted before the policy maker interviews and the first phrase of interviews to find information to build up appropriate questions. This was conducted through open conversations with managers from seven firms (SOE A, General manager 2; SOE F; SOE M; JSC E; JSC J; JSC H; JSC I). In this stage, these seven institutions included both financial and non-financial service sectors. This pilot study helps with understanding the potential interested aspects and themes in relation to external environment and HRM at from management perspective, the general background and feature of firms based on different ownership. This pilot study also shows the potential differences between sectors, which can contribute to understand the specific feature of financial service sector. It may also contribute to future research for further comparison studies or studies of other industries.

In order to find answer to the key research question of what environmental changes do employers believe drives the reform in people management in China, their HR response it, and to find what role does the state play in setting and implementing HR strategy in the Chinese financial service sector, the management interviews were conducted for exploring employers' HR response to external factors and at various levels. As mentioned in chapter 2, there is little existing empirical research considering executive managers' role, neither gather information from them. This group of participants included General Managers (executive and senior managers) and HR specialists in firms. In the first phrase of the key interviews, they were asked to present their perceptions and thoughts regarding SHRM from the employers' perspective. The questions are designed in a broader and general level, in order to leave enough space for participants to bring in their new insights according to their own perceptions (see Appendix A-C). The interview details with general managers and HR are shown in table 5 (for SOEs) and table 6 (for JSCs). As indicated in table 5, and table 6 more general managers than HR specialists were selected to participate in this research. As discussed above, this thesis aimed at exploring the role of the state and the role of economic factors in HR decision making processes, where extensive understanding on state policies are required from the participants and from the employers' perspective. General Managers, including executive and senior managers, were more likely to have broader knowledge on external economic factors, policy factors, and the role of the state comparing to HR managers.

Table 5 Interview details of SOE General Managers and HR managers

<i>Sectors</i>	<i>Code</i>	<i>Organisations</i>	<i>Job position</i>	<i>Length</i>
<i>State-Owned Sector</i>	<i>SOE A</i>	<i>State Owned Bank</i>	<i>GM1 &HR GM2 GM3</i>	<i>1hour40min 1hour40min 1hour50min 1.5hour</i>
	<i>SOE B</i>	<i>State Owned Bank</i>	<i>GM HR</i>	<i>3hour 1hour</i>
	<i>SOE C</i>	<i>State Owned Bank</i>	<i>GM</i>	<i>1hour50min</i>
	<i>SOE D</i>	<i>State Owned Bank</i>	<i>GM</i>	<i>1hour</i>
	<i>SOE E</i>	<i>State Owned Bank</i>	<i>GM1 GM2</i>	<i>2hour 1hour40min</i>
	<i>SOE F</i>	<i>State Owned Bank</i>	<i>GM</i>	<i>1hour</i>
	<i>SOE G</i>	<i>State Owned Bank</i>	<i>GM HR</i>	<i>30min 1.5hours</i>
	<i>SOE H</i>	<i>State Owned Securities company</i>	<i>GM HR</i>	<i>2hour 1hour</i>
	<i>SOE I</i>	<i>State Owned Securities company</i>	<i>GM</i>	<i>30min</i>
	<i>SOE J</i>	<i>State Owned Insurance company</i>	<i>GM</i>	<i>2hour</i>
	<i>SOE K</i>	<i>State Owned Asset management Co</i>	<i>GM</i>	<i>1hour</i>
	<i>SOE L</i>	<i>State Owned Asset management Co</i>	<i>GM</i>	<i>1hour10min</i>
	<i>SOE M</i>	<i>State Owned Non- financial company</i>	<i>GM1&2</i>	<i>1hour</i>
<i>Total</i>		<i>12</i>	<i>17 GM, 4 HR</i>	
<i>Codes</i>	<i>SOE A-M General Manager /HR</i>			

Table 6 Interview details of JSC General Managers and HR managers

<i>Sectors</i>	<i>Code</i>	<i>Organisations</i>	<i>Job position</i>	<i>Length</i>
<i>Joint-stock Companies</i>	<i>JSC A</i>	<i>Joint-stock Bank</i>	<i>GM</i>	<i>45min</i>
	<i>JSC B</i>	<i>Joint-stock Asset management</i>	<i>GM</i>	<i>1hour45min</i>
	<i>JSC C</i>	<i>Joint-stock Bank</i>	<i>GM1</i>	<i>2hour</i>
			<i>GM2</i>	<i>1hour</i>
			<i>HR</i>	<i>1hour</i>
	<i>JSC D</i>	<i>Joint-stock Bank</i>	<i>GM</i>	<i>30min</i>
	<i>JSC E</i>	<i>Joint-stock Bank</i>	<i>GM</i>	<i>1hour</i>
			<i>HR</i>	<i>40min</i>
	<i>JSC F</i>	<i>Joint-stock Bank</i>	<i>HR</i>	<i>2hour</i>
	<i>JSC G</i>	<i>Joint-stock Non-financial company</i>	<i>HR</i>	<i>1hour40min</i>
<i>JSC H</i>	<i>Joint-stock Non-financial company</i>	<i>GM</i>	<i>1.5hour</i>	
<i>JSC I</i>	<i>Joint-stock Non-financial company</i>	<i>GM</i>	<i>2hour</i>	
<i>NGO</i>	<i>JSC J</i>	<i>NGO</i>	<i>GM</i>	<i>1hour</i>
<i>MNC</i>	<i>JSC K</i>	<i>MNC</i>	<i>GM</i>	<i>2hour</i>
<i>Total</i>		<i>10</i>	<i>11 GM, 3 HR</i>	
<i>Codes</i>	<i>JSC A-K General Manager 1-11</i>			

In the first phrase of the key interviews, employers were interviewed to indicate what they had done in order to react to state policies and economic factors and what were the effects of these decisions. A few general related questions and issues were prepared and used to start the interview, then the participants were given space to talk about their own understanding, thoughts and interested topics on these issues. The questions (see Appendix A-C) allowed exploration for following up on key topics. The guideline questions involved interviewees' individual experience, subjective interpretation about

economic factors, what the interaction between external factors was, who the related stakeholders are according to their responses, what the expectations are and how they work. The open talk allows them to indicate their specific understanding around these questions and issues, aiding analytic induction. For the second part of investigating employers' interpretation about these changes, the perspectives concerned either the changes to the external environment or the changes of the policy and decision making and moreover the reasons of the changes happen. This provided insights into the actual reality of change to the fit of HRM. The experience of different employers is context bound. Taylor (1994) emphasizes that human behaviours and events exist in an open system involving local effects from external interference, for example, the political and economic level. Thus, the nature of social construction of the world and rational analysis were taken into account as well as the values and interests.

These interviews lasted between 30 minutes to 3 hours for each. Apart from one focus group type interview with one general manager and one HR specialist depending on their request, all the other interviews were conducted one to one separately. For this one focus group, the general manager and the HR specialist belonged to the same category of management sharing the view from the employers' perspective, and were asked the same questions. During this interview, the general manager was the main talker and the HR specialist shares the details of their HR policies.

Most of the interviews were recorded and were taken place at a structured location - the office of the participants. A few interviews were not recorded but and were taken place off site and at less structured locations, including restaurants and cafes, while the participants were asked to answer the same semi-structured questions as those interviews taken placed on site. The off-site and non-recorded interviews were useful for those participants who prefer to provide more information, perceptions and interpretations at a less structured location, or those who do not feel comfortable to provide further information if the interviews are recorded. Both of the interview processes aimed at enabling the participants to freely engage with the conversation and provide their unique account, which was of utmost importance to the reliability and depth of the data.

3.5.3 Employees interviews

For HRM studies, employees' voice and experiences provide valuable data. In the second phase of interviews, the group of employees included employees working in various functional departments of head office, managers and employees working in branches. They were all interviewed separately. Six of the employees' interviews with branch managers were conducted at on-site locations and last for 1-2 hours. Other 13 interviews were lasted between 20 and 30 minutes for each. This includes interviews in off-work time and off-site locations. They provided their understanding and insights on current HR issues according to their experience. This data helped to develop the understanding of HR adjustments and policies in the implementation level and also the tensions caused.

3.6. Data analysis and discussion

All of the interviews were conducted in Mandarin Chinese. The process of transcription includes transcription and translation. All translations and transcribing had been conducted by the researcher of this thesis. Considering that all the participants and the researcher were speaking the same language, there were no language differences in the first transcribing step before the translation. The first language differences may occur when transcriptions are being translated into the English version and the first coding. Translations from Chinese into English became an essential step when transcribing the interviews. There were two approaches for the translation. Some interviews were firstly transcribed in the original language of Mandarin, and then translated into English. However, this was an extremely time-consuming process. In order to be more efficient for progress, the other interviews were transcribed and written into English version directly while listening to the records. The definition of key coding phrases, and first interpretations of emerging themes need to be explained in English in the following discussion and analysis of data. A good understanding of subtle meaning differences is needed to come to the best English wording for the intended meaning (Van Nes et al., 2010). The English words have been chosen carefully when there are different Chinese words but displaying similar meanings in the raw data in order to improve the efficiency of the next coding step. The key information is highlight during recording the interview through taking extra notes as well as being marked in during transcription.

Since interviews had been conducted in line with an interpretivist approach, the results have been analysed through interpreting the conversation and reasoning these data within context. The interpretative case studies allow to creating rich descriptions, which are used to develop conceptual categories (Merriam, 1998). When the transcribing process was finished, data analysis moves into thematic analysis. Advantages of using thematic analysis includes flexibility, in that multiple theories can be applied to this process across a variety of epistemologies (Braun and Clark, 2006). Once the texts of raw data were cleaned and prepared, the thematic analysis was carried out through multiple readings and interpretations of the raw data. During the process of thematic analysis, even though the findings may be influenced by the objectives or questions set by the researcher, the results were raised directly from the analysis of the raw data, not from the expected assumptions or models (Thomas, 2006).

The thematic analysis involved three steps: defining concepts, coding and analyzing emergent themes. The first step of thematic analysis is to identify and define the concepts that emerged from the data within the transcripts. In inductive coding, themes commonly emerge from phrases or meanings in specific text segments. At this stage, the key concept relating to the central discussions, topics and issues were marked up with a clear definition of each of theme. Themes were then developed through categorizing them into a general framework. Then the more general categories and themes were derived from the research aims. Three major analytical themes were defined. Major themes are identified as the key drivers of SHRM development and changes, which will be indicated in chapter 4, key HR adjustments which will be indicated in chapter 5 and chapter 6, and the main influences from the state which will be indicated in chapter 6 and chapter 7. More specific categories and sub-themes are derived from multiple and more closer readings of the raw data. The sub-themes emerged and are analysed with particular and specific aspects of the main themes. Specialist qualitative analysis software can be used to speed up the coding process when there are large amounts of text data (Durkin, 1997). The software of Nvivo was used. Attention was paid to the detail of the text to decide relevance of those un-coded texts to the research aims. Closer attentions are also paid into the texts that had been coded into more than one categorise, the links between themes are taken into account. After all the categories are initially decided, new insights or any contradictory points of view were checked under each category. Quotations are then

selected accordingly for illustrative purposes, and data eventually turned into a narrative consisting of one contextual empirical chapter and the following three empirical chapters.

3.7 The use of law and policy

A more innovative aspect of the research methodology is the use of law and policy in this research to make this design interdisciplinary. There is little HRM literature citing the direct quotations from the legislation provisions. However, it can be helpful to use these legislation provisions and articles to explore the possible impacts of regulation and legal factors in relation to HRM in different stages of the research. In this research, legislation and political provisions were reviewed and used in the interviews and in the data analysis process, including the Labour Contract Law 2007 and the Amendment 2013, Interim Provisions on Labor Dispatch 2014, China's 12th 5-year plan, China's 13th 5-year plan etc. Firstly, these legislations and policies are closely connected to the research questions in terms of the external environmental factors, while the legislation, regulations and state policies are considered as the foundation of all the business activities in China, which is evident from the current empirical study. In relation to the research design, it at first helps with formulating the questionnaire for the regulatory related questions by deepening the knowledge of the legislations and the initial aims of the policies. During the interviews, many participants in this research were familiar with the legal provisions, but having knowledge of the specific articles can be beneficial for the interviewer to catch their point. For those participants who potentially had understanding of legal concepts to offer but needed some inspiration to help them to recall it, the interviewer was able to help them with providing some examples of the legal provisions to give them a lead to share their interpretations. At the data analysis stage, it helped with filling the gaps of the multi-faceted role of the state, and helped with exploring the interactions of the state, economic and regulatory factors, which were hard to decouple in Chinese contexts.

3.8 Ethical considerations

During the process of collecting data, there were several ethical issues. The entire research project was reviewed and approved by the University of Leeds AREA Ethics Committee.

The content of the data involves employers' perceptions of state policies. The problems and potential difficulties of implementing the policies are considered to be sensitive topics to some participants. There are also concerns about business competition.

Due to the relevant ethical issues this may raise, the anonymity of all organisations and the anonymity of the participants were addressed in this research throughout. In order to ensure that the information of the organisations is not revealed to readers of this thesis, so that the anonymity of the organisation is not breached, the research organisations and sites have been renamed by conceptualizing them with broader tags according to their ownerships, such as SOE A (State-owned sector A), JSC A (Joint-stock company A) (See Appendix D or section 3.x above). Participants were all provided with an invitation letter and a consent form before their interviews. It is informed in the invitation letter and consent form that their position, location and all data from their responses was kept confidential and not shared with anyone else apart from the researcher and the research supervisory team.

During the process of interviews, participants were informed about the procedures of the interviews and research. The clear procedures and purpose of the research were also communicated to the interviewees with a written version in the invitation letter. They were also informed that they were under no pressure to provide any information that they felt uncomfortable discussing. Also, they were entitled with the right of withdrawing from this research until a time point that they agreed and their data would not be used. No withdrawals materialized. The results of the interviews used in this research are all with the permission of the participants.

Chapter 4 The regulatory background and labour laws in Chinese financial service sector

4.1 Introduction

Chan and Nadvi (2014) suggest that there is a growing recognition that public regulation does matter to effective enforcement of labour standards in the wider context of literature (Locke, 2013), which is consonant with what has been happening in China in the past two decades (Chan, 2014). China has had four constitutions since 1949: 1954, 1975, 1978, and 1982, all of which were influenced more or less by Soviet law. There were numerous changes in China's basic legal provision for work and employment (Blanpain et al., 2007). China's current labour regulation framework began to develop during the post-1978 reform period. The breakthrough of labour legislation was made in 1994 when the National People's Congress formally released the Labor Law, the first national law of its kind in China. As reviewed by Chan and Nadvi (2014), by the mid-1990s, a new legal framework for labour, wages and workers' contractual rights had been established to replace the system of "socialist" administrative regulation (Ng and Warner, 1998; Taylor, et al., 2003; Clarke, et al., 2004). Among all the employment legislation in connection with employment and labour law at the national level in China, this chapter particularly focuses on Labour Law 1994, Labour Contract Law 2007, which attract most attention of scholars since it has been introduced, as well as the Amendment 2013 and Interim Provisions on Labor Dispatch 2014. These laws tend to standardise and to some extent to make the process easier for labour disputes resolutions, for example by cutting down the time period (Zhao, 2009). Through setting standards of employment and minimum employment terms and conditions, the new LCL gives a range of entitlements and protections for employees, and it has been commonly considered as making a significant progression in labour protections in China. Furthermore, Chan and Nadvi (2014) emphasize the increasingly important role of the Chinese state played through labour legislation or hard regulation. This section also addresses and develops the discussion around the role of the state through labour legislation and to what extent it impacts on firm level management through regulatory system.

The purpose of this chapter is to: first, providing a contextual background to all the research questions; second, addressing the first research question in particular. In order to address the research questions, this chapter considers the key elements in the contextual regulatory environment and economic environment of the Chinese financial service sector. Through introducing the environmental factors and the specific Chinese features, this chapter considers the broad approach towards HRM systems and practices of both SOEs and JSCs. SOEs are the legal entities that undertake commercial activities on behalf of an owner government. Rather than being a part of government, their legal status are as stock companies with the state as a regular stockholder. The factors, which play important roles in shaping the business activities and strategy is introduced, including the government institutions of policy makers, the key policies of the labour market and industrial regulations, and the role of government. It also aims at answering the questions specifically focusing on legislation environment of HRM raised in section 2.3.

Particularly, in order to address the first research question, discussions also turn to the external factors which had been perceived by employers as potentially influencing HRM adjustment and the configuration of HRM system. The Chinese approach of HRM has attempted to shift from personnel management into SHRM in the last decades. Specific environmental factors of regulatory and policy changes have always been the key drivers of these changes (Wright and McMahan, 2011; Chowhan, 2016).

With the growth of China's market economy, particularly the ongoing development of labour market, labour protection has become an increasingly important issue in China. This is especially the case given China's huge labour recourses and ongoing economic transition. In recent years, several key pieces of domestic labour legislation have been adopted, and there have been some notable changes in relation to the enforcement of labour law. This section will cover key developments in China's labour law, including the progress and the perceptions of respondents towards these changes and challenges of labour law in China. The differences between state and private firms reacting towards these are also drawn out.

This chapter provides a contextual examination of the position of the regulatory system for SOEs and JSCs in the Chinese financial service sector. The next chapter looks at the

formulation and the feature of the normal HRM structures set for supporting SOEs' long term development plan, the principle of people management in private sector, and the exact impacts have been caused on the formulation of HRM strategy in organisations from the external factors and specific events. Before moving on to these discussions, the main task of this chapter is to clarify the fundamental and potential reasons of the formulation of business strategy and HRM strategy.

4.2 The role of the board, supervision and monitoring in determining HR policies in SOEs

This section starts with considering the way in which the state is one of the most significant actors in shaping business strategy and HRM strategy of SOEs in the perspective of cooperate governance and regulatory system of financial service sector. The importance of the role of the state in shaping HRM strategy have been pointed in many previous studies as introduced in the literature review. The discussion of data will start by considering the relationship between the state and firms in terms of monitoring, regulation and some specific features relating to SOEs, notably the state role on board. Three of the monitoring and regulatory organisations who set up policies that are directly related to financial service sectors will be introduced. The debates and perceptions of policy makers and employers towards these facts will be addressed in places in order to explore the rationale of these cases.

2003 Shareholder reform of SOEs

The most significant event that has driven SOEs to start to build their strategic HRM system rather than simply personnel management is from one of the state policies published in 2004, relating to shareholder reform, as suggested by the participating general managers of SOE A-D. The shareholder reform process suggested significant reform of the banking system. It aimed at improving bank efficiency, and presaged further reforms in the operating system and business strategy in firms (Cooke, 2004; Zhao et al., 2012). During 2005, three of the Big Four state-owned commercial banks announced plans to partially privatise and take on minority foreign ownership. Thus, the “globalisation” of the Chinese banking industry appears to have begun in earnest. This

speedup of the domestic business development and made the bank become more open to the worldwide in terms of business and labour markets. Another significant event that has resulted in strategic changes in business plans of both state and private sector is the 2008-09 Chinese economic stimulus plan as an attempt to minimise the impact of the GFC. Expenditures have also risen to stimulate the economy in response to the recent global economic slow-down, to absorb the bad loans in the banking system, and to expand the social safety net (unemployment insurance and pensions) as a way to facilitate SOE restructuring. These also include a push towards global recruitment in 2008 resulting from the shareholding reform as well as the global financial crisis. The ongoing process of industrial restructuring and issues raised from the large investment including a surplus capacity. These events and the following impacts have played important roles when shaping the HRM system in the last decade in either way of impacting HRM system through the changing of organisations business strategy or changing the labour market. The impacts will be discussed in detail at the following chapters.

The role of the board and monitoring

In the state-owned commercial banking and finance sector, the state plays a role as members of the board, as the state is the main shareholders of SOEs. The first focus of this section is exploring the state role on board in SOEs. As part of this role, the state plays a role of directing, supervising and monitoring the operation of the state companies. Directors of board members in SOEs are assigned from the state and represent as the state controlling agents. The role of state on board inside the firms is reflected mostly through corporate governance as suggested by the executive managers of SOEs. SOEs are the legal entities that undertake commercial activities on behalf of an owner government. Rather than being a part of government, their legal status are stock companies with the state as a regular stockholder. The factors which play important roles in shaping the business activities and strategy are introduced, including the government institutions of policy makers, the key policies of labour market and industrial regulations, and the role of government.

Before moving to this main point, it is also essential to introduce the general concept of corporate governance in Chinese contexts. As discussed in section 2.3.3, the Organisation

Department of the Communist Party of China is a secretive and highly trusted agency (Gilley and Nathan, 2002) and controls the more than 70 million party personnel assignments throughout the national system (Shambaugh, 2009), and compiles detailed and confidential reports on future potential leaders of the Party (Gilley and Nathan, 2002). They are responsible to assign the employment of key positions of the participating SOEs, including the president of the head office and the party branch secretary, who all play important role on board.

Corporate governance can be characterised as the multiple ways in which the government plays its role, in both SOEs and JSCs. The corporate governance practices by listed firms in China are based on the guidelines issued by the China Security Regulation Committee (CSRC). It is based on a control-based model, in which the controlling shareholders including the state control the listed firms through concentrated ownership (Liu, 2009). “The conversion from state to private ownership provides an interesting setting in which to examine the effects of ownership on firm performance” (Denis and McConnell, 2003, p3). By way of the board of directors, in the Chinese unique corporate governance system, the supervisory board is not responsible for daily operations of the company, but serves as one of the two monitoring organisations, together with the independent directors.

“In our daily and regular routine operations, I would say there is the ‘seamless joint’ between us and our monitoring institutions. Firstly, we are under the monitoring of CBRC and that is compulsory for any business activities. Their requirements, regulations and standards are compulsory for us to follow and that’s for the whole banking industry. We must not transgress them in any way and any circumstances.” (SOE A, General Manager 1)

“We really keep paying our attention on them to see whether there are any new monitoring policies. Whenever there is a new policy or standards are published, we learn and training for it at the first place and to evaluate ourselves to see whether we can meet it and whether we are conducting business rightful and legally. In this aspect, we totally follow the monitor in all-round and without any space to transgress. (SOE A, General Manager 1)

Those are the regulations that firms must follow. Informal impacts such as that the operating model and the building and operating of HRM department is also been impacted by any way of “seamless joint”.

Employee stock ownership plans (ESOPs) are firstly suggested as a potential incentive scheme for employees of SOEs in financial services sector right after the shareholder reform. At the Big Four state-owned commercial banks, however, in reality it has not been put on schedule for employee to receive bank shares as compensation or to have stock option purchase plans until 2014. In 1992, China introduced ESOPs as an employee incentive scheme. As introduced in section 2.3.4, to the extent that unionization is indicative of enhancing labour rights in employment, its evolution does appear to be consistent with that of the wage rate. There have been widespread reports that, outside the formal, mainly state-related sector, the wage rate had been almost frozen for fully 20 years until 1990, since the beginning of reform (Lo and Wu, 2014). ESOPs plan has been increasingly covered by JSCs while it still not has been put into use the majority SOEs in financial sector. The situation basically remains the same in state-owned firms until present day. Within SOEs banks, the ownership is not provided to employees and could be used as meaningful employee incentives as in JSCs.

“We are not as close as SOEs to the government. We are under the monitor of CBRC, our business behaviour is shaped by their policy. Some policies are beneficial to our business and helpful to grow the business, on the other hand, there could also be some restrictions. In recent years, we felt more restrictions in the monitoring policies. From our viewpoint, we hope to maximize the profits, but from the governments’ perspective, they think the security is the most important issue.” (JSC A, General Manager)

For JSCs, the relationship between government and the organisations are quite different from SOEs, even though in some areas regulations are the same to them. Industrial regulations and monitoring policies are the only direct connections between them and the state. From the banks’ side, the regulation and monitoring are perceived to be tight, whilst the government considers financial security at the first place. The monitoring policies and guidelines issued by CSRC is set up upon the demands of ensuring the market to run safely for the stock investors without any economic and financial risks and the national

financial system are running relatively independent from the global market. Only when there are significant policy changes or environmental changes that result in adjustments in the regulation and monitoring standards, JSCs need to correspond.

In practice, the policies and regulations corresponding to the economic changes always lag behind. It seems that the trend of state regulations for financial markets is determined to be easy for enterprise, however the effect of how easy it can be implemented has not been reflected in the real markets. The building of HRM systems mainly depends on profit related factors. According to the general manager of JSC A, when their company is in a rapid developing period and is gaining large profits, to catch the market demands, they chose to increase recruitment. On the other hand, when business no longer performs well in the market, there is no need to extend recruitment due to high costs. However, even when the performance is not so strong or facing profits reductions, it is less likely for them to make redundancy or dismissal according to Chinese political and legal environment. Under this circumstance, what they usually do is to transfer those who worked for these business to other department and keep the level of their position. This is a similar approach with SOEs to reacting to environmental changes, where SOEs reassign counter workers to marketing positions (SOE A, Branch manager). In theoretical perspective, the monitoring policy should change and follow the economic environment right away. However, in reality, the policies usually lag far behind the environment.

This section introduced whether the state can impact on financial sectors' operation. Seen from the result of the empirical studies discussed above, the corporate governance could impact more on SOEs' business strategy and operation while the regulations and monitoring role of state usually are at the position of providing guidance and directions of the organisations' development for both state and joint-stock firms. On the other hand, the changes in labour law raised more issues with JSCs rather than SOEs, who had already been on the track of following the issues published in the new LCL even before the publication of those regulations (SOE A, General manager 1; SOE B, General manager). For SOEs, this role on board directly shape the annual plan and decisions on business strategy, HR policies, performance, recruitment plan and training investments. The approach of shaping the changes by the state is largely reflected in calling for changes by the board meeting which indicates the annual HR plan, organisational performance

targets, and the budget of training expenditure and demanded labour skill. However, there are also issues raised by this role in implementing and also from the stage of planning, which will be discussed together with each specific environmental factor in the following chapters.

4.3 The direct impact of the state on the labour market and HR strategy through labour law

This section introduces how employers and HR departments perceive the legislation development of Chinese labour law system. The understanding of how these regulatory and labour law systems are shaping organisational operation and people management is essential context and foundation when considering any external economic factors. Specific attention will be paid into the recent development of the Labour Contract Law and its effects. A series of legislation have been introduced. New Labour Contract Law taking effect from 1st January 2008, Employment Contract Law 2009, and the Revision of the Labour Contract Law of the People's Republic of China ('Amendment') taking effect from 1st July 2013, were continuously introduced. These changes create an ongoing radical change to the management of the Chinese workforce and a pattern of reform for employment relations in China, which are seen to bring increased responsibility to employers (Chen et al., 2010). At the organisational level, one result of the development of labour law, is the increasing level of labour costs.

As introduced in the section 2.3, over the past three decades, the rapid and significant economic and social changes associated with China's move from a centrally planned, command economy to a market-oriented economy with 'Chinese characteristics' have transformed the foundations of its labour market. It also mentioned that the state has directed further restructuring of the economy in 2003. SOEs have become listed in the public market through IPO. This raises the question that whether this further development has been driving the development of SHRM to a different level. According to Zhu et al. (2012), from state-organised transformed into SOEs, one of the approach that they suggested to shape the reform is gradually driving China from the 'paternalistic', state-organised labour administration system based on the 'three old irons' of lifetime employment, fixed wages and controlled appointments, into a more flexible and competitive labour market that would meet the demands of more diversified capital.

“The globalisation further promoted the pace of economic reform in China and bringing with it a diversified labour market. Employment relations have grown increasingly complex with different wages and working conditions for a heterogeneous labour force.” (Policy-maker A, General Manager 1)

A supportive point can be found in Zou’s (2016) analysis that the deficiencies of the existing institutional framework in addressing the problems of labour market liberalisation became increasingly apparent. The continual prevalence of unpaid wages and violation of workers’ rights is an indicator that the regulation of Chinese labour market remains highly problematic.

At the same time point, the state takes further actions to improve the labour law system and start to deal with employment relations issues through building up legislation system. The initial purpose for the state to introduce this labour law is to “improve the labour contract system, specify the rights and obligations of both parties to the labour contracts, protect the legitimate rights and interests of the workers and construct and develop a harmonious and steady employment relationship” (Article 1). This implies the key intention of this pieces of legislation, which is to improve labour rights and labour protections through introducing new detailed provisions on the format of labour contract, and to provide greater security for an increasingly ‘flexible’ labour force (Cooney, 2007; Zou, 2013). Further legislation development with the intention of improving the protection of workers’ rights and interests are thus adopted, and further clarifications are added to provisions of Labour Law 1994.

Cooney (2007) suggests that the most notable shortcoming of this framework is its institutional weaknesses that hinder effective implementation of, and compliance with the law. The question remains as to whether the effect of the new legislation will achieve a more equitable balance between the interests of labour and capital, and contribute to the government’s own social mandate of ‘building a harmonious society’.

There are significant improvements in the substantive rules and clarification of legal standards in LCL 2007. It is seen as an essential step forward in the development of

China's labour law. However, the overall institutional framework may create contradiction to the existing HRM system to some firms and hinder the effective of organisational operation. There are important differences between SOEs and JSCs. As introduced in section 2.3, SOEs had the history of 'iron rice bowl', life-time employment, egalitarian pay, and 'cradle-to-grave' benefits (lifetime welfare) before the new LCL was introduced (Ding et al., 1997; Warner 2004, 2008; Zou, 2013). Even though those system and policies had already been removed, the impacts of the new LCL on SOEs is not significant as they had never stopped their tradition of offering more job security, no time limit working life and strict pay grade for workers. However, for JSCs who usually are less willingness to provide life-time employment and usually only had short-term plan even for their business strategy, have been facing more challenge with these new provisions.

2007 Labour Contract Law

In order to enhance labour protection, in the new Labour Contract Law 2007, new provisions are introduced with the intends to strengthen employment contracts. Related clarifications for the provisions include that, for example, employers are required to conclude a labour contract in written form with an employee within one month of full-time employment (Article 10). In case any employer fails to sign a labour contract in written form with a worker after the extension of one full year as of the date of start to use him, it shall be regarded that the employer and the worker has concluded a labour contract without a fixed period. (Article 14). Employment without fixed term should be provided after two contract renewals (Article 14(3)). Furthermore, the LCL also enact time limitations (Article 19) and pay level (Article 20) for probationary employment. These development on new clarified provisions are essential to enhance labour rights, while they have different impacts to organisations and have led to different adjustments in HR strategy in individual firms.

“One of the significant changes in the new LCL is introducing clearer and detailed provisions in regard to the formation of labour contracts. But these had little impact on our company in reality. As a SOE, we already had these standardised contracts for a while before they are introduced in LCL. We just need to ask our employees to sign

the new contract, but actually there is little significant change for employees and for our company.” (SOE A, HR specialist)

Before the new LCL were introduced, most SOEs had already followed the tradition of standardise labour contract and had a certain level of coverage for their workers.

“SOE A was separated from PBC in 1980’ but still had worked and operated under the planned economy system for a while after that. From 1998, it was the time when all the people working in SOE A became employees of an enterprise. And 2008 is another historical point for the HRM system that the new labour contract law result in a better and complete contractual system and policies for employment relations.” (SOE A, HR specialist)

“I have been working for this company for quite a long while. 1998 was the first year that our bank began to have the labour contract system for the whole sector. And it was the time when lots of enterprise have no awareness and concepts for labour contract system.” (SOE A, General Manager 1)

The consequence is that the introduction of LCL seems to have less impacts on SOEs than JSCs. It seems much easier for SOEs to adopt to the new provisions. SOEs were originally formed from government institutions and had the tradition of being at the lead position of standardised employment and governance policies. The rules in LCL, such as preventing the underpayment of wages have been applied in large SOEs years before the LCL is introduced, which the managers from SOEs share the similar thoughts on it. There is also the tradition of having rare case to dismiss employees in SOEs due to the history of being government institutions, employees were assigned to organisations directly and having lifetime employment as introduced in section 2.3. As illustrated by the HR manager of SOE A, before the LCL taking effect from 1st January 2008, the organisation had already started to adjust and set up new HR policies according to the management policies that had already been showed. At exactly the same time when the labour contract law was published, the new HRM policies of their bank was published. In 2012 the implementation policies of the labour contract law were published, and they conducted

the adjustments to the contracts at the same time. They closely follow the contract law as they claimed. Thus, the new LCL seems have caused much less contradictions or conflicts to SOEs' existing HRM system. However, the general manager of JSC A suggest that the new introduced provisions had raised some issues for their HRM, such as bigger severance payments and higher operational costs.

2008, 2013 Labour dispatch

In addition, the comparable significant impact on both sectors is the provisions around labour dispatching. For the first time, the LCL provides for the regulation of labour dispatch, recognising the rapid expansion of this format of employment. Labour dispatch is one of the pathways used in JSCs and the branches and subsidiaries of SOEs in order to save labour costs for some position working with standardised working process (SOE A, Branch manager; JSC A, General manager). In China, labour dispatch refers to the employment relations under which employees are dispatched to a firm by a human resources agency specifically engaged in the labour dispatch business, which is a similar concept to temporary worker in the UK contexts. There is no direct employment relationship between the client firm and the dispatched employees. The client employer and the dispatched employees work with each other based on a service contract with the human resources agency. In recent years, labour dispatch has become an important method of recruitment for enterprises doing business in China. The situation began to change, however, with the amendment of the Labour Contract Law by the Standing Committee of the National People's Congress on Dec. 28, 2012, which became effective on July 1, 2013 (Amended Labour Contract Law), and the Interim Regulations on Labour Dispatch (Interim Regulations) issued by the Ministry of Human Resources and Social Security and take effect from March 1, 2014. The amendment of the LCL intended to provide further protection to workers employed by labour dispatching agencies. The interim regulations have impacted on organisation's management to both sector. One of the significant change to the employers is the limitation on the percentage of using dispatching labour. The number of dispatching labour should not go over 10 percent of the total number of the workers (Article 4). A minimum registered capital of no less than RMB 2 million for a labour dispatch agency has also increased the costs at a significant level. Operate from a permanent business premise with facilities that are suitable to conduct its business is required. Internal dispatch rules that are compliant with the

relevant laws and administrative regulations should be set. The new legislation sets two years as the minimum employment period with a labour dispatching agency (Article 5), and introduces a system of licensing and registration of such agencies (Article 7). Those two regulations provided new requirements on the use of dispatched employees in China. These policies on one hand aims at standardising the operation and strengthened the protection of labour rights through increasing the coverage of labour contract and building formal employment system especially in JSCs. On the other hand, it objectively increases the capital or running labour dispatch activities.

“The new provisions on labour dispatch have increased our labour costs quite a lot.” (JSC A, General Manager)

Seen from the employers’ perspective of SOEs, the introduction of new LCL is not considered to have a significant influence on labour costs. It only was considered as a procedure of resigning contract that will not cause practical change in their HR management. As they believed, SOEs has always been facing the similar situation lack of flexibility to dismiss or make redundant all the time anyway whether or not it is in the contract terms. However, JSCs and the sub-branches of SOEs believed that they have been facing the issues of increasing labour costs. The limitation on the rate of outsourcing and dispatched labour blocked the way that they use to save costs for fundamental level works.

“The new provisions on labour dispatch have caused some issues. For example, in the past, we had some very hard-working temporary workers. In order to transfer their employment relation to us, they work very hard. After the labour dispatch provisions are introduced, those workers are replaced by our employees, some of whom are not really enjoyed their positions and less motivated to dedicate,” (SOE A, Branch Manager 2)

This changes in regulatory system is aiming at developing the law system and provide the environment for long-term development of the society, however, it raised some issues including the increasing of labour costs and higher turnover rate for firms, especially JSCs.

This creates new topics for their HR management system and challenges their core HR strategy of ‘high-pay system’, which will be introduced in the next chapter 5.3.2.

4.4 Environmental source and effects of increasing labour costs

As a developing country and a transitional economy, China has been facing multiple tasks. Developing economic growth and developing a legal system are separate issues, however, they are inevitably to take place around a same time period. As introduced in section 2.3.2 and 2.3.3, from 2008, the development of labour law system and the introduction of economic stimulus plan for the economic growth were taken place at a similar time. These complex external environmental changes created HR issues in some organisations. The development of labour law system, especially introducing the new contract law, is the state’s attempt to build up and improve the legal system of the country.

The overall Legislation effects

While the LCL is intended to provide enhanced rights and protection for workers, it increases the level of labour costs. The new provisions might create higher labour costs, less management autonomy, stronger employee bargaining power, and weaker control of labour mobility (Chen et al., 2010), impose broad obligations on employers to prevent the underpayment of wages, increase the rights of unions and workers representatives at the enterprise, provide for the transmission of employee entitlements when a firm restructures, and regulate the use of dispatch labour (Zou, 2016). These tensions may foster new ideas and perspectives about employment relations and people management.

The balance between protecting the rights of employers and employees during economic development through state policies and labour laws can raise a debate between employers of SOEs and JSCs. There is the process of balancing between the two sides of building up law system for labour protection as well as accelerate the development of economy when the state was setting up the law. All-China Federation of Trade Unions tends to play an important role in the process of legislation for the labour law. Minister of Human Resources and Social Security (MOHRSS) also published a series of regulations accompany with the labour law. As perceived by the General Manager of SOE C:

“Apparently, the published law shows more protection towards employees. This trend is really significant in recent years.”

“I think this trend is related to the political environment and to the building of legal systems. The labour supplies in Chinese labour market are plentiful. The economy is growing very fast but the law system has not been very completed at this moment. Thus, I think I consider this trend is a right trend at this moment. The adjustment to balance the employers and employees right in policies or regulations would be possible made after the completion and building of the labour law system I believe.” (SOE C, General Manager)

The employers of SOEs seem holding a positive attitude towards the implementation of LCL and believe that there would not be a big challenge for them to solve. However, managers from lower layer of branches reflect that there is a trend of decreasing the use of dispatched labour that assigned to their branch.

“We used to have a good number of dispatched employees, who always work very hard and they are skilled. I was always satisfied with their performance. However, I do not know about other branches but I felt in recent years the number of labour dispatch workers assigned to our branch has been decreasing. Some aged employees who have life-time employment relations with our bank has been assigned to us and replaced the position used prepared for the dispatched labour. They worked with a bit negative attitude and do not have strong willing to learn any new skills because they were transferred from other positions and they are close to retirement. This create some difficulties for the operation of our branch in some extent.” (SOE A, Branch Manager)

SOEs also had a larger percentage of temporary and contingent employment such as dispatch labour. The branch manager of SOE A suggests that, in fundamental positions in branches, temporary and contingent employees were demonstrated to be more motivated and always had strong performance because they were seeking opportunities to transfer to contractual labour through efficient performance which is even better than some employees who held long-term contract but less motivated to have career

progression or payment upgrade. It seems that both of the increasing costs for dispatched labour and the increasing number of aged employees who have life time contract in recent years still raised more issues in both recruitment and motivations.

For JSCs, their HR system started to face the issues of increasing labour costs of non-key positions when the new labour law published, as suggested by general managers of JSC A and JSC B. It is also mentioned in Huang (2013) and Jia (2016)'s work that despite the clearly stipulated penalty provisions for behaviours breaching regulations, there were limited grey areas available for enterprises to deviate from the law. Seen from the interviews, in practice, the increasing of labour costs has also been significantly noticed. The trend of this protection has been growing according to the following adjustments of the law. The recent significant change in the labour law from employers' point is about the labour dispatching, including to clarify the range of application of labour dispatching. There is a standard for the percentage for the allowed job positions. In JSC A, the rate of number of labour that from labour dispatching must stay less than 10% of the total amount of workers in one organisation. Employers have to hire much more contractual employees. In the past, outsourcing and labour dispatching has been used in many positions, which currently turns out to be only allowed used for limited positions according to the rule of fixed maximised rate of labour dispatching in new labour law. It only allows the positions that are temporary, replacement and auxiliary to use labour dispatching workers. It is also required that the work conditions, job description pay roll system for dispatched labour should be as equal as contractual employees. As it can no longer be used for big amount of positions for labour dispatching workers which was benefiting organisations to save large amount of labour costs before it was published. Labour capitals become higher. Labour from the third party and outsourcing was largely used to keep saving labour costs. This is considered as an emergent issue for JSCs who used to save labour costs through it. The impacts in HR practice will be discussed in the section 5.4.

Another issue putting more pressure on labour costs and turnover is the encouragement of creating own business from the state policies. According to the general manager of JSC B, when the economy is growing fast, high skilled workers also have more personal demands. Some of them prefer to create their own business during that period. Meanwhile, according to the new labour law and state policy, creating own business becomes a very

popular trend. Both employers from JSCs and SOEs in this research have eyes on this trend, however, there is no indication that this trend suggests that they need to take any emergent action to react because those who leave for creating new business would not cause a significant change in the number of employees.

“Even though we have not been impacted a lot at this moment, I feel more and more people has already got the desire to create new business. We really got to think about it and find out a way to keep and attract talents. We do not have efficient or systematic measurements to deal with that yet.” (JSC B, General Manager)

Facing the issue of higher turnover rate and increasing labour costs, the reason for JSCs' worries on this issue is reflected from their core HRM strategy of largely relying on individuals' talents and resources of networking. This is not only an issue that appeared after the LCL. JSCs have been always using the high pay system to deal with the issues of competing with other organisations to headhunt and maintain high-skilled workers. The LCL keep this issue in a more difficult position for JSCs, however, it remains the possibility that JSCs have to keep struggling with the same issue if they are not redesigning their HRM strategy.

2008-2013 GFC and Economic stimulus package

The economic stimulus package is the approach that the state introduced to force economic growth in order to prevent the damage of GFC. The economic stimulus plan drives the ambitious business growth and profit-driven strategy of the organisations while the labour costs are increasing due to the new labour contract law.

“Economic stimulus plan is a booster to the economic growth. The economic conditions were in rapid and continuous growth. Our business activities were very easy to conduct. It was era for us to expanding our recruitment with no need to care about the costs.” (JSC E, General Manager)

The demanded number of labour has changed due to the ambitious business expanding strategy in both sectors (Zagelmeyer and Gollan, 2012). Especially, it provides a platform

for JSCs to gain their advantages from their high pay strategy to attract high-skilled and experienced employees at key positions. This increases the challenge of retaining staff for SOEs. SOEs have always been considered as requiring a more motivating pay system with more flexibility in PRP, however, the fact is, PRP have put on more stress to the employees to reach the performance targets but it is still not considered the best approach to retain staff because no matter how much pay are related to performance, the level of pay in SOEs is still much less competitive than JSCs.

Another change that employers of SOEs faced to the labour market is the increasing number of job seekers who had overseas working experience. In 2008-2009, a greater number of job seekers who has overseas background left their positions in western countries, where had faced damage during GFC. The state also set up thousand-talents-plans, or the Recruitment Program of Global Experts, to extend the recruitment in international labour market (2008 [28], Organisation Department of the Central Committee of the Communist Party). The thousand-talents-plans targets Chinese citizens who have overseas education background have been successful as entrepreneurs, professionals, and researchers, and a number of foreign experts with skills that are critical to China's international competitiveness in science and innovation (Jia, 2018). This change had been considered and brought into the recruitment practices. The head office of SOEs considered this as a right time to start having more overseas recruitment. SOE A and SOE B confirmed that they had made overseas recruitment during GFC. These HRM adjustment and effects will be discussed in detail in the next chapter.

2013-ongoing: Slowing down in economic growth and Expanding global market

In the post-economic stimulus plan era, rapid growth in GDP has raised the issues of increasing level of non-performance loans (NPL), excessive consuming of domestic demands. This raised the demands for higher level of risk management in performance management. On the other hand, since 2013, the state has introduced new national plans such as the establishment of Asian Infrastructure Investment Bank, and the 'one belt one road' initiatives which calls for the "integration of the region into a cohesive economic area through building infrastructure, increasing cultural exchanges, and broadening trade" (Xi Jinping, 2013).

“Our business expanding strategy is quite integrated with the national development plan. We have set up some overseas institutions and made HR plans to fit this development.” (SOE A, General Manager)

The business strategy of SOEs accord with the national development plans with and also without intend. On one hand, they have the autonomy to set up their own business strategy. On the other hand, the state plays the role on board and takes part in the process of set up development strategy and SOEs have been always actively support and closely follow the national plans as they claim.

“The current trend is that SOEs are trying to expand their business in global market while the JSCs should start to increase their domestic occuppies.” (SOE D, General Manager.)

These policies and national development plans has shifted the market target in the business development plan of SOEs impacted on the consideration of setting up overall HRM management approach from the head offices. The HRM issues on this will be introduced and discussed in the following chapters.

4.5 Conclusion

Main findings emerged from the discussion

- a. The internal and external role of shaping HR strategy and practices: first, the internal role as a shareholder on board; second, the external role of shaping HR practices through regulations and legislations
- b. The milestones that the employers perceived as the forces shaping their HRM adjustment and push the transformation from personnel management into SHRM in their firms.

This chapter has considered the regulatory system through introducing three main institutions of policy makers that playing significant role in shaping business operation and activities in financial industry and the labour law system. Through considering the role of monitoring of these institutions and the role on board, the features of the relationship between SOEs and state has been addressed. The seamless point management

of SOEs and the state are reflected in the corporate governance and the decision-making process of all operations and business activities since the state is the biggest shareholder of the SOEs. The JSCs are also operating under the monitoring of the institutions however with more flexibility in their inter operation system. These relations provide the fundamental of the understanding of how SOEs and JSCs could be possibly influenced by and close to the economic state policies and the chance of predicting and following the long-term state economic plans.

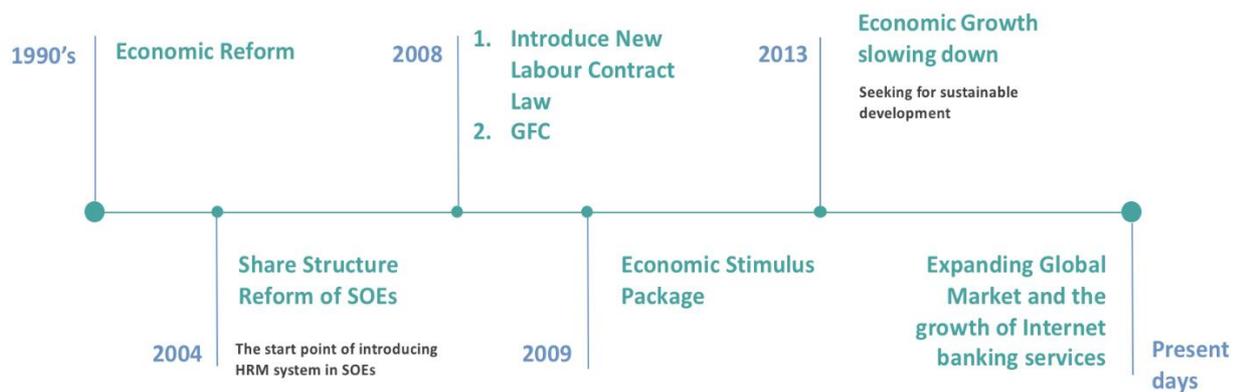
With introducing labour law system, especially the LCL, it lights up that it needs an HRM approach to make balance between several issues at the same time: the business growth and considering the labour capitals, designing of job positions and the potential issues on the evolution on motivation system of employees. The challenge and tensions of the increasing labour costs and the chance of the shifts of competency of SOEs and private firms. Thus, the next chapter specifically focus on HRM adjustment and fit under these contexts.

Regulatory development in the transformation of China's labour market has profound economic, social, and political consequences for the country (Zou, 2013). However, the complexity of the environmental factors and the labour market might raise further challenges for the state and organisations to consider when they deal with employment relations issues. Chinese economy is on its transitional pathway. In the process of transforming from planned economy into market economy, even though the state is still playing an important role to plan this transition, there is still an increasing possibility of precariousness, along with which social dislocation and instability may occur. Thus, institutional mechanisms with 'Chinese characteristics' for regulating employment relations will continue to develop and evolve (Zou, 2013). Developing business within this context, employers suggest that they should always consider and react to those environmental factors and changes in a sufficient way. Comparing the three main directions from the LCL, the encouragements for pioneering work seems have the least impacted on organisations. The more protections for employees' rights to reduce the labour distributions matter to them a lot more. However, to what extent these regulatory

changes might cause adjustment or contradictions to organisational HRM strategy is worth to discuss.

The milestones of the development of SHRM in China

Taken together of the external environmental factors introduced in this chapter, several events are perceived as becoming an important driver for the adjustments in HRM system and strategy by the employers. Graph B indicates the timeline of those events that the employers perceived as a driving factor of making HR adjustments, or at least making them consider to make adjustments in their people management system, thus created the milestones of the development of SHRM in Chinese financial services sector.



Graph B External changes in the economy that affected SHRM in the Chinese financial service sector (Author's self-made graph)

Seen from Graph B, the milestones of the development of SHRM reflect external economic, political and legal factors which the employers believe had caused HR adjustments in China include: economic reform, shareholder reform, introduction of LCL, GFC, economic stimulus plans, economic growth slowing down, expanding global market and the emerging of new economy. The following chapters will discuss how the HR strategy and systems have been adjusted or have not been effectively adjusted in responding to these changes.

Chapter 5 ‘Failed in transformation?’: The facts of SHRM in China

5.1 Introduction

Strategic HRM, as a means of developing and supporting organisations’ long-term business goals and outcomes, is considered to be one of the key elements of structural reform that has occurred in the state-owned banking sector since 2003 in China. Building up an efficient HR system has been recognised as a key issue and task to face by many employers from SOEs (Zheng and Lamond, 2009). Since 2003, the state has directed further restructuring of the economy through a series of reforms, during which firms have been expected to shift strategic focus and development for both external forces and internal restructure. Strategic HRM in SOEs are said to result in a focus on HR practices that can contribute to performance, with a particular emphasis on how these practices fit internally and externally. This research examines these HR practices and evaluates the ‘ideal type’ fit in SHRM models in the context of complex environmental and structural contexts. In addition, the thesis explores the extent to which a HR system can still work and support the development of organisational business strategy even where it does not fit ideal type models of HRM. In the Chinese context, circumstances mean that there are contradictions in the social and economic changes in an economy, in terms of the structure of industries and the organisational structures of individual firms. It is within the context of this transitional stage in the Chinese economy that Chapter 5 and 6 examines the ‘non-fit’ of the SHRM system in the Chinese financial sector. Chapter 7 introduces the role of the state in shaping the people management system and examines how and why this ‘non-fit’ of SHRM can still result in ‘good’ people management with strong performance outcomes.

This chapter explores the key concept of ‘non-fit’ in SHRM in SOEs in the Chinese banking sector by first looking at the calls for transformation in section 2, how the body of SHRM has been built in China in section 3, and how it is perceived to have ‘failed’ in transformation in section 4. The central contribution of this chapter is to establish what form of HR strategy has been developed in SOEs and the joint-stock sector since the

concept of SHRM has been recognised in Chinese organisations. It identifies the goals that firms have been seeking to achieve through HR restructuring, and explores the realities of implementation and the resultant fit or non-fit of HRM with business strategy. In order to address these research questions, sections 3 and 4 examine the development of HR systems and practices over the last decade, and the factors that have shaped these, since the concept of strategic HR has been introduced in Chinese financial service sector. To explain the extent to which HRM are able to play its functions the idea of 'HR abilities', which emerged and concluded from the contexts with constraints and the issues of non-fit will also be introduced.

This chapter will indicate that 'a significant change without making significant difference', the term of 'a significant change' in this research means that the structure of people management system has been reformed, the sets of functions and the system were built up towards the strategic HR system which had been promoted as modern Western HRM. The initial aim of this restructure is to fit in the marketisation and more competition and changing business activities. The old people management system in the Chinese financial service sector is what is defined as personnel management. The key concept of personnel management is focusing on tasks rather than people (Beer et al., 1984; Fombrun et al., 1984; Lundy, 1994). In order to increase the competitiveness and the efficiency of the organisations, this turning point aims at shifting the focus from task into people. One of the most significant changes is the development and increasing variety of career progression paths and the introduction of KPI in performance management. However, until present days, the issues of the HRM system in SOEs is still recognised as lack of flexibility, the motivation is still the main drawback, while the whole system is still more task and profit driven rather than encouraging individual values. These issues were there since a decade ago and still remained to be solved after the completion of share structure reform and the HR system building. Some employers thought these changes are significant, but to what extent the efficiency has been improved is questionable within SOEs.

The key contribution of exploring 'non-fit' in SHRM is addressed in this chapter through building up the knowledge around, seen from employers' perspective, to what extent HR

system and practices has intend to be designed to fit and transformed to SHRM, and how there required adjustment may or may not be implemented at an efficient level.

5.2 Background: Pressures for the transformation of the people management system

This section starts with introducing the traditions of the people management system, before moving on to look at the characteristics of, and approach to, HRM development during the transformation from personnel management into SHRM. Set against a traditional people management system in China, and the long-term development of HRM the transformation expected and anticipated in the financial services sector remains only partial and incomplete, and is yet to reach the targets that it was initially planned to do.

The business strategy and operational structures of SOEs have been experiencing significant changes, called for by the state, during the more recent marketization and economic restructuring process in the financial services sector from 2003 (SOE A, General Manager 1; SOE B, General Manager). As introduced in the literature review and contextual chapter, SOEs has become listed in the public market through IPO. This raises the question of whether these further developments have been driving the development of SHRM to a different level. During this process, the functions of the banking sectors have been expected to develop from a traditional banking intermediary into a comprehensive financial services provider, including offering investment banking services, trust fund, leasing and insurance services, amongst many others. The profit gaining model has also changed from soly focusing on interest margin into a diversification strategy from 2003 (SOE B, General Manager; SOE C, General Manager). According to the change in the pattern of economic growth as well as the constraints in capital regulation and supervision and the increasing difficulties in risk control, the banks have moved from a strategy of extensive to intensive growth (SOE C, General Manager).

The first major change in the HR system has occurred in the business activities that banks/financial institutions undertake. Directed by state industrial and supervision policies to support the development of medium-sized and small enterprises (SMEs), SOEs shift their focus of targeted customer specialization business from big enterprises into SMEs in corporate banking business. As agreed by most participants of the interviews, the financial sector has also shifted from predominantly physical services

towards digital channels. Furthermore, whereas prior to 2003 firms from outside the financial sector were rarely involved in any financial service business, from the development of syntheticalization of financial business, there is greater competition. Most financial service sector firms - including JSCS as well as SOEs - are all currently engaging more cooperation with non-financial service sector for the increasing demands of internet financial service.

Amidst all of these changes in the financial services sector, the HRM system itself in SOEs has experienced a 'revolution' in terms of its functions, approaches and formations, due to either a direct push from government or the changing people management needs at the firm level, to fit the changing nature of their business activities. Both the state and JSCs have realised that there are demands of building up an HR system, and recognised the importance of increasing competitiveness through strategic adjustment of their people management system, and have made changes in HR functions and practices continuously made throughout all the time period until the present day (SOE A, General Manager 1, 2; JSC A, General Manager). Calling for the revolution of people management system and asking for a more strategic approach to fit the marketization target of SOEs, it seems that abandoning the old personnel management will become the imperative task during the restructuring process of the whole economy. It is even urgent in the industry of financial service sector. As one of the most advanced industries at the leading position of development, the improvement of the management system must fit the speed of its business growth. The push starts from the state while they are playing the role as the main board in SOEs.

The first and most significant factor which has led to HR reform is the share structure reform of SOEs raised by the state, from 2003 until 2011 (SOE A, General Managers 1, 2; SOE B, General Manger; SOE C, General Manager). This share structure reform has resulted in the restructuring of SOEs, especially within the banking sector. This share structure reform is designed by the state to signal that SOEs are more opening to the market, and has forced SOEs to speed up the process of marketization. With the restructure of the shareholders, the business activities of the organisation move from public service towards strategic plans and join the competition in the market. Accompanied by the organisational changes, new HRM system has been introduced for

the reforming SOEs. This is also the starting point that the concept of HRM is practically being used in these organisations. In other words, it is recognised by the employers as the turning point from personnel management into SHRM system formed with the organisational restructure.

Chinese firms have a comparably short history of market economy, and being economic and operational independent. The aims of the transformation is to efficiently support the independent operation and economic of firms, and to support the reform of organisation following the process of share-structure reform and marketisation. In order to reach this target, the specific actions that the SOEs have taken include:

- a. Changing the name of the people management department from Ren Shi Bu' (personnel management) into 'Ren Li Zi Yuan Bu' (Human Resource Department). 'Ren Shi Bu' shares a similar meaning to personnel management department, which had functions such as designing employee posts, proposing recruitment and dismissal, evaluating employee performance, and recommending promotion. However, the decision-making for these functions were held by general managers. 'Ren Li Zi Yuan Bu' used the concept of Human Resource Department from western contexts. This is a signpost of bringing in the concept of strategic consideration into people management.
- b. Building a different hierarchy of people management systems. As noted in literature review, the old hierarchy system in firms had been largely impacted by the hierarchy system in government institutions. While the building of the new hierarchy system has been tending to fit in a new cooperate structure since the ownership reform of SOEs. (According to SOE E, General Manager)
- c. The restructuring and redefining of HR functions. Along with restructuring the organisational functioning system, where the changes have been made from copying government institution to transform into customer-oriented system and then market-oriented system, the functioning system of HR department has also been restructured. This restructuration has been reflected in all the functions of HR development, recruitment, pay and rewards, performance management, training system and career progression. (According to SOE B, General Manager)

“In the new system, we need to stress on the workforce motivation and building the compensation practices.” (SOE B, General Manager)

SOEs aimed at putting more emphasis on basic HR functions such as employee selection, performance appraisals, compensation. The restructuring and redefining of HR functions was raised. To fit internally, each organisation has their own characteristics. For example, SOE A suggest their strategic system is shaped from the nature of being a commercial bank and the organisational culture.

“I would say our HRM system including the construction system of HRM is with the specific features of our organisational strategy. It has to fit into the contexts of the environmental characters of the national labour market including the of cadre and personnel system, to fit in with the changes and demands of the market as well as from our internal demands. We are also a listed company at the international market. These should all be taken into our consideration when we formulate our HRM system.” (SOE A, General Manager 1)

Along with the restructuring of the organisation, these HR developments are the aspirations or desired changes. However, there are also empirical evidence showing that SOEs haven't been able to achieve all these changes (see the following quotations). As mentioned above, the Chinese firms have relatively shorter history of independently operating in market-oriented economy (SOE B, General Manager), where the evidence can also be find in section 2.3 and section 4.3. In the transformation, SOEs still rely on the traditional operation system and still rely on the direction from the state as introduced in Chapter 4. The beginning of the structure and business activity reform is huge, however, the core business and the nature of the SOEs had not been able to change with a full capacity in short term (SOE B, General Manager). The reform of the business activities seems to have been achieved as planned and has been developing at a rapid pace as the organisations expected. However, the internal structure and system has been felt as ‘a significant change without making significant difference’ or ‘too advanced system to implement, which was adjusted by ‘stepping backward’ in terms of the level of marketization principle (SOE B, General Manager).

“Since we set up the HRM system since the shareholder reform, only fine adjustment had been made to this system. This HRM system was designed with a significant adoption of the marketization principle. However, I do feel the strength of the level of marketization have been gradually weakened with those fine adjustments due to the constraints from the mechanism.” (SOE B, General Manager)

“The new designed HRM system was very standardised and complex. Along with the marketization principles had been moderated, the complexity of the system seems tend to be simplified.” (SOE B, General Manager)

As the manager introduced, the adoption of marketisation principles has been weakened in recruitment, performance appraisal and motivation.

“Among all the SOE banks, we are the only one who invite external consultant to help us with developing a new HRM system for us. However, the advanced management system had eventually turned back to the model that similar to other SOEs’ HRM system again in these years.” (SOE B, General Manager)

In order to reduce these constraints, the manager interprets a direction that through mixed-ownership economy/mixed economy reform that the state will promote. When the amount of ownership that the state hold decreases, and increase the diversification of SOE equity, the constraints might be reduced. On the other hand, if it is continuing with the same management system as official servant to SOE executives, this will constraint their behaviour, the marketization of recruitment and pay system is less likely to really happen.

In order to explore how the HR strategy are transformed, the facts of fit and non-fit of each vital HR strategy are introduced through practice by practice next in this chapter. Before starting the discussion, the following sections introduce two ideas that emerge from all the discussions, which could be used as the approach of interpreting the further findings and generally indicate the picture of where constraints and the non-fit could appear.

5.3 The foundations of the HR system: fit and non-fit in recruitment and training

What happens in the economic background has a huge impact on recruitment, retaining staff, training and development activities (Harcourt et al., 2005). Warner (2010) suggests that the Chinese approach of HRM may not be generalizable to Western economies. Thus, it is worth to explore how economic factors impact on recruitment and training activities in China. This section explores how recruitment, career progression and training strategy is adjusted and whether they fit the overall business strategy of organisations. Section 5.3.1 focuses on the overall fit and non-fit at the strategic level and how HR adjustment are shaped. Section 5.3.2 discusses the fit and non-fit of specific HR adjustments on implementation level.

5.3.1 The recruitment and training system of SOEs – The role of ‘talents reserve plan’ in supporting organisational development

Seen from the history of the traditional approach of people management that was dominant, in 1980s and earlier 1990s, before becoming commercial banks were recognised as public sector organisations, the business activities and recruitment processes of these organisations are considered as a key part of the planned economy. As introduced in chapter 2, in the recruitment system, the historical influence from the old selection system that were under job allocation system of central or regional government who plan and distribute graduates and workers to every enterprise (Hassard et al., 1999; Han and Han, 2009), still has impacts on current recruitment strategy. Graduates were assigned to all the planned and fixed job positions, the employment rate within these banks was guaranteed and predictable while the education background of candidates was clear and less working experience were preferred, because SOEs. Accompanying marketisation in the 1990s the old sub-unified plan mechanism of ‘Iron rice bowl’, ‘big-pot’ system and traditional government-planning assignment were replaced by market job-seeking mechanism of “self-determined choice and two-way choice” from 1996 as noted in chapter 2 (Warner, 2006). Before 1996, all the job positions were assigned by the central or local government. Since 1996, the recruitment and labour market is opened. Organisations and workers start to have own choice for recruitment. However, according to the empirical evidence of this study, even now, after significant changes and reform,

the recruitment system in large sized SOEs has remained as a system largely based on taking in graduates from annual campus recruitment (SOE A, General Manager 1, 2, 3; SOE B, General Manager; SOE C, General Manager; SOE D, General Manager; SOE J, General Manager). The campus recruitment is only open to the new graduates. This can be a result of multi-factors, including the historical reason of traditional government-planning assignment for graduates, long-term oriented recruitment plan, and the fit to their internal training system, which will be discussed in this section with empirical evidence. Candidates from a select number of top ranked universities are more preferable. Those universities on their list usually have a good reputation and long-term cooperation with their organisation. The recruitment team goes to the selected universities and arranges job fare events every year. Other graduates can access their recruitment information from their website.

According to the empirical evidence of this research, in SOE A, the regular annual external recruitment is mostly open to graduates and been called ‘campus recruitment’. The annual campus recruitment target is planned and implemented by head office, tier 1 domestic branch and the direct subsidiaries of head office. All of new recruited employees have to go through job rotation and begin with counter work, which involves all the fundamental banking commercial activities with individual customers, such as opening accounts, savings, withdrawing and information management. Other external recruitment which open to the whole labour market is only designed for a limited number of specific positions and happens irregularly. Apart from ‘campus recruitment’, other external recruitment is made for either certain key positions or the most fundamental level and counter work, including temporary labour that dispatched by agencies. The recruitment process for key positions could allow some more specific variety to each candidate (SOE A, General Manager 2).

During the development of HR policies in strategy of all SOEs, there is now more space for highly skilled and management professionals to be selected from open recruitment in social labour market and through internal transfer or promotion (SOE A, General Manager 3; SOE B, General Manager). There has also been attempts to use social recruitment to fit certain demands for short-term or specialist positions. For example, in recent years, there is growing social recruitment made for IT positions. For instance, SOE A posted their professional hiring information on their website, which is open to the

whole labour market. One of the requirements is to have sound knowledge in development of e-banking products (SOE A, HR). However, in reality when an SOE has the demands of highly skilled professional, it mostly still has been made through internal promotion or training existing employees (SOE B, HR).

“We rely on our training system to support our demands for labour skills. However, sometimes, if it is a new business or skill area, there could be lag because it takes time to develop a new training development plan and get the employees to be trained.” (SOE A, General Manager 2)

One reason is that there is limited number of candidates that fit the requirements while there is skill shortage for certain positions, especially for newly emerged markets such as internet finance. The other reason is because of the challenges of attracting workers externally when these have experienced higher levels of pay and reward in JSCs.

“It is hard to find these groups of people in open labour markets because most of them already had the experience of working in state-owned sectors and then been recruited by private companies with better pay or promotions. It is less likely to make them return to SOEs again.” (SOE A, HR)

This recruitment problem, arising because of pay differentials between SOEs and JSCs was raised by a number of interviewees (SOE B, General Manager; SOE C, General Manager; JSC A, General Manager). The result is internal lack of fit between an espoused recruitment strategy and the prevailing pay and reward system. This point will be covered and given further discussion in section 5.4.2 comprising with the discussions around pay and reward system and the motivation issues.

One solution to overcome this lack of fit - resulting from ‘external’ conditions in the labour market – was for firms to seek to use a more flexible, individually negotiated pay system for certain key positions (SOE A, General Manager 1). This was a clear departure from the stated pay system and recruitment policy in place, and which allowed SOEs to navigate round prescriptive pay systems. This approach was used for some positions where the candidates had ‘business resource’ and social contacts with business partner,

or for workers who are experienced in an area that the organisation is short within a certain time period.

In these cases, managers were able to argue for individually negotiated pay levels, to meet 'market rates' (SOE A, General Manager 1). This issue of labour demand changes will be addressed in chapters 7. The opening of external recruitment has impacted on the big picture of campus recruitment because they are facing a different labour market.

Another interesting point is that when participants of this empirical research were introducing their core recruitment strategy, most employers from SOEs emphasised the importance of campus recruitment, which has been forming the largest part of their recruitment in terms of amount of positions. In contrast, employers from joint stock firms focused almost exclusively on recruitment via the external open market. It is not the case that there was no external recruitment made from the open labour market in SOEs, neither that no campus recruitment at all was made by JSCs. However, the focus of these two types of organisation is very different. The evidence from the interviews undertaken reveals that it seems that the core competency of SOEs are built from a broader base and more relying on the continuing running of system from the fundamental level.

“We always recruit more than we need. It would be unsustainable if we don't have our strong training system and the 'back up' of talents.” (SOE A, General Manager 1)

“We never rely too much on new graduates and or the development of trainings. It would be more practical for us to using our advantage of better payroll system for key roles, who could bring in projects.” (JSC A, General Manager)

The JSCs are more reliant on the activities of highly skilled employees in key positions. As a result, their HR focus is on developing people management practices for key positions. However, even though SOEs are relying more on their working system, the actions taken for development of this system seems slower than other changes happening inside and outside organisations, including the business activities, development of

products and external environmental changes. The next section introduces the facts of HR changes for fitting the shifting of demanded labour skills and amount of labour.

Another key character of the talent reserve plan is that the amount of labour recruited in annual campus recruitment is always higher than the demanded amount (SOE A, General Manager 1; SOE F, General Manager). Not necessary to fitting the demands raised by business development, one important element to shape the talent reserve plan is that it is the social responsibility for SOEs to provide job positions for graduates. No matter in a growth and extending period or in a recession time, SOEs are always open for large amount of job positions (SOE A, General Manager 1, 2). This is not necessarily to fit with the financial situation and strategy and it could be considered as a political task to keep social stability, which was traditionally associated with the old 'Big pot system' personnel management concept from the planned economy period.

Training systems also play an exceptionally important role to provide the companies with sustainable human values and keep SOEs staying at the most competitive place with the reputation of reliability (SOE A, General Manager 1). Thus, it is reasonable to be concluded that the core HR strategy for long term and sustainable HR development of SOEs is largely relying on their training system. The training system of SOEs is considered to be the 'training centre' of JSCs. Being considered as a training centre, it is related to the recruitment system. Most employees recruited by JSCs have working experience in SOEs before and received the trainings from SOEs when they worked there.

In contrast, labour demands drive the recruitment plan in joint stock sector. Their recruitment system could become an evidence and implementation of best fit from the western strategic HRM concept. When the economy is in rapid growth, the business strategy become more aggressive, when the economy is slowing down, the business strategy is drawing back a bit. (Boxall and Purcell, 2011) When the business strategy is aggressive, joint stock sector starts to follow the talent reserve plan.

“If we demand 10 employees to come, we may recruit 50 employees for further development. When the business strategy is drawing back, how much we demand how much we recruit. However, in overall, the total size is in a growing trend

because Chinese economy is supportive and in a growing period anyway.” (JSC B, General Manager)

The Chinese economy itself is considered as a special case which is still different from many western economies in the approach of marketization. There is non-fit which happens between the business strategy led by the state and the market, at the organisational and market level. No matter how it contracts, it is still moving forward (SOE E, Employee). This is a result of the government policy and the large population, which provides a large market demand and development demands for fundamental industries, investment and consuming behaviour (SOE C, General Manager; SOE L, General Manager). In this case, it is not necessary to speed up the transition of HR system to be exactly best fit at this development stage, either for this country or for the organisations.

The overall findings from this empirical research that are addressed and discussed on the issue of recruitment and training system of SOEs can be concluded as, at strategic level, the adjustments happened in recruitment and training system and practices result in three different types of connection of fit and non-fit. Firstly, the employers have been trying to seek the fit between the recruitment plan and the business strategy. Seen from the evidence of how SOE A considering campus recruitment, there is fit that the long-term oriented recruitment plans are always enhancing the stability on the growth of the company in terms of amount of recruitment and expansion of business. There is non-fit of recruitment and career progression at implementation level with the original goals of recruitment development due to the strong remaining influences from the traditional types of personnel management and the traditional culture of ‘Guanxi’ (SOE H, General Manager; SOE M, General Manager). Even though it has been attempted to build up the recruitment systems in SOEs into a strategic system, there still remains the impacts from the mind set of personnel management on the implementation level. Secondly, the adjustment of the Chinese approach of effective recruitment with the Western models, different adjustment and understandings to particular recruitment strategy are addressed. Organisations usually have different approach to react to the need for additional labour. In Western contexts, recruiting additional labour can be considered to be increasing labour cost (Felstead et al., 2012). However, in Chinese SOEs, the recruitment plan is made on a regular base and the

amount of recruitment in the plan are always larger than the actual demands (SOE A, General Manager 3; SOE B, General Manager). Thirdly, the adjustments that have happened in recruitment practices seems not to fit the economic value-oriented target and marketization target in their business strategy. For example, the amount of recruitment is always exceeding the demanded amount (SOE A, General Manager 1). However, these adjustments support their organisations to stand with more complex social identity, where employers and managers have to accept this type of non-fit and implement it with overcoming the tensions.

5.3.2 Shifts in demand for labour and the implications for recruitment and career progression

This empirical research also shows evidence that the adjustment of recruitment fits with the demanded changes at implementation level. Two significant cases and adjustments are made in the recruitment: the demanded labour skills and amount call for adjustment in recruitment, career progression and training activities (SOE A, General Manager 1,2,3, Branch Manager; SOE B, General Manager; SOE D, General Manager; JSC A, General Manager; JSC B, General Manager). The following empirical evidence indicates that, at implementation level, there are two types of fit and non-fit between the required adjustment and the result of the reality. The first type of fit and non-fit is where recruitment strategy calls for changes and adjustment of HR while the adjustment has been made or failed to be made due to contradictions and tensions at implementation level. The second type of fit and non-fit is where HR adjustment has been made according to where it calls for changes, while the HR outcomes are successful or fail to fit the original targets.

a) The first type of fit in recruitment and career progression

The market for financial services and the development of the financial sector are very important drivers in the business plan and strategy of the financial services sector. Current state policy involves the encouragement of SOEs to shift their main focus into global markets while leaving the domestic market for joint-stock companies (SOE B General Manager; SOE D, General Manager). The other main trend is the huge growth of online

banking services, encouraged and facilitated by investment in the developing ‘new economy’ of digitalization types of business development by the state (SOE A, General Manager 1; SOE D, General Manager; JSC A, General Manager). The new economy causes the restructuring of the economy in two ways. First, it builds up the value chain with high tech and sustainable energy manufacturing industries. Secondly, it encourages entrepreneurship including new online businesses.

“The current state policy support high tech and sustainable energy manufacturing industries. Therefore we shift our target market into these industries a bit and it also push us to develop new business operating system as well. Internet financial service is quite an important area that we are trying to develop.” (SOE D, General Manager)

“The internet financial service and online business mode is the main trend to develop in financial industries.” (SOE A, General Manager 1)

For both SOEs and JSCs in the banking sector, the rise of the new economy has had profound effects on their HR activities. It can be seen particularly in the implementation of HR activities, and the effects are different from SOEs to JSCs. Overall, the effect has been to accelerate the movement towards SHRM in the sector, although this has been no means smooth, and overall, the pace of change remains gradual. Here, the analysis starts with SOEs, before moving on to look at joint-stock companies in more detail.

In SOEs, increasing amounts of overseas business activities and digital services have altered recruitment requirements for SOEs. SOEs remain loyal to their traditional campus recruitment strategy outlined above. However, they have adjusted the composition of their targeted employees. In the past, graduates from financial-relevant subjects secure most of the job positions. Now, to engage in more business activities in global market and internet business, apart from general business and management positions, SOEs tend to target graduates for recruitment from 4 main majors:

“Candidates with financial degree disciplines, law, IT and language-skill degrees is the big four major area in our campus recruitment plan.” (SOE A, General Manager 1)

This has been achieved, in most cases, by opening the existing recruitment system to a wider group of graduates when setting recruitment qualifications as the employers claimed (SOE A, General Manager 1). The manager claims that as a core strategy and approach to HRM for SOEs, campus recruitment and internal training system seems to be supportive and adaptable, then, to most changes in labour demands.

According to the General Manager from SOE B, there are also more variety and positions appearing in career progression choices in SOEs. Even the process of individual development does not always follow this path, signaling that there are career progression opportunities are still considered as a useful point to attract and retain staff.

b) The first type of non-fit in recruitment and career progression

However, there remain considerable challenges in implementing these changes, and non-fit between HR activities is a key issue in some SOEs. This can be seen in a number of areas from the empirical evidence of this research.

The first type of non-fit is where recruitment strategy calls for changes and adjustment of HR however the changes fail to happen. Intense marketization of recruitment to fit the marketization of business strategy are required. According to the manager of SOE D:

“Since the labour market opened up for mutual choice of employment relations, especially after the shareholder reform of SOEs, our recruitment has been opened to the whole society and becomes more and more marketized.” (SOE D, General Manager)

However, the level of marketization of the business strategy is still developing under a strong influence of the state and the business resources are largely based on the historical resources and reputation. So even though the level of marketization in recruitment is not processing well, it fit with the demands of the current business development type.

The result indicates that ‘Guanxi’ and social connections are still playing an important role in recruitment practices. In reality, the recruiting practices in either SOEs or JSCs are still been influenced by ‘Guanxi’, the network-based selection practices. which were prevalent among Chinese firms especially in large companies and SOEs (Han and Han, 2009). However, even though the Chinese cultural element ‘Guanxi’ are perceived as an informal dimension, and there are argues on how Guanxi can impact on the effectiveness of implementing HRM practices and on HR outcomes, and whether or not guanxi might make elements of Western HRM practice difficult to implement (Nolan, 2011, 2015; Cooke, 2012), it is always considered to be an inevitable element and play an important and perhaps persist role to shape the employment relations in people management at the implementation level in Chinese state banks (Gu and Nolan, 2017; Rowley et al., 2017). It should not be simply considered as a disturbance of efficient HR system.

“In the first place, every recruitment we made are surely fit our recruitment policies. This is the line in the sand. Under this circumstance, some recruitments made through ‘Guanxi’ are actually an approach that we could create mutual benefit.” (SOE G, General Manager)

Managers perceive recruiting practices made through ‘Guanxi’ could actually create positive employment relations. Similar to the point made by Han and Han (2009) that ‘Guanxi’ generate more effective pre-hire outcomes such as recruiting prospective applicants with fast speed and attracting high competence employees.

There are a few cases that ‘Guanxi’ can create challenges. Zhang (2012) suggests that recruiting and promoting unqualified employees due to the intense social connections can be alleviated from adopted western HRM practices such as competency-based selection and performance-based reward system. The participating managers considers this issue in a different way, since the network-based selection are made upon the line that the candidates are all qualified. The social connection only plays a role in selecting between the qualified candidates. The challenges that it brings into have effective performance management will be discussed in section 5.4.1.

c) *The second type of fit and non-fit in recruitment and career progression*

The second type of fit and non-fit is where HR adjustment has been made according to where it calls for changes, and the HR outcomes are successful to fit the original targets. The second type of non-fit is thus where changes happened in HR approach however the HR outcomes fail to fit the demands. The following cases are indicating this where the organisational business strategy call for changes in the following aspects: first, the demanded labour skills changes need recruitment adjustment; secondly, the demanded amount of labour has been changed in each department, there is a HR challenge to balance the internal staff turnover and position changes to employees.

There are cases in this empirical research where employees recruited for new targeted positions end up on a more ‘traditional’ looking career path. SOEs expect new employees to be familiar with the business activities and their work in a short time. For example, according to the General Manager of SOE B, in SOE B the traditional HR development plan and recruitment strategy for supporting overseas business development is to focus on campus recruitment on graduates with language degrees. SOE B then train these workers through job rotation in branches and subsidiaries for three to five years familiarize themselves with the specifics of their financial works. When they are experienced enough, they are dispatched to their overseas institutions. After a couple of years’ working experience there, with enhanced language skills and more adaptability to the overseas market, they are seen to be strong candidates for management positions in that institution. This is seen as an ‘ideal’ HR development pathway in SOEs, according to managers of SOE B:

“This career progression path is designed for those who are recruited for supporting the internationalised business plan. It also starts from the job rotation to begin their work and training. They have got the same training opportunities as everyone else and their career progression is more likely to happen.” (SOE B, General Manager)

However, the manager also claims there is an issue that during this process firms have not offered a clear and systematic training plan for these workers. This is their plan and

expectation, but they do not offer any clear policy or promise to the employees about their development and promotion path. In the manager's understanding and from the knowledge that they have gained from their communications with foreign companies and some external HR consultants, in some foreign companies, there are fairly clear and clarified HR development plans for their management trainees. They might have clear plans for every single stage even over a 10-year time period, accompanied by other benefits and rewards tool. For workers recruited under this approach, there is likely to be a clear HR development target for their career and satisfaction satisfied with their pay and rewards. In this condition, these employees are not easy to quit or seeking for other working opportunities in other companies. However, the manager feels that the reality and the implementation of this approach in SOE B is much different. In the cases looked at in this research, trainees were treated as exactly same with all other employees. First, pay levels are no higher than for other workers.

“We try to develop these progression pathways however this system is still under development rather than a mature one.” (SOE B, General Manager)

It is not a completed system that got support from other HR functions and plans apart for the career progression itself. It also requires a clear plan for the pay system and specific training system, otherwise those employees may be less likely to keep themselves on this track all the time.

Secondly, in some case, the HR development plan is not clear, specified, or explained to these workers.

“In some cases, employees have a clear idea of their progression pathway and these pathways are not compulsory to follow. There is still lack of clear policies for the whole HRM practices for this pathway.” (SOE B, General Manager)

SOEs recruit them with a purpose, but whether they could reach that target or not is still depending on the factors and opportunities in that specific time, which is not ensured. They maybe get the opportunities to working abroad and also may not be. And for themselves, because they are at the same level of the payroll system with all other employees and the only difference is they were majored in languages.

“They maybe no longer interested in working abroad anymore after two or three years when they feel working in China could be better for their career. This is the case that some people change their development pathway and target.” (SOE B, General Manager)

They might also seek for other promotion opportunities in local institutions through HR development system and other progression pathway when they have been familiar with the financial knowledge anyway. And this also cause some split-flow of these group of employees.

Another group of people leave to other companies because joint-stock company and foreign company was trying to take them from us by offering a much better payment.

“JSCs could offer payment that are 2, 3 or even 5 times higher than our pay for the same position. This causes another split-flow from this groups of reserved labour.” (SOE B, General Manager)

Thus, those who stayed on this pathway are no longer enough for labour demands as planned. This is an issue for them.

The lack of fit between HR policies can also be seen in another area in SOEs. As discussed in section 4.4, lots of professionals who got overseas working experience have gone back to China after the GFC. However, seen from their performance in these years, managers express different attitudes in regards to the performance of those who were recruited with overseas working experience.

Following the state policy and the business plan of expanding overseas market and setting up institutions abroad, recruitment and selection start to open up to increasing number of candidates who have overseas working experience or education background.

“In 2008, we made a special recruitment event specifically focusing on overseas candidates and it already becomes a more and more common trend for us to recruit those who have overseas education or working background. They fit in quite well and I feel we got enough.” (SOE A, General Manager 1)

However, there is also some voices that doubting about whether highly skilled workers who gain overseas working experience could really be defined as highly skilled workers. Some managers express their thoughts on whether there has been a significant progress or contribution made by them. First of all, participants believe that only limited number of Chinese workers could really work at a high skilled position in those countries. Generally, many of them were just working at a fundamental or line managers' positions.

“People living in China might not be fully understanding the social constructions and economic environment of other countries. They also may not really get the exact information of the size, level of foreign companies. Of course, we also recruited those who had been working at a higher position and are real high skilled workers. However, when they start their career in China, there are still a lot of elements to prevent them to contribute.” (SOE B, General Manager)

During GFC, SOE B recruits 50-60 high-skilled people from those who had overseas working experience, especially from Wall-street the US including Goldman Sachs, Morgan, Merlin. However, the manager indicates that there were a few issues to restrict their involvement. When asked about the HR outcomes on the performance of these group of employees, the manager of SOE B suggest that most of them had not been able to work on their full capacity or even still staying in this organisation anymore.

“They have rich knowledge of mathematical models, which we don't use in China. There is not so much space for them to use their knowledge and contribute. We were impressed by their knowledge but it could no longer become their advantage here. It was a shame that they could not contribute and they were also not so happy with that. They are still working here now, but not very positive or active I would say. There is not a lot we could do about that.” (SOE B, General Manager)

“The data they need usually need more than 10 years to collect. We had never collected that data before. We just started to collect and store this data and hopefully they would be able to use their talent in the future.” (SOE B, General Manager)

Seen from these responses, the reason that employees recruited during GFC could achieve an expected level of performance and stay longer are considered from two aspects. The first is because the different knowledge and running system in financial sector of different countries. This prevents them to make better career progression in some point limited by the performance. The second reason is due to the similar point of PRP mentioned above. This partially discusses the research questions of what environmental changes do employers believe to drive the reform in people management in China, and addresses a discussion to the second research question of how have employers experienced and responded to the development of Chinese approach of HRM over time since the reform in banking sector. The changes in labour market that caused by the economic factors can drive an immediate adjustment in one of the particular HRM practices as a response. However, an immediate adjustment of one HRM practice that fit the environmental changes may not always lead to a satisfied outcome if other required changes have not been made in other HR practices. In this case, a response from recruitment has been made, while there is still lack of enough support from pay and reward system could still lead to lower level of performance (see also above discussions on SOE B's career progression pathway and issues on international recruitment). This could be considered as lack of contingency fit between HR activities and organisational strategy and the labour market (Delery and Doty, 1996). However, in this particular case, considering the Chinese approach of work procedure in financial field is different from the Western contexts, there is naturally non-fit between the required knowledge and skills of the employees. While there is misconception and unclear definition of the details in implementation, a quick HR response may not become a key to success outcome.

The elements could be considered from two aspects. First, how the economic environment and how business activities are conducted are traditionally different. Based on the empirical evidence provided by the manager of SOE B (see quotations above), the skills and knowledge that they learned from Western countries may not fit in the conditions here. The environment here is very complicated in the extent of how big the impacts of social contacts can be in conducting business. And in different periods and development stages, the main issues that the employers focus on could be varied. The techniques they learned from Western countries were aiming at fitting into the specific economic

development stage of that countries and to solve the issues that countries are facing at their stage. These techniques might not be able to solve the issues that China is facing with at the current development stage. Second, especially for those working at a middle or higher position, how to fit in the environment and how to communicate with supervisors, colleagues and subordinates? The culture environment is also different. Their personal skills and technique skills are all mismatched.

Moreover, there is also difficulties for internal recruitment issue:

“The work for counter workers has also been changed. Now the responsibility of counter related worker is no longer separate to different specific divisions. It requires every counter worker to handle more types of counter related work.”
(SOE A, Branch Manager)

As the Branch Manager of SOE A said, the development of self-service has replaced some counter work so that the demanded amount of counter was reduced. However, the branch manager also feels that this development increases the demands of work on maintenance of these self-service points. This is a case that the technology shifts the demanded skills of labour. With the rise of the new economy, new finance and new technology, labour demands have also changed to focus more on inter-disciplinary talent. The traditional labour demands focused on risk management and financial loans specialist skills, with a need for workers who are experienced users of key financial technologies.

Now there is an increasing demand for those who are experienced or are able to combine financial technology with broader information technology skills, especially internet finance related skills, such as programming, analytics, application design for IT department positions (SOE A, General Manager 1; JSC A, General Manager). There remain relatively few people who could really be classified as inter-disciplinary talents of these two fields. In this circumstance, employers believe that there are only two options for them. Firstly, to recruit experienced financial professionals who have some IT knowledge, offering them further training in IT to develop their knowledge and skills.

“We need to develop training courses to help employees with their understanding to the operations of internet finance.” (JSC A, General Manager)

Secondly, to recruit experienced IT professionals and train them gradually with financial knowledge. SOEs made some investment for these inter-disciplinary trainings, from which those who are talented on one side will have knowledge of what they are short at (SOE A, General Manager 1; SOE D, General Manager; SOE E, General Manager; SOE J, General Manager). The general process of developing business of the new economy is a combination of both of these two approaches. The first approach is used for all general positions. The second approach is used more specifically for IT department or internet finance product designing related positions. The training team firstly providing trainings of financial knowledge for programming designing team so that they are able to develop the applications and websites. When the programmes are ready to be used, the training team will provide general training of the operation for all positions to help employees to be familiar with using the programme. Seen from this fact, it could be considered that the core HR strategy seems less fit to the changing external environment or could hardly change efficiently with the business strategy, coping with shifting events by sticking to a fundamental principle seems also help when facing change.

On the other hand, JSCs seems to be facing more difficulties in finding the qualified employees in order to fit the increasing internet financing business. The core HR strategy of these firms is to use high pay to attract high-skilled and experienced workers for key positions (JSC A, General Manager; JSC D, General Manager). However, there are widely recognised skills shortages in the areas of interdisciplinary of financial and IT knowledge, which has meant that this strategy is not a panacea for more fundamental challenges of recruitment and retention in this sector (JSC A, General Manager). Whereas SOEs have looked to set up more training courses to teach IT knowledge to their financial knowledge-based employees and to teach financial knowledge-based employees to overcome these skills shortages in the external labour market, both of the managers of JSC A and JSC B suggests that they do not have a strong training system compare with SOEs. It is more difficult for JSCs to react rapidly, by putting new training courses in place, or investing heavily in building training system.

“We usually consider recruitment as our main strategy to fix any issues on labour shortage. However, it is hardly to find anyone who have interdisciplinary knowledge of both finance and IT in labour market at this moment since this is a new business field.” (JSC A, General Manager)

“If we do not develop our training system, we have to wait until someone to be trained equipped with this interdisciplinary knowledge to show in the labour market. That would be too late for us to develop this area of business. Thus, we are considering to set up some training programme for that at this moment.” (JSC B, General Manager)

Further discussion on this issue will be conducted in chapter 7.2.3, in relation to the effects of the ‘new economy’.

This provides some evidence of the presence/emergence of something other than a ‘resource-based model’ of the people management system in SOEs? Resource-based model is emphasizing on internal ‘strengths or ‘weaknesses’ rather than on external ‘opportunities’ or ‘threats’ (Barney, 1991; Grant, 1991). However, the business strategy is tending to fit the marketisation. The operation structure is also planned to be developed into more market-oriented model. According to this initial aim, too much emphasis on keeping the internal ‘strengths’ or ‘weaknesses’ could still make the system work but it is not fitting the aim of the changes.

5.4 Fit and Non-fit in performance management and pay and reward systems

This section introduces the fit and non-fit in HR strategy of performance management and pay and reward system. The first two sections discuss the factors shaping HR adjustment in performance appraisal criteria, pay and reward system, and the reality in implementation. Since performance is a strong indicator of shaping business strategy in China, the relationships between SHRM and its influential factors is potentially similar to it in the western contexts where external factors could impact on SHRM in both direct way and through business strategy. However, some other scholars argued that some western high-performance work practices may be not effective in China (Björkman and

Fan 2002). Also, the attempts of breaking the restriction of their discretion to develop more competitive and adaptive compensation systems, is discussed in this research in order to explore the HRM adjustments.

5.4.1 Performance appraisal systems

There are two areas that call for changes and adjustments in the performance management system in SOEs. First, increasing complexity of business strategy and the structure of adding economic value of the organisations requires more complex layers of performance appraisal system. Second, the large amount of employment requires clear and standardised criteria. In section 2.3.2, it is also discussed that performance evaluations in some SOEs continue to follow a similar format as for civil servants. Performance management criteria are too general to evaluate employees' performance (Chen et al., 2016; Brødsgaard and Li, 2014). This may still restrict their discretion to develop more competitive and adaptive performance management systems. The current situation about the performance management strategy and adjustment are explored. The results indicate that there are also demands for increasing the flexibility of pay-related performance management.

Issues around how the adjustments of performance management fit or non-fit with the strategy will be discussed accompanied with the mutual effects of pay and rewards in section 5.4.3.

In Prowse and Prowse's (2009, p.73) review on the dilemma of performance appraisal, one particular issue on linking appraisals with reward management is that "the drive to increase public sector performance effort and setting of targets may even be inconsistent in the experiences of some organisational settings aimed at achieving long-term targets (Kessler and Purcell, 1992; Marsden, 2007)." Based on the current empirical research, in SOEs, three situations that the adjustment of performance management fit or non-fit with the development of business strategy.

a) First type fit and non-fit in performance management

Firstly, at strategic level, the development of performance management system is not under a great influence remaining from the similar working mode as public servant as. There is fit that performance management system support the change of business operation activities and expanding mode. The performance appraisal criteria are no longer too general to be evaluated.

Increasingly strict policies also for risk management requires additional criteria for performance management (SOE B, General Manager; SOE E, General Manager; SOE K, General Manager). However, it is a challenge for balancing between this restrictions and high standard of risk management and the requirements for increasing employees' motivation, where the evidence can be found in this empirical research in the discussions in relation to pay and reward in section 5.4.2 and the sustainable business development in section 5.4.3.

Before addressing these specific issues, this section starts with introducing the management system that is similar for all SOEs. In most cases of the participant SOEs of the current empirical study, the strategy and system of performance appraisal is designed as result-driven and profit-driven. According to the General Manager of SOE B, from the management level to business level, every position is assigned clear performance targets to be followed and reached. Annual plan for department, team and individual performance includes different aspects. The operational indicator is the most significant criteria within the performance appraisal system. These indicators are different for positions. For example, in SOE B, for management positions, this indicates 'how much have you done'. For operational department, this indicates a number of 'how much profits have you brought in'. The new criteria set for each year usually based on the performance of the past year. While setting up the annual performance management criteria, the indicator of performance targets is always asked to increase compare to the year before.

For example, as introduced by the General Manager, the process in SOE B is as follows. First, the board sets a structural annual performance target the for executive management team. The targets for organisational performance mainly reflect on profit targets. The

targets for individual performance, for example, for the department of deposit/lending business include amount of deposit/lending and new customer. The criteria are usually numbers, which was set considering the size and location of the branches. The size and location indicate the potential number of customers. There are three levels of individual performance: a compulsory level (number) of growing of deposit and new customers, surplus level of that and a significant contribution; second, the executive management team cascades the indicators downwards and assigns a series of criteria to Tier 1 branches. This includes a communication process during which Tier 1 branches can suggest and debate whether these criteria are reasonable for them to reach. Some performance criteria are managed and planned by Finance and Accounting department and some are in HR department. The Financial and Accounting department and HR department in head office will evaluate and allow adjustments in individual targets/criteria to some extent but keeping balance to reach the whole target. This include a communication and negotiation process with branch managers through figuring out their capability to reach the targets. This could be defined as a profit-driven working system.

For one more example from the General Manager of SOE B, operational indicators for investor relations team include: the number of meetings that have been held; the number of investigation reports; the number of daily reports and monthly reports about the facts and analysis on the capital market. Operational indicator for information disclosure team includes the number of public announcement and notice. Theoretically, the rates of individual achievements of these indicate whether and how much employees are over, in normal level or below their targets. Employees' performances are judged and ranked against these criteria (numbers) which in turn then forms the basis of decisions for performance related payments.

With the design of this system, then, individual pay is closely related to performance, and appraisal systems need to connect with pay and reward systems. However, in implementation, it is questionable whether they are closely related to each other at all. For example, Gu and Nolan's (2017, p.1449) finding on the role of 'Guanxi' in Chinese state banks indicates that "there was a conflict between the board of directors, who were driving the changes in the performance appraisal system, and the supervisors and employees, who continued to place value on maintaining and developing 'Guanxi' relationships over and

above the achievement of performance-related goals.” This can be seen as an evidence of non-fit, where the development of business strategy calls for changes but it fails to happen or faces a resistance in implementation. The current empirical research can develop this argument by providing further evidence to evaluate whether the effectiveness of HRM has really been impacted when keeping this non-fit in place. For example, if an employee continues not reaching their performance target and has the lowest performance in their department in two years, it is possible to dismiss them according to the corporate governance structures of SOEs (SOE A, General Manager 3). However, in practice, department managers usually do not let the same employee continue with low performance grades for 2 years. For some managers, this is done to avoid having to dismiss workers. This reflects the practice in SOEs of not making lay-offs or dismissing people. There are three cases from this empirical study to address this issue:

“I have tried to adjust this because I have considered why they could not complete the target. Sometimes, I do feel the external economic environment is difficult, which makes them hard to reach the target. Even though we usually set up a performance target at the beginning of the year, we could adjust this target at end of the year considering what really happens in the external environment of this year anyway.” (SOE B, General Manager)

This first case indicates that the performance appraisal criteria are adjustable at each end of year according to seek for an external fit with the economic environment.

“When I felt they have any troubles in their personal life that might affecting their work, I do want to give them more opportunities to try if I feel they have a potential to have better performance.” (SOE A, Branch manager)

The second case indicates the idea of keeping a harmoninous society.

“Someone has a stronger social connections (‘Guanxi’). Even though they might not really reach their individual task performance target, they could still contribute in other way. For example, they bring in good business cooperate

opportunities for our company because of their social connections.” (SOE E, General Manager)

The third case shows extra informal criteria that are considered when managers are evaluating employees’ contributions. They could bring in a concept of contextual performance. Some types of contributions are not counted formally in the written job design not in current performance appraisal system, not even for bonus. However, these contextual performance, engagement and dedication are thought to be valuable to be taken into account.

“I want to keep the balance between employees and intend to give the highest awards to different employees every year and avoid the same person continuing to be at the last and to be dismissed.” (SOE B, General Manager)

Would there be a big difference between the employees working in the same team? Employees’ individual performance would be marked as, for example A, B, C or D for several levels. However, within this system, there is a restriction for the percentage of each level so that it becomes a comparative and relative concept. The percentage of each performance level of these A, B, C D grades are strictly fixed. It makes sense in some way however, for the employees, if everyone is performing at a good level, how the managers could make the balance between them. What they could do is to assign grade A to one person for this year and assign grade A to another for the next year. It could only be switched through the team members. But these balances results in that team members may not pay a lot of effort to strive for it because they feel everybody’s ability are similar to each other.

“Even if I always performed well, I could get an A for only one year because it is impossible that I am the only person with the best performance forever.” (SOE A, Employee 3)

On the other hand, managers also considered that for those who also have good performance but just not as good as the best one, they should also be motivated in some ways. The following factors are taken into consideration when the department leaders are

assigning the grades to the employees. Firstly, managers recognise that grades it should be related to performance appraisal, however, they believe that they should create a significant difference between each individual to make employees think that these grades are manually assigned.

Similar to Longnecker et al.'s (1987) point of employees' dissatisfaction on performance appraisal result, in the current case, if there is a significant difference of the payments between the team members according to the grades, the negative motivation will emerge while everyone is thinking they are performing well. It is likely to be a positive motivation for a single person at the same time a negative motivation for a group of people. It is even less likely to be a motivation for the single person if this person thinks it is meant to be theirs. Thus, it comes back to the old 'Big Pot system' concept. In the traditional 'Big pot system', all workers or employees are treated equally and share the profits equally, no matter how much difference in their performance. This means that there is the 'body' of a strategically designed PRP system which connects to other HR practices and strategy, but the 'mind' remains attached to a traditional Big Pot system. The PRP related issue around this topic will be discussed in the next section.

Another reason is that the state is encouraging the SOEs to take their social responsibility of offering enough job opportunities and decreasing the unemployment rate.

“As one of the largest SOEs, we always take our social responsibilities to offering job opportunities for new graduates.” (SOE A, General Manager 1)

“When there is difficult time in economic environment, our employees would never be worried about losing their jobs because of the external reasons. We could even keep a sound level of recruitment during that time.” (SOE B, General Manager)

As suggested by the General Manager 1 of SOE A, the job securities of keeping their capability to make new recruitment is a result of their stronger background of financial capitalism as a financial SOE sector. It is also a result of their long-term driven HR

development strategy, which shows an internal fit with their long-term oriented campus recruitment plan and their strong training system as discussed in section 5.3.

The state also and regional government institution set up the employment rate of graduates for SOEs, the internal migration control-the number of Hukou (household registration) for new graduates from non-local cities (particular for organisations in Beijing and Shanghai), according to the General Manager of SOE M. The managers do not always have the intentions to challenging the tradition and causing conflicts. In some point, it ends up like still a system with ‘big pot’ and ‘iron rice bowl’ characteristics, which will be discussed in more detail in the following section. Similar discussions for Western contexts is drawn in Longnecker et al.’s (1987) work that in their attempt to balance the different information collected for different performance appraisal uses, raters may attempt to balance the demands of multiple uses by focusing on one use in particular, perhaps disregarding the other. From this perspective, it could be an issue that causing dissatisfaction from employees. However, in present empirical evidence in the Chinese contexts, it is indicated that the performance appraisal process should reduce the conflict which has been shown to exist when the appraisal event is used for multiple purposes, leading to an improvement in employees’ attitudinal reactions to the performance appraisal.

b) Second type fit and non-fit in performance management

Secondly, the non-fit of the Chinese approach of effective performance management with the Western models, different adjustment and understandings to particular practices are addressed; similar to the Western contexts, they confirmed the connections between HRM and performance in Chinese conditions with indicating that a valid set of strategic HRM practices (training, participation, results-oriented appraisals, and internal career opportunities) affect both product/service performance and financial performance, employment security and job descriptions contribute uniquely to product/service performance, whereas profit sharing contributes uniquely to financial performance (SOE B, General Manager; JSC C, General Manager). For instance, some practices, such as employment security, which is often considered as an element of HPWS, are considered

as a symbol of inefficient ‘iron rice bowl systems’ (Xiao and Björkman 2006), and do not enhance employees’ extra-behaviours in China (Gong and Chang, 2008).

Taking a closer look at ‘Guanxi’, also following the discussion about ‘Guanxi’ in 5.3, there are a few cases that ‘Guanxi’ can create challenges to effective performance management. Another non-fit of performance management at implementation level with the original goals of recruitment development is due to the strong remaining influences from the traditional types of personnel management and the traditional culture of ‘Guanxi’ and the so-called “balance and fairness” (SOE B, General Manager). This finding agrees on Gu and Nolan’s (2017) point on the board of directors are seeking for change but the cultural factor is continuing play an important role in performance management in local banks in China, where it calls for changes and adjustment of performance management strategy however the changes fail to happen. In order to further improve firm performance, Western firms’ HR adjustment focus more in developing employees’ potential and improve their commitment and discretionary work effort. At the same time, Chinese managers in SOEs are facing a different issue that of how to make employees to have a responsible attitude for their in-role duties.

“We have a worker who has already been assigned to a clearer progression pathway. They are just assigned to our branch for job rotation and will return to the upper level branch the next year. Their performance in our branch would not really affect too much on his progression path and they are just focusing on preparing for the examinations of professional certifications which will be useful for their future work. I would not prevent them to pass the performance evaluation even though their job dedication is not as much as others, because I know they has strong ‘Guanxi’ and bring in connections and resources. It is not worth to break it for that.” (SOE A, Branch Manager)

As noted in chapter 2 and 5.3.2, some problems caused by traditional culture in HRM implementation, such as recruiting and promoting employees due to the intense social connections can be alleviated from adopted western HRM practices such as competency-based selection and performance-based reward system (Zhang, 2012). However, the participating managers considers this issue in a different way, since the network-based selection are made upon the line that the candidates are all qualified. The social

connection only plays a role in selecting between the qualified candidates. Moreover, ‘Guanxi’ can relate to contextual performance rather than task performance. That is the contribution other than the tasks obligations that are written in their working contract. In this context, it is hard to compare the benefits and harms of the social connections or conclude that these problems can be easily solved through any system. This is a contradiction of between a competency and efficiency driven strategy and keeping the benefit from the network-based recruitment practices. This could be defined as a lack of internal fit between the internal HR practices of recruitment and performance management. Competency-based selection and performance-based reward system provides a direction and approach to improve the situation. These directions and approach impacting on the development of SHRM in reality is actually improving this situation to some extent. However, the actual main approach for improving this situation in reality is exactly ‘Guanxi’ itself.

“Our positions are very competitive, especially in organisations as ours. If you do not work harder, there would be lots of people waiting in the labour market to take your work and your job, and probably would not make the same challenge for a poor performance.” (SOE A, Employee 1)

“Well, it is not just about me. We have to be responsible for those who introduced us to work here as well. You know, it is about ‘Guanxi’. We do not want to put them in trouble or got them to be impacted.” (SOE E, Employee)

Even though ‘Guanxi’ cause some recruitment issues, the employees have still to be at least qualified to be recruited. ‘Guanxi’ could then also play an important role to reduce the tensions from workers and employees. In some case, it can decrease the impact of the non-fit and increase employees’ self-motivation by itself.

This could be seen as a non-fit of practices with economic value oriented and marketization of their business strategy, however, this could support their organisations to stand with more complex social identity, where employers and managers have to accept this type of non-fit and implement it with overcoming the tensions.

5.4.2 Pay and reward systems

There is fit that the stable pay and reward system are always enhancing the job security of employees. However, the stability could also cause a lack of fit for the required level of motivation. The development of pay roll system are still under strong remaining influences from the similar working mode as public servant as noted in section 2.3.2. Since SOEs' payroll budgets are controlled by the State-owned Assets Supervision and Administration Commission (Liu, 2009), SOEs can only decide the internal distributional mechanism given available budgets. To what extent, organisations, particularly SOEs, have been willing or able to increase wage differentials is discussed.

Pay and reward system is a topic that had always been discussed by the participants at the same time with performance management during this empirical study. The designing of pay and reward system in SOEs remains quite traditional, although there are increasing elements of performance related pay, as noted above. The pay and rewards system in SOEs usually consists of considerable numbers of layers due to the large size the organisations and large number of employees (SOE E, General Manager; SOE J, General Manager). For most traditional positions in SOEs, the core strategy of pay and rewards does contain performance related pay (PRP) and this comprises a major part of employees' pay and rewards. As discussed in the performance section above about the three level of performance appraisal criteria, there are also three elements for PRP of individual employees: a compulsory and fix level (number) of completing tasks, surplus level of that and a significant contribution for bonus. The targets set for individual performance and the criteria are usually numbers (SOE B, General Manager; SOE J, General Manager; SOE M, General Manager).

Also following the discussion on the performance appraisal issue in the last section, the pay related issue also appears result from the differentiation between employees' PA results, in order to break the traditional egalitarian pay 'iron wage' system, or 'big pot of dish', and reform it into a flexible one with the autonomy, one measure was to enlarge the income gaps between employees based on their measurable outputs. The performance-based compensation system was then set up in most Chinese firms to a performance-based pay system (Warner 2008).

This overall performance appraisal systems in both SOEs and JSCs are majorly still consistent in these years, for example, for banking business related positions, the fixed pay always contents a small percentage, and most percentage is still depending on PRP and incremental performance appraisal (SOE A, Branch Manager; SOE B, General Manager; SOE J, General Manager; JSC A, General Manager). According to the performance appraisal, the employees are supposed to have a clear understanding by themselves if they are qualified to get promoted or raise the pay and rewards in certain rules through the result of their performance appraisal (JSC C, General Manager). This is an important function of performance appraisal systems. And these system and standards are considered to be a means through which high transparency can be demonstrated to all employees. From the managers perspectives, employees are expected to be able to identify their development path and have the knowledge of where they are and which grade they are qualified to reach. Whilst most employees are on a clearly defined salary band, for specific significant positions, individually negotiated salary system is playing and important role to motivate and maintaining employees (JSC C, General Manager).

As claimed by the General Manager of SOE B, they tend to create a pay system in which the key factors of job position evaluation, value oriented, capacity oriented, performance oriented and market oriented are considered. However, pay and reward system are kept at a stable level with much less flexibility in SOEs.

“There are some adjustments according to the economic conditions and policies, strategies. But it is impossible for us to have significant changes each year for big organisations. Even a little bit change might result in a significant different in the organisation’s balance sheet if we have 10,000 employees.” (SOE E, General Manager)

For most traditional positions, fixed elements of pay are especially stable each year. The systems are formulated by different degrees. The General Manager 1 of SOE E introduced that they have a fixed fundamental payment of 2,000 yuan, which is same for all general managers at that level in that organisation. A post-rank salary system is used to distinct the layers. There are differences in the salaries based on post-grades. Salary increases when people upgrade to a higher position no matter how long they have been worked

here. There could be years between the overall system getting changes for each grade according to the payment level of the whole industry. An executive from another SOE J indicated that they have a payment system divided into 7 levels and in each level there are fixed and strict limitation for the number of employees. Only 10% of employees are expected and allowed to reach the highest level. One of the aims of designing this system is to motivate best performance of employees. Motivation is largely depending on pay and rewards and promotions.

Pay and reward strategy calls for changes and adjustment due to the changes of business expanding mode and the external competency with JSCs. SOEs are seeking for marketized pay system. They are attempting to reach ‘internal consistency, external competency and motivation’ (SOE B, General Manager) with the pay system. However, the whole SOE sector as a whole are still offering lower level of pay than JSCs. The motivation made by the pay system is still limited. However, the result is that there is not significant change in increasing the pay level in SOEs. There is lack of internal fit between the demands of high level of motivation and the design of pay and rewards system. There is fit for the external competency between SOEs while a lack of fit when comparing with JSCs.

a) *Internal fit and non-fit between pay system and motivation*

The employers have been trying to seek the fit between the incentive and equal pay and the business strategy. but support their organisations to stand with more complex social identity, where employers and managers have to accept this type of non-fit and implement it with overcoming the tensions. However, since SOEs’ payroll budgets are controlled by the State-owned Assets Supervision and Administration Commission (Liu, 2009), SOEs can only decide the internal distributional mechanism given available budgets.

The decision on payment strategy is never simply the jurisdiction or responsibility of the HR department. Many departments work together to make the HR decisions. In SOE B, a department called the “financing plan department” takes the lead responsibility of setting the motivation plan and taking control of the pay and reward system. HR

department works as an implementing department and they can make suggestion but have not rights to make decision on it. However, the practice of performance related pay system does not always work in the way of a motivation instrument. While the pay and reward system are not able to be designed as an instrument of creating higher level of motivation. Promotions are considered to be another approach to motivate better performance.

Overall, in SOEs, the pay and rewards of each individual employee are related more closely to organisational performance rather than individual performance. For example, if there is a 10 or 20% growth in profits, the pay and rewards can, in some SOEs, see an increase by the same percentage. But this is not necessary directly related to the individual task performance.

“Even though we have the performance-related payroll system, it still keeps at a very stable level. There is limited amount and required level for total amount costs on pay and rewards, designed by the state, the board.” (SOE C, General Manager)

This brought in some issues. It usually happens that employees are not fully motivated to work following business strategy. The case of this situation is that the executives and general managers had promoted with some customers but there is no motivation for the projects team members to do the following works of processing and maintaining. They might not really care about these projects and to keep the customers to stay.

“We have the experienced that we helped some project teams to do the marketing and promotions but they did not follow and process it.” (SOE B, General Manager)

“We have already approached some customers and they had been persuaded to work with us but they were attracted to and decided work with another bank after then.” (SOE B, General Manager)

They might be satisfied with their current customers and it is hard for them to feel encouraged to develop new customers. Economic growth has been into a slowing down period since the state attempted to build a more sustainable economic development model. When the economic growth is slowing down, employees feel it as a big risk to develop a

new customer in for the potential of non-performance loan. In this case, they believe that they only need to maintain their current customer and make no mistakes, because their annual pay and rewards would not make a significant difference anyway.

Moving into internal fit, there is also a debate about whether the core strategy of talents reserve plan is supportive by this pay and reward system for SOEs. It turns out to be that in previous performance appraisals, the results indicate limited distinction between employees as well as their overall payment when see through years in SOEs. The insufficient motivation in the payment system of SOEs' employees is considered as a limitation of for the implementation, however it is still a rare case to dismiss employees depending on this system. Due to the strict policy in dismissal unless someone has made a huge mistake as illegal behaviours, for those who have poor performance, employers try to motivate them through training and setting targets for rewards.

“It is really a big challenge for us even though we have large amount of labour recruited for our talents reserve plan. However, we could not offer a reasonable pay and rewards to them. It is somehow a waste of human resource, isn't it? That is a waste to both of employers and employees. It wastes the employees' time and life. I could not say the big amount of talent reserve is such a good thing. Lack of efficiency for keep big amount of talents working motivated.” (SOE B, General Manager)

From employees' point of view, the security of their job is not enough for them to have better job satisfaction and most of the participants working SOEs are still feel distressed for strict performance appraisal criteria and the difficulties in career progression as well as the payment upgrade and the difficulty in meeting the PRP standards in environmental changes (SOE A, Employee 2,3; SOE D, Employee). This reflects Kaufman's (2010) argument on tension between flexibility and job security, which is likely to lead negatively effect on performance. In Chinese SOEs, high level of job security with less flexibility in payroll system and career progression system can result in low level of motivation (SOE B, General Manager). Interestingly, some SOE managers think that the low level of motivation does not result in low organisational performance. There is a way

in which reputation of working in a SOE can stimulate employees' dedication and performance in certain environment. This issue will be discussed to detail in the chapter 6.

b) *The external fit and non-fit of competencies with JSCs*

One of the main causes of split-flow from this talent reserve plan is that people leave to other companies because joint-stock company and foreign company was trying to take them from the SOE by offering a much higher level of payment, which could be 2, 3 or even 5 times higher than the pay in SOEs (SOE B, General Manager). These talent losses cause the situation to appear that in certain pathway there is no longer enough to fit the labour demands. The reasons of this situation are also affected by external factors, which will be explored in the next chapter. The non-fit in SOEs are caused by the stronger control and tight relationship with the state. The non-fit in joint-stock companies are the result of the lack of attention that they are willing to pay on HR management.

According to the JSCs managers, negotiated pay system plays an important role in the process of recruitment for high-skilled professional workers though headhunting and social connections, the high level pay and rewards system are designed to attract high skilled and experienced candidates. The core competency of business and HRM strategy is to attract high skilled workers. Again, this is consistent with market based HRM strategy. Some private firms are famous for their high-level pay and rewards for the employees. For example, high skilled and experienced professionals from SOEs could be interested in having a better payment and progression possibilities and seek for the opportunity to jump ship while they are encountering 'bottleneck' in their career progressions or feeling unsatisfied with the less flexibility in their pay roll system. In smaller and private banks, they may reach their goals of getting promotion and a much better payment raise. The executive claims that due to the high pay and rewards, the talent loss rate is in reasonably low. However, even though the high-level pay is an effective way to prevent the loss, other organisations also take measures to responded to that. Thus, the turnover rate in private banks is hardly to always keeping in a low level in practice. The most important issue in the payment setting system of private firms is to solve and to find a way to prevent highly skilled talents loss.

“Our motivation system is more flexible and work better than SOEs, especially in terms of flexibility in payment setting. This has always been our competitive advantages in labour market.” (JSC A, General Manager)

As combined with profit-driven performance management and appraisal criteria with the concept of ‘higher profits to gain, higher pay to get’ (JSC B, GM). This is considered as one of the biggest advantage among financial sectors. For those whose performance is poor, JS firms are more likely to reduce their payment or de-promotion and offer some training to them.

Highly skilled and management professionals are intended to be selected from open recruitment in social labour markets and internal transfer or promotion. However, in practice when the organisation has the demands of highly skilled professionals, it is usually to make internal promotion or train existing employees. This is recognised as one of the most effective approach to fit for the motivation system. However, some managers from SOEs consider the HR strategy in these joint-stock firms is ‘seeking quick success and instant benefits’ (SOE M, General Manager), which was traditionally associated with short-term oriented development instead of long-term building of a sustainable system.

c) *The perception of pay practices from SOEs’ employees*

There is also an issue for the poor implementation of payment for overtime work in SOEs; in the professional capacity, many people work overtime without being paid. There were perks that they receive from doing that, such as promotions, pleasing the supervisors and managers, staying common in the team. However, it is not a judgment everybody needs to make. Most workers accept this without a purpose. There are policies for paying overtime working fees, however, in reality, especially for SOEs, it is rare for employees to report this issue.

“We have overtime work nearly every day. That is normal. No one count it and no one would ask for any overtime pay.” (SOE A, Employee 1)

“According to regulations, it should be paid. However, in reality, I have not seen so many people who got paid for overtime working or asking for overtime pay. Overtime working without being paid is not even an issue to be considered in our mind.” (SOE A, Employee 2)

It seems that this could have become a de-motivation issue. Employees would never ask for payment for their overtime working. However, employees do not really consider this as anything that would prevent their attitude of work.

“I can accept this, because there is never enough time to finish work in working time. I am responsible for this amount of work and I cannot just leave it when it is not done. Dedication is also a very important character in our culture from history isn't it?” (SOE A, Employee 1)

“I do not think it is a right attitude if I am only aiming to work for anything that because someone is paying me for that.” (SOE A, Employee 1)

There are differences in the payroll structure for different positions. For example, for those positions whose pay are largely consist by performance related pay, the overtime working pay may not be a concern for them, because their PRP relies on how many projects they can complete. In order to have a good customer relationship, it is normal for them to use their overtime to communicate with their key customers. This is a cultural issue of keeping ‘Guanxi’ with customer.

“Actually, our managers always do me a favour when I need help in terms of the flexibility of working time. Like if I need to take extra time away from work, they would just let me go and would not report to HR or stuff to let them calculate how much time I have been away from work as long as it is not to excessive. They know better about how much work I have done.” (SOE D, Employee)

Some employees in this research believe that salary could be the last thing to care about once they have chosen to work in a SOE. Thus, seen from these cases, even though the current pay system in SOEs could not reach their aim of having external competency, especially when comparing with JSCs. And it could not be defined as an economic value adding system. This system is still offering an acceptable level of pay that employees would not consider this as a significant drawback or being demotivated. There are other complexity social factors and value added to employees' consideration as being working in a SOE.

In present days, there is a potential factor to adjust this through allowing more flexibility of pay system – offering shares as the incentive pay in SOEs. Stock ownership incentive plan has been introduced and would be legally allowed soon for SOEs, where it was forbidden before. Even though this is still not commonly used practically at this moment. It shows that the state is trying to make changes to the most strict rules in their fixed system, which had been thought as impossible to change.

A more recent policy that potentially could result in a change of the situation discussed above are made by the state. In SOEs, managed by State-owned Assets Supervision and Administration Commission (SASAC), over 40% firms start to open for their employees to have the incentive shares. Because SASAC is facing large number of firms in different sizes, they allow higher level of dynamic and flexible management for the firms. The number of SOEs managed by the State Council, including the large-size banks are in limited number and were thought manageable and have been regulated more strictly through cooperate governance.

To sum up, non-fit of motivation in SOEs is a consequence of complex reasons. Firstly, the lack of flexibility in pay and reward system results in lack of methods of motivation. The constraints exist because that the state is trying to push the development of the country from different aspects at the same time. Hence, some elements from the various aspects are playing different roles with each other and cause contradictions in development. For example, the development of labour law system and the development of pushing rapid economic growth are contradicting with each other in terms of setting up effective motivation system through pay and reward system in SOEs.

5.4.3 Performance targets and sustainable business development

Aside from the tensions between appraisal systems and rewards, there are other constraints and conflicts between HR practices and organisational level performance outcomes. The most significant one is that where there are contradictions in the main driving factors in the business strategy or environmental orientation.

In SOEs, no matter it is in the economic growth period from 2008-2013 or the slowing down period from 2013 onwards, organisations never stop from seeking for growth because the business is still in a growth (SOE A, General Manager 1). The profit growth and business growth targets are continuing to increase each year (SOE A, General Manager 1, Branch Managers; SOE D, General Manager). Evidence can also be found from the employees' perspective, even though it is under the environment that asking for sustainable development, the business strategy still seems remaining as a strong push of profit growth at the same time (SOE D, Employee). This design of performance management is intended to fit with the demands for business growth (SOE A, General Manager 1). At the same time, other economic and political factors are raising more issues and adding in more elements that should be considered into performance management. However, those issues and elements are creating resistance and conflicts between themselves.

For example, risk management has been stressed in some SOEs as discussed in section 5.4.1. Many business projects conducted during the rapid growth period leaves the issue of non-performance loans (SOE C, General Manager; SOE K, General Manager). As these managers suggest, in the economic slowing down period since 2013, there are strict rules and policies of risk management introduced on business activities so that on performance appraisal criteria. For both employers and employees, they are under the stress of increasing profits and the relevant criteria of business activities within even more strict environment. They are facing difficulties of post-economic stimulus with less financial and industrial supports as well as the strict rules and regulations of business activities (JSC A, General Manager). This causes more issues of staff turnover.

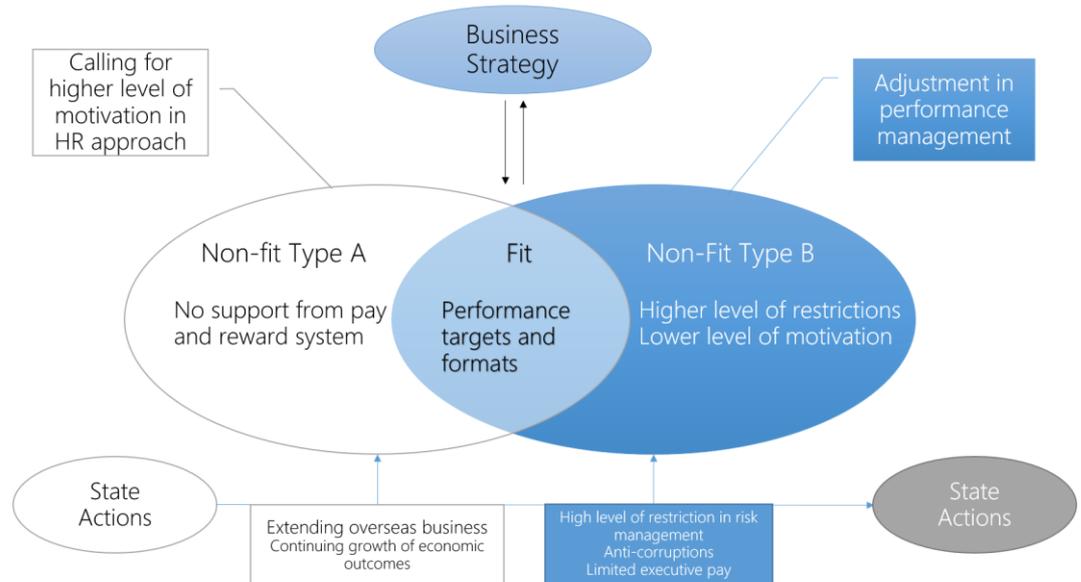
In the current management and HR system, the level of restriction in risk management becomes more strict. This higher level of restriction in risk management has been

reflecting in setting up performance management and appraisal criteria (SOE B, General Manager; SOE C, General Manager; SOE D, General Manager). This adjustment indicates that the system is no longer a pure result-driven but also that change has been made in job design and labour process. Based on the managers' perception, the purpose of this adjustment in performance is responding the need for sustainable development and lower level of risk. However, seen from the facts that it set up more barriers to business activities approach, it is likely to prevent employees to reach the other performance target of increasing levels of business growth and profit outcome. The reason is that strict constraints of business behaviour and higher levels of risk that a 'bad' project may result in a taking the responsibility to a financial punishment through reduction in pay and rewards, or even demotion or transfer to other posts (SOE F, General Manager). This raises the ethic risk for managers and employees that they are more likely to become less motivated to be creative or ambitious when they try to extend new business (SOE B, General Manager). Even when maintaining the existing business activities or customers, they feel that there are more restrictions to slowing down their working paces (SOE E, Employee).

Regarding to the nature of SHRM to support firms' long-term business strategy, it seems that the Chinese financial services sector is facing more challenges from the external environment for their business growth, such as economic growth slowing down and constraints in supervision policies which is considered as necessary by the employers in the slowing down period in order to prevent the damage from NPL (SOE A, General Manager 3; SOE D, General Manager). HR policies offer a stronger support in motivation and realistic goals for employees to work on in order to support the firm to live through and reach their target. What the strategic HR function should be aiming to do, is to try and motivate more when economic environment is slowing down. While at the initial point, the business strategy decides still seeking for continuing high rate of growth when overcoming environmental difficulties, and the performance targets set for teams and individuals are increasing as well, which would be even harder to reach. Due to more strict supervision policies in risk management and anti-corruption, employees feel it is more difficult for them to reach their performance target, which is keeping increasing every year (SOE E, Employee). For a developing country and economy who is planning to reach and complete the reform of society and economy in a high speed at the same

time, the development of social restructuring and economic restructuring seems play the roles to against each other in some points. Within this situation, the HR practices are preferred by both managers and employees to stress more on the motivation so that they are more likely to reach their performance targets (SOE B, General Manager). However, seen from the empirical evidence discussed above, the fact and outcome of the current HR system is that, higher motivation in 'good' economic environment and lower motivation in 'bad' economic environment.

The performance targets for business activities and profits outcome are still set at a reachable level somehow. However, because other restrictions during the labour process have been increased and set up in performance criteria, which means employees are facing more stress due to 'onsite' reasons and have to pay extra efforts to reach these targets. On the other hand, their pay and rewards still remain at the same level. As a common understanding and tradition in SOEs, the adjustments of pay level only happen due to the progress of working years, upgrades in the pay system and promotions. The pay level for employees do not change according to the increasing difficulties and these extra efforts, while at the same time decreasing in pay and reward become more likely to happen due to failing in avoiding risk, and the worries on the increasing possibility of limiting pay increase and upgrades due to the limit executives' pay policy (SOE B, General Manager). Not only this result in in increasing of turnover, but also creating more challenges in performance management. Thus, seeking for growth asks for higher level of motivation, however, when all these facts happen at the same time, there is a big gap in the motivation system.



*Graph C Non-fit in Performance management and Pay and Rewards system
(Author's self-made graph)*

Seen from Graph C, two types of 'non-fit' happen according to these facts. The first type refers to that the business strategy calling for the change in motivation system but the HR practices failed to respond to it. In this case, this type of non-fit happens in pay and rewards system when it fails to make adjustment in pay level for the extra works required to overcome the increasing level of difficulties. There is another type of non-fit happens that the changing HR approach in performance management practices of creating more risk management criteria fail to support the business strategy effectively even though they are necessary to be made.

5.5 Conclusion

Main findings emerged from the discussion

- a. The discussion of 'HR abilities' for the whole HR system and HR functions and practices
- b. Find the approach to categorize where the non-fit appears through discussing the facts of non-fit in practices

Ulrich (1998) develops a model of four roles of HR professionals, who are defined along two axes: strategic versus operations, people versus system. In this case, seen from the discussions in this chapter, SOEs focus more on system building while JSCs focus more on people. HR roles in both of these two sectors are still in operation level even though SOEs have been trying to develop the strategic approach of people management system. Under this circumstance, even though SOEs are system-focused, in reality and implementation, there is still problems lead to people-focused operation for key positions and for those who felt more and more difficult for further development of either pay level and career progression. Managers still consider more about other elements rather than only factors set in the performance system and career upgrading system. These 'other elements' could be a result of 'Guanxi', which refers to the social connections and contracts of an employee, which the company could benefit from the resources that the employees bringing in rather than their own performance at workplace; whether the employee are the preferable one by the supervisors due to for example, they share a similar idea in strategic development or working styles. Some 'Guanxi' can relate more to individuals' contextual contributions other than tasks that are set in the performance appraisal criteria.

Through these changes in transformation as discussed in section 2, the SOEs apparently reshaped the appearance of the organisation and claim that their HR strategy turns to a position that emphasizing more on people's value, which is fitting the general concept of SHRM from western contexts. However, within this process, it seems hard for the explorers to reach every goal and target always right on time and as expected. Caldwell (2003) discussed the HR role change and increasing role complexity in UK contexts. They draw the tentative general inferences that the role changing is much more complex than existing empirical research or prescriptive models.

In this case, the reason why the stereotyped images of HR department have been changed is still questionable to some extent in China due to a couple of reasons. Firstly, the extent that people have realized the change happened in HR system in their working environment is limited. Secondly, when the changes happened in certain policies or functions, people have not felt that it is making a significant or strong different in their work from some aspects, for example, the level of flexibility, efficiency and the

motivation. Thirdly, to what extent HR department have the power and rights to pushing the changes is considered to be limited. More intensively, even though there are some exploration and implementations that leading to a better fit between HR practice and organisational business strategy, the non-fit and gaps still exist within their system.

Thus, seen from the present study, two types of limitation in HR abilities prevent the HR system itself to fit. The term 'HR ability A' is used to refer to what and how HR department is allowed and able to make change within an organisation, and 'HR ability B' is used to refer to what and how HRM approach is able and capable to function and delivery a business outcome that fit the business strategic demands. Within their ownership system, 'HR ability A and B' reflects the constraints and plays an important role to result in a fit and non-fit in SHRM.

According to the development of SOEs, the level of 'HR ability A' had become increasingly significant in one period. However, the level of 'HR ability B' had not been developed at the same level as A. When the building of HR system itself has been turning towards to a step back point, the functions of HRM seem not step back as it. This might be a non-fit of the chosen of HR strategy, or due to the resistances at implementation level.

It is even more questionable in JSCs that whether the concept of SHRM has been translated into the implementation of people management. Unlike SOEs who aim to plan for long term progress at least to some extent, the approach of managing people in JSCs is rarely having a strategy planned for long-term development of employees just like their business strategy. Most of the HR working system in JSCs are formed involuntarily. Some of those who worked in JSCs do not even think they have a proper HR department. The positions for HR specialist in these organisations are considered could be taken by anyone no matter what education background or work experience they have before. When there is demand for HR people, the first thing they thought is not taking any opportunities to build and develop a system that are formed by professionals and could be running to provide full potential supports to the organisation. The most preferable action they wanted to take, or it could be said that the only option they would like to choose is to fill in these positions through the easiest, quickest and lowest cost way, such as assigning the management positions as a part time job to an existing senior or line manager, recruit

those who are close to retirement age and would not make better contribution in profitable department. There is lack of sufficient research or investment that has been put into setting up the policies of HR management.

In the contexts of joint-stock ownership, the 'HR ability A' is in a fairly low level which means that the building of HRM and HR system in this sector have not been recognised as an important component that worth to be put in time and financial investment to be developed or improved. While it does not mean that they 'HR ability B' is considered to be at a low level by themselves as well. At least in the practical level, there is no significant sign to indicate that their employers and managers is planning or taking a good extent and level of actions to change this situation because they think their core HR strategy is still functioning well enough to support their current development. They may realise that there is need to improve their training system. However, they are still more satisfied that they are benefiting from the flexible recruitment and pay and reward system rather than investing a lot on training at this moment. They have more space to be fit in SHRM than non-fit part. Their constraints of developing business are more at the market, capitalism and size level instead of HR level.

As a part of economic development planned by the state in this transitional economy, when SOEs are more focusing on international market, JSCs are more targeting to expanding more domestic market. While the development direction of the whole financial industry is to fit the increasing demands for creating more dynamic financial service varieties through offering more financial service products and the internet banking service. SOEs are more reliable in terms of investing on the innovation of new products due to their strong financial capital and full-fledged innovation system compare to other sectors. It seems easier for JSCs to benefit from the results of the innovations of SOEs for their business activities just like their recruitment strategy. The business strategy of SOEs is to engaging more in marketization and joining in more competitions with other sector in the market. However, it is formulated as a feeding system that skilled employees, new products and some market of SOEs are transferring to JSCs. Even though the state is encouraging the development of other sector and varieties of business, this situation still seems to be formulated unintendedly in some aspects.

As to whether this new system has support and fit the demands of developing business, the answer is yes since the issues appearing in management of people have not yet been considered as the principle contradiction to the whole development of company at this stage.

Chapter 6 The overall approach to HRM in China

6.1 Introduction - The characteristics of banking sector in China

The last chapter discussed the facts of what happens in the transformation of SHRM. Beyond the facts that have been discussed in Chapter 5, this chapter aims to flesh out the elements that play an important role in keeping those key characteristics of the overall Chinese approach to HRM that have survived from the transformation. By doing this, it explores the logic of finding out the main reason for how the influential factors are working, and lead the discussion of which influential factors play the most important role. In this chapter, three main characteristics that remaining from the personnel management period and are still shaping the current SHRM system are discussed. The first characteristic of Chinese approach of HRM is the difference between relying on the building of working system in SOEs and focusing on individual talents in JSCs, to which the evidence will be provided in section 6.2. In section 6.3, the second main characteristic is the ‘consistency’ in Chinese approach of HRM, where the practices are stubbornly staying at a so called ‘safe-zone’ and facing more issues and resistance when it faces change. This ‘holding back in development’ is proved, however, not to be necessarily preventing the moving forward of SHRM to becoming more effectively supporting the efficiency of people management. The last character defined and explored in this chapter is the changes and HR activities that can be achieved by the joint-stock sector which cannot be fitted in SOEs until the current stage. Through discussing these, it naturally indicates that there are some roles that the state is playing and significantly shaping these differences in sectors with different ownership. All these three main characters of Chinese approach of HRM becomes the foundation of this bridge and point to the direction of finding the roles of the state.

This chapter explores further reasons of why there is still personnel management in mind in Chinese financial services sector. In order to answer the second research question, what role SHRM plays in Chinese firms, this section provides further explanations for the main characteristics of the current ‘Chinese approach’ to HRM. Before discussing the role of

state in the formulation of the HR system in the next chapter, this chapter explores and points out the most significant difference between the approach to HRM in SOEs and that in JSCs. It starts by analysing the facts of whether and why SOEs focus on building an overall system of HRM, while JSCs focus on individualized employment relationship and motivation, and relying on individual's capability. It then moves into the discussion around where there are raised the demands of adjustment and changes in HRM due to the business strategy and organisational growth, however those changes have not been taken or have been facing resistance from the state and the firms. The next discussion aims at figuring out what actions joint-stock firms could conduct while SOEs are not able to, under the current formal and informal rules of the ownership system. Whereas the focus of chapter 5 was on individual practices, here attention turns to the 'system' of HRM that is in place, and which is developing, exploring the forces that are shaping the evolution of this system in SOEs and JSCs.

The discussion of this chapter, of course focuses on the banking sector, the focus of this thesis. As a key industry in the Chinese economy, it has been recognised as one of the leading developing sectors in China in terms of their economic performance outcomes and their management system, which is commonly agreed by not only the practitioners of this industry, but also the outsiders (SOE A, General Manager 3; SOE M, General Manager). On the other hand, large SOEs have experienced the shareholder restructure from 2003 as introduced in section 2.3 so that they join the marketization progress at a comparably later point where many other industries started from 1990s (Lin and Liu, 2000). At the same time, the speeds of changing business targets and adjusting of an HR management system are less likely to match each other. The business strategy and organisational targets have been experiencing dramatic changes over the last 20 years. However, seen from the empirical evidence addressed in chapter 5, the reform of the management system, including the HR system, has evolved much more gradually, certainly not at the same speed as the business strategy. Most significantly, the results indicate that 'non-fit' between performance targets in HR management and business strategy results from the fact that required performance outcomes are not made based on the market demands and economic cycle changes.

The chapter is providing further empirical evidence from both SOEs and JSCs. It structured with the following sections. In section 6.2, it draws the discussion around the most significant different characteristics of HRM approach between SOEs and JSCs. In section 6.3 it then underlies the consistency in Chinese approach of HRM. Section 6.4 discusses the required changes that are easier to be made in JSCs than SOEs and explores the reasons of that.

6.2 The Chinese approach to HRM: Individual or system-based?

Encouraging employees to develop their individual talents as the managers claimed in SOEs, however, it seems that they never rely too much on individual's talents in this HR system. While some managers agreed that individuals could play important roles and engage in with significant contribution in certain cases of business, and they even think individuals should be allowed with more flexibility and reward to their extraordinary performance, their current working system still shows that SOEs have belief in their system as comprising more than individuals. Indeed, the idea that individual goals and motivation drive the success of a system of HR remains problematic within a system which has been built on collective contribution and the relegation of individual goals to secondary importance to that of the collective.

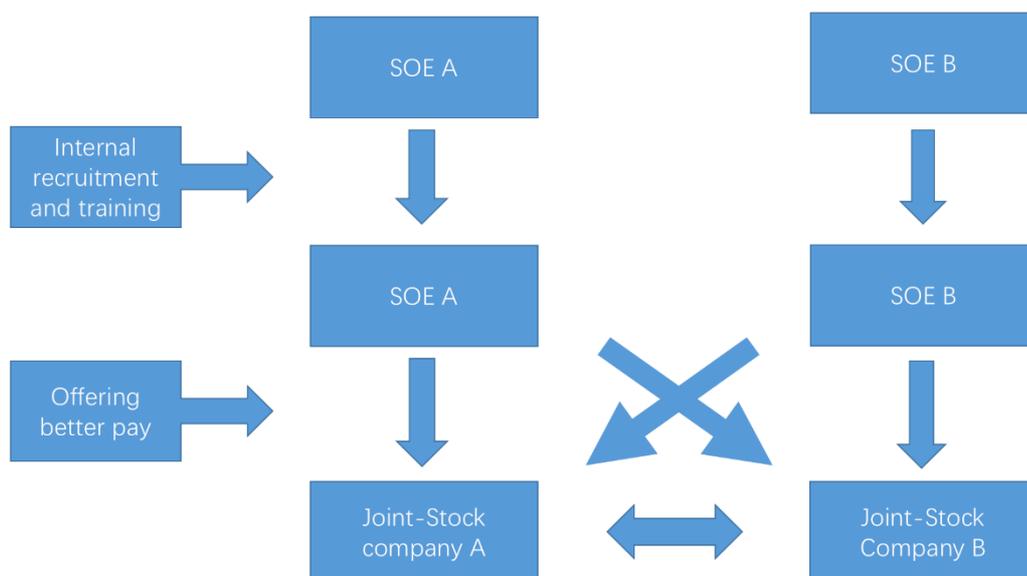
“We always reserve talents. Talents are core to the development in any sense. We must keep our system running all the time to help us having sustainable development. Even in some time the external environment is difficult, we are still considering for long-term plan when we set up recruitment plans.” (SOE A, General Manager 1)

Offering more long-term sustainability in development, through which is generally reached the target that the business activities would not be affected too much when any individuals leave the organisation (SOE A, General Manager 1). This fits the state's and firm's sustainable economic and business development strategy in the way that long-term oriented plan is built throughout the transitional years. This manager believes that external changes or resistance would not affect the organisational long-term plan too much.

“Mainly we always set up our recruitment plan depending on our own development plan rather than being impacted too much by the external environment.” (SOE A, General Manager 1)

However, it is still arguable whether it is the most efficient way to support business strategy. It also creates constraints and non-fit in a few ways. It is commonly accepted that the staff turnover rate in joint-stock sector is high. Employers in this study noted that they have utilized a range of strategies to retain their staff in key positions, using flexibility in recruitment and pay and reward system as discussed above. Yet staff turnover remains high, which results in some challenges in their business activities in a short time period, if their business strategy relies much on individuals’ skills and experience. Because of their capability to have high level of flexibility in HR strategy, a long-term driven recruitment strategy enlarges the chance for the organisation to find those who have equivalent experience to replace and fill the gaps in a shorter time period.

The following diagram is drawn in order to conclude the answers from the participants about reasons for staff turnover.



Graph D Staff turnover –Where do staff of key positions leave to (Turnover within Financial service sector) (Author’s self-made graph)

Seen from the results of the interviews, the Graph D of staff turnover indicates the main paths and trend of staff leave in SOEs. Excepting for internal recruitment and job rotations, when employees of a SOE chose to leave their organisation, it is usually because that they are seeking better pay or a totally different lifestyle.

“I have experienced restructuring, importing strategic investment, IPO and a lot of following issues after IPO needs me to resolve, during which I have always got chance to learn and try new knowledge. I would consider too much about payment. However, recently I felt that there is not so much new knowledge that I could learn in this position, the work seems to become repeatable, and I am also considering if I should try another position or location where I could learn more.” (SOE E, General Manager)

“For pay and rewards, in the beginning, the pay moves to a higher level in every two years. And there is also a chance that the pay will reduce due to the limit pay restriction. There are always headhunters trying to persuade me to work for other JSCs by offering me two or even five times of my current salary. This could also attract me in some point.” (SOE B, General Manager)

They usually chose an organisation with different ownership rather than choose another SOE. However, it is more often for the employees of JSCs to seek other job opportunities between JSCs. Employees who left SOEs normally will not intend to come back to SOEs again.

“People who want better payment in a shorter time period, they should go to JSCs. They have more flexible pay system and less constraints for their mechanism compare to SOEs. However, I enjoyed the reputation of working in SOEs, I have lots more opportunities to learning different new staff all the time and access to greater work opportunities and customer organisations and I am happy with where I am at this stage.” (SOE A, Employee 1)

Is the disregard of high staff turnover rate fit the sustainable development strategy? When asked about the high rate of staff turnover, it is normal for managers from SOEs to express

that the staff turnover will not affect so much on their operation and the whole HR system since they have plenty of employees in their 'reserved talents plan'. The employers think they have to accept the situation of high turnover rate happened in their organisation and they would not be able to provide solutions to change this.

“It is the truth that we are not offering as good amount of payments as JSCs. We understand that employees may become more eager to leave when they felt there is less chance for them to be promoted either in career progressions or gaining an upper level pay. However, we do face the facts that there is not positions at upper level for everybody. Especially in SOEs it could be more difficult to get promoted because there are certain and strict rules for the number of people that are allowed in key positions.” (SOE E, General Manager)

Even though they have already figured out this is a problem that there is limited space for upgrading pay level and career progression, which results in low level of motivation in retaining staff, there is still no signal in SOEs that there could be a significant increasing level of flexible pay system in short term.

Kaufman (2010) believes that a reduction in staff turnover contributes to stability and helps to reduce HR functioning costs. Furthermore, Cook et al. (2016) suggests that reducing flexibility in labour allocation creates operational problems, which was associated with continual access to external labour market traditionally. In this case, this could increase operational costs at both labour level and for business activities. This was borne out in some of the cases in the present study. As one general manager noted, replacement was relatively straightforward:

“Usually if one staff in a key position leave and go to a joint stock company, it is likely that a team would leave with them. But I think our organisation is big enough and we could always fill in the job positions easily to limit the loss made by their leave.” (SOE A, General Manager 1)

However, the longer-term effects of staff turnover on motivation were recognised as being very problematic, with knock-on effects on other staff.

“If someone who has high level of performance chooses to leave because they feel there had been no space for career progression or increasing of pay level for a long time, this could also make other staff feel depressed and feel less motivated.”
(SOE B, General Manager)

These two cases indicate two different attitudes from general managers regarding the issue of staff turnover. The general manager from SOE A suggests that staff leaving, even for key positions, can only result in limited loss due to the ability and high efficiency of the organisation to replace the positions. This is a significant benefit from their talent reserve plan, where they always have recruited a large number of staff. However, general manager of SOE B considers the draw back from staff turnover from a different perspective, the motivation system. The limitation of the current pay and reward system has a mutual relationship with high staff turnover rate.

To explore more into the reasons behind high turnover rates, the lack of reliance on individual's value means that there is no sufficient reward system to encourage continuing best performance. As indicated in the interviews, in the PRP system of SOEs, firms aim at encouraging better individual, group and team performance. However, in reality, within a team, the team leader usually would not award the best performance to the same employee in the same years, as noted in chapter 5. This is due to both the collective culture and the balance of 'political demands'. Moreover, due to the state's pursuit of sustainable growth in the long-run, the rapid growth in the most recent years has result in an overly-aggressive extension of market, which in turn has caused the growth of non-performance loans. As a result, current policies for risk management have become much more strict. The strict rules in risk management and the punishment in rewards resulting from a failed project also constrains the employees and even managers' attitude of seeking for growth and development. Since the performance criteria regarding at risk management is become increasingly strict in years, in order avoid the risk, some managers and employees would rather to stay in their safe zone through not expanding business activities by trying their full capacities.

Another element of target-setting within this HR system is problematic too. A member of staff leaving from a key position might result in the loss of a project. This creates even bigger damage in joint-stock companies where they rely more on individuals, however, due to the flexibility in their recruitment and pay system, joint-stock companies are more likely to prevent this situation by offering higher level of pay or import another project by headhunting for another key position in a more efficient time. For SOEs, their current long-term sustainable development is accompanied by long-term high costs.

“As we are always seeking for stable growth, we usually keep a high level of recruitment and training expenditures.” (SOE A, General Manager 1)

Considering the trend that financial products market is growing and the financial service tends to be more diversified, banks need to keep the strategy following the trend and have talent reserve plans following their long-term driven HR strategy and campus recruitment strategy. Underlying this situation is the reality that the rapid growth has allowed firms to generate profits without addressing problems of high turnover rate. Buoyant economic conditions and growth in the sector have, according to some respondents allowed firms to mask or hide underlying problems with turnover rates.

“The turnover rate is high in the whole industry no matter what ownership it is because it is too easy for financial companies to gain large profits and everyone can easily make profits no matter which sector or company they were working in.” (SOE D, General Manager)

Not all respondents agreed with this, however. The branch manager of SOE C regards the turnover rate in a different way:

“With the current state policies and rich profits gaining conditions, we can find a few reports on employees’ quitting and job-hopping. But they are still the minority.” (SOE C, Branch Manager)

The two answers about whether the turnover rate is influential to the sector, show there are two different interpretations. This different interpretation is a result from the different group of employees they are focused on. The General Manager of SOE A works in head

office and is focusing on high-skilled and experienced employees who have been working in a higher position. They usually have rich social networking and are able to bring in profits quick and directly, which results in other organisations trying to “headhunt” them. The Branch Manager of SOE C works in branch and focusing on workers working at fundamental level, who might be experienced, however they are not those who can bring in direct profits and there is more chance for their job to be replaced. Low-skill jobs are easier to be replaced by other workers or artificial intelligence (Abrassart, 2015). In the financial services sector, this lower-skill worker is not a definition of low-educated workers, but refers to those who are less willing to develop their skills. For example, some of the aged worker who are closer to their retirement age are less likely or be less willing to develop their interdisciplinary skills. In SOE A, there is a pathway for managers from head office and branches to communicate about their demanded labour skill and number of labour. New staff are regularly assigned to each branch not only for the reason of fitting the required and planned development and demands, but also taking this as a normal process of job rotation in training plan. In this part, the labour costs caused by turnover have been able to be kept at a standard level. However, when a manager from head office has concerns about the high skilled staff leave in key positions, it is less easy for them to be replaced then who work in fundamental positions. Seen from this perspective, the turnover of employees in key positions could cause more concerns from the head office. This is a result of non-efficient pay system, which could make more difference in key positions.

However, the Branch Manager of SOE C also believes the banking sector is becoming less attractive to graduates compared to other financial sectors due to comparable limited profits and payments. In the past, there are strict policies about “Separate Operation System”. For example, banking sector can only do their specific banking duties, insurance companies can only involve the insurance business, securities companies can only involve the securities business. But nowadays, the companies in the whole financial industry are tending to become more and more similar to each other in terms of the kinds and variety of business that they are doing. The distinctions between different businesses become more and more flexible. Secondly, the monitoring process for different business is also becoming indistinct. For example, in the past, some assets management business could only be allowed for banking sector to conduct but not allowed for trust companies;

some assets management business were specific for trust sectors while insurance companies were not allowed to do. But now assets management business is legally allowed to be involved with the whole financial sector. For instance, what the trust sector is naturally responsible to do includes project financing, asset management. However, currently, banking sectors, securities companies, funds companies all have the business of assets management. They might face different customers and enterprises, but their business patterns are same.

“Now comparing with other firms in the whole financial sector including insurance, funds and securities company etc, banks may not a very attractive choice for graduates. Funds and securities sectors are more attractive because they have higher profits. Banks in China, especially SOEs considers more about social responsibility, for example by offering services for the people’s livelihood and under GSP (generalised system of preferences). In this system, the banks would not gain as much as other sectors and it has no advantage in terms of offering better pay.” (SOE C, General Manager)

This can increase the possibility of higher turnover rate. Many of those who leave from SOEs are finding jobs in JSCs but most of them have not left the banking sector or financial sector. The lack of fit between the development of institutional policies and the adjustment of HR practices appears, especially in terms of pay and reward practices. As discussed in section 2.3.2, SOEs’ pay roll budgets are controlled by the State-owned Assets Supervision and Administration Commission (Article 42, Notice of the State-owned Assets Supervision and Administration Commission of the State Council on Issuing the Interim Measures for the Standard Operation of the Board of Directors of a Central Enterprise in the Pilot Program on Board of Directors), SOEs can only decide the internal distributional mechanism given available budgets, this may still restrict their discretion to develop more competitive and adaptive pay and reward systems.

Joint-stock and private sectors are facing high turnover rates for a different reason. Recruitment used to be the only lever available to them to manipulate in their ‘traditional’ original HRM. Following the development of a more complete HRM system, the recruitment function has had to become more sophisticated. The system has been built as a result of attempts to retain staff. When the economic growth is fast, the business is also

growing fast in the whole sector, especially when there was high rate staff turnover. They usually spend a great amount of costs on headhunting an employee to come and to train them for a very important position. However, they found their motivation system could not work efficiently and meanwhile, other companies are trying to complete their system or have already had a more advanced system in the fast-growing market (JSC A, General Manager). Also, however, some organisational level HR approach raises concerns. For example, Thunnissen et al. (2013) argue 'exclusive' approaches to talent management, which only focus on a restricted group of high achievers, can cause harm at the societal level.

There is a talent-reserve plan in a few positions including the risk management department and customer managers. However, the lack of flexibility in the pay system in SOEs has become one of the reason to cause staff turnover as discussed in Chapter 5 (SOE B, General Manager). The lack of restrictions for preventing job-hopping makes it easy for customer managers to leave and bring the customers to their new company. The strict limits for upgrading in the pay-scale (SOE J, General Manager), Less welfare scheme for SOE employees that comes with the anti-corruption policies has more and more impacts in this reward system as well. This causes a lot of distributions and no efficient way can manage this situation. The higher and flexible payroll system can somehow help to reduce the turnover rate.

“We have the advantage to offer better payment in our HRM system, which somehow help us to prevent from the high turnover.” (JSC B, General Manager)

It becomes a trend within JSCs that when one company makes a response, other companies respond, typically mimicking the practices of the lead company (JSC C, General Manager). From a managerial perspective, the attraction and retention of high-quality employees is more important today than ever before (Holtom et al., 2008). For example, when there is a position vacancy that require to headhunting, their original company would try to keep them stay. If offering a better payment, the other company could like to offer more. The company making recruitment from other companies also face the issue of preventing their existing employees to be recruited by other company. This demands them to respond as well by raising pay to retain talent. As mentioned in the

second chapter, the core issue in HRM system of private firms is to focus on attracting people to come and keeping people to stay. Considering the high turnover rate in the fast-growing period, JSCs paid more attentions on attracting new employment and retaining current staff by offering better payment based on their advantage of flexible payment system.

In overall, the control-based approach focuses on monitoring employee behaviours, employee's compliance with process-based standards (Snell, 1992). It further divides into two alternatives process-oriented control or outcome-oriented control. Outcome-oriented control is characterised by extensive long-term rewards, employee participation and involvement. This is consistent with the SOEs participants perception of their HRM strategy. Market-based HR system emphasizes staffing and deployment of skills for immediate contribution. It relies heavily on external labour market for securing the right people to do the jobs (Koch and McGrath, 1996). Organisations are willing to pay market wage to attract the needed human capital with necessary skills and are less likely to invest heavily in training and development. These skills are easily acquired in the market. This is consistent with more private firms' participants in terms of their demanded labour are experienced and high-skilled workers who are able to create profits immediately. Their recruitment and pay and rewards are external market based. This could be seen as an underlying consistency in the two types of firms.

6.3 The underlying consistency in the Chinese approach of HRM

Results from the labour surplus and costs, employers are likely to take HRM measures such as lay off and less recruitment and/or changing training plans and budgets (Felstead et al., 2012). However, in the Chinese contexts, it is hard to compare the benefits and harms of the social connections or conclude that these problems can be easily solved through any system as discussed in 5.3 and 5.4, however, it provides a direction and approach to improve the situation. How have these directions and approach been impacting on the development of SHRM in reality is worth to explore in this research.

Before or after all the required changes of HR strategy discussed in the last chapter, some approach of HRM has shown it consistency throughout the time. The most significant

consistency reflects in their core HR strategy. In other word, the core HR strategy mainly stays as the same and has not been adjusted with the environmental change. SOEs have been continued with their ‘talent reserve plan’ strategy and relying on their campus recruitment and training systems to develop employee’s work competency while joint-stock companies still focus more on short-term efficiency and they are more profit oriented. Thus joint-stock companies have kept high payment systems as their core HR strategy to attract high-skilled employees in key position. SOEs are always considered as the ‘training center’ for joint-stock sectors as discussed above.

“We are rarely investing too much or relying too much on our own training systems. We prefer experienced and skilled workers. Those who got enough working experienced and received trainings of SOEs are one of the important target for us to make recruitment.” (JSC B, General Manager)

The ‘consistency’ and the fixed parts of the approach have faced some resistance when changes are introduced, however, mostly this is because that the consistency is also considered to be supportive in the transitional economy in general seen from a few aspects. The fixed approach in SOEs ensures the security of job positions and employment rates. It helps keep the reputation of working in SOEs at a certain level. As mentioned above, coping with shifting events by sticking to a fundamental principle seems also help when facing change in some point when people though there is ‘non-fit’ in their HR and business strategy.

Reflected in HR functions and practices that has been kept during all the changing process, campus recruitment as the foundation of all external recruitment for most positions, job rotations in training system, which provide the most advantages for SOEs to stay at a more active position when facing external changes and difficulties.

“Age, career experience, improvement of skills, and the change of external environment all affect my expectation on work, pay and progressions. In earlier stage, I thought I had done pretty well with my work. I could learn a lot. I am trying new stuff every day. At that time, even if my pay level was lower, I would not think those who earned more but doing the same business everyday neither

have little space to improve nor making better progress than me.” (SOE B, General Manager)

Saving costs by limiting training expenses while offering high levels of pay to attract some high-skilled and experienced workers and retain key position staff, joint-stock firms show more flexibility in their operation and financial plans.

Following the discussion in 5.4.1, there is a social responsibility for SOEs to create and offer more job opportunities. Noted in the discussion on western contexts in chapter 2, external factors and unemployment rate brings further challenges for HRM, such as the fear of job insecurity, uncertainty in productivity, low threat to management prerogative, and impacts on the stability of long-term employment relations (Ramsay, 2000; Reibzter, 1988; Forde et al., 2006). Zagelmeyer and Gollan (2012) and Geary’s (1992) advocates about the increasing of flexibility when facing unemployment and uncertainty. And in other Asian countries, according to Kamoche (2010) and Smith and Asma (2004), there is the implementation of greater flexibility in aspects of HRM, such as working practices, resourcing, and training. There are some challenges from the labour markets. The increasing competitive pressures on employees, employers from business environments also became an opportunity to encourage adjustment in HRM and IR system and drive employers to respond to the changes of labour market from basic structural HRM assumptions to day-to-day HRM functional level. However, the Chinese approach of employment and compensation are highly regulated as discussed above, compared with their significant impacts of external environmental changes to HRM system. The Chinese approach of HRM system is indicating a much fixing feature, particular in SOEs and the focus of HR management may be different. The strategy that the state used to overcome the economic difficulties could be considered as one of the Chinese old sayings of “attacking in order to defend”. For example, the economic stimulus package has been offered for enterprises in many industries in order to reduce the impact of GFC. SOE A has continued with their business strategy of syntheticalization and internationalization development throughout the time since stakeholder reform. Aims at sustaining a sounds development of business, when facing the spreading GFC, SOE A has dedicated to fostering business innovation and improving management structure (SOE A, General Manager 1). This is an example and indicate the reason that they usually keep a high level

of expenditure on recruitment and training. Even though it is not a cost efficiency model, it supports their fostering business strategy.

To sum up, the consistency is indicated in two ways. First, there are some changes had been required in adjusting HR strategy and practices, however, those changes did not happen. Second, some HR practices and strategy is kept the same throughout time no matter how environmental changes happen.

6.4 Differences between JSCs and SOEs

When the external environmental factors call for changes, the most possible solution that JSCs usually choose is to quickly respond to the demands through the most time saving approach (JSC A, General Manager). Under this circumstance, short-term contingency approach, can work. However, the long-term may not be strategic if there is lack of flexibility. These include headhunting, negotiation and adjustment of pay and rewards (JSC A, General Manager; JSC B, General Manager). The changes reflecting in recruitment and pay and reward system could be significantly seen in short time. While in SOEs, the operation usually staying in a current system to live through the changes in market and then discussing a changing in system for a long-term development after the state publishing or releasing a policy advise, a target of development for next stage as the instruction to make any systematic changes or the direction of even single practice change.

“There is not much space for adjusting our internal system in order to improve the motivation system.” (SOE B, General Manager)

Higher level of flexibility to react to environmental changes is one of the most significant difference between these two sectors. In joint-stock sector and other small and private banks, employees are more likely to reach their goals of getting promotion and a much better payment raise. The payment is agreed by negotiation pay system, which was only open for limited positions in SOEs.

“To compete with other banks, we have to have some advantage in at least one function. Compensation, or promotion or welfare, pay some financial and economic measures to retain staff.” (JSC A, General Manager)

“The motivation system in joint-stock and private enterprise is always better than government institutions and big size SOEs. For those whose performance is poor, we usually tend to implement their rights of reducing payment or de-promotion, and offer some training to them.” (JSC C, General Manager)

In the contrast way, even though managers in SOEs believe that their reputation due to a long and stable history of development has become a strong element to attract qualified employees to come and stay, which is still benefiting them to stay at an advanced position than other sector in terms of human resource and business activities, they agree that the building of their motivation system itself is not as ‘directly effective’ as joint-stock sector.

“The motivation system in our organisation is being well embodied. But I would say we do not even have a motivation system.” (SOE D, General Manager)

Different from JSCs where there is no limitation or requirements for them with the total amount costs on pay and rewards. Thus, they are able to create a clear motivation system which is highly related to the performance. For employees working in JSCs, individual performance is clarified to be the most significant factor to their pay and rewards.

For managers and experienced workers in SOEs, they are facing the issue of less opportunities to be promoted in their career progression and pay level increase. In the hierarchy system of SOEs, as introduced in section 2.3.3, the higher level of management positions is still assigned under the ‘cadre system’ (Brødsgaard, 2012, p.634-639; Warner). Cadre system is an important part to formulate Chinese political system. It is the ranking system of civil servants, army forces and government bureaucracy (Barnett, 1967; Burn, 2007), not only in political institution, but also in firms: “cadres are the managers, administrators and professionals found in all sectors of the economy including enterprises, in administrative bodies including government, and in public service units”

(Burn, 2007, p. 23). The splits of leadership positions and non-leadership positions and the career promotion pathway in firms is not only relating to the functions but also based on cadre system. It is also used partly to determine pay grade, in which there are different pay scales for different ranks of positions. Cadre positions are still coveted for some people in contemporary Chinese firms due to the historical tradition of having special privileges on, such as government welfare, housing, specific pension. Even in current stage, where the main trend may be gradually shifting to establish own businesses or seeking for higher pay or flexible working conditions in JSCs, cadre still remain as a very attractive to some workers. Many SOE employees are thus willing to receive less pay in order to stay in a career pathway that planned for long-term planned and stable development. This progression is however strictly evaluated and monitored by the board. At the beginning of their career, payment level would be increased by every two years. The opportunities for progressions and accessing new knowledge are high. But when they reach a certain level, it could be the situation of spending years in the same position and with the same level of payment.

“I will start to weigh the advantages and disadvantages and consider if I should find another work opportunity inside our organisation or outside it to enter the market.” (SOE A, Employee 3)

Some participants from SOEs use the phrase of ‘enter the market’ when discussing the issue of finding a job in JSCs. In their opinion, working in SOEs is still not working in the open market while working in JSCs is in a closer position to the marketization, in terms of either the approach to HRM or the job itself.

6.5 Conclusion

Main findings emerged from the discussion:

- a. The reasons of non-fit
- b. Intended and unintended non-fit can both support the efficiency of organisational operation in certain contexts.

Who is benefiting from the new policies and system is due to a lack of clear main direction to some extent. The country is speeding up the developing time period with the changes in almost all areas. The economy is under high speed growth as well as completing the legal system. Aims at seeking for sustainable development, the criteria for risk management becoming increasingly strict while the growth target also become higher level by each year. The changes of other social factors also appear and impacts on people's mind set in so much different way. Seen from all elements which is changing in this time period and what the state is encouraging the firms to conduct, the main aims of changing the HR system includes fitting the marketization, building up the system working under the new legal contracts, seeking for a high performance working system and could be more. Rather than one clear clue, all of these multiple aims calling for the changes together are more likely to leading the development into different directions, which results in the confusion when setting up and implemented practices. Comparing to the one clear aim of the nature of SHRM that supporting long term development of business strategy of the organisations, it seems that within the Chinese contexts, especially in the key industries, too much varieties make the efficiency of the adjustments in HR system hard to be defined. When it comes to each single practice and HR decision, it needs to clarify what is the principle contradiction to lead. When the principle contradiction is significant in one element, it is easier for the decision makers to choose while when the principle contradiction is more than one, the decision-making process becomes more complicated and lack of consistency with the strategy between practices.

For example, while a company is having ambitions of expanding market as their business strategy, the increasing number of tasks needed to be finished in the group and individual performance appraisal criteria is set aiming to fit this purpose and support the business strategy. At the same time, too much non-performance loans emerged so that the more and more strict rules of risk management in the criteria is also a necessary decision to make to prevent this situation and ensure the security of the business in order to fit the target of sustainable development. The extent of risk management is an important issue to be defined. It could be claimed that seeking for security if the foundation of long term development and it is unavoidable that the strict rules in risk management to some extent are putting off the high-speed growth and business expansion. This is more likely to be defined as an issue of the efficiency of the high performance working system, however,

high level restrictions in risk management also create constraints and can result in the decreasing level of flexibility, which is not considered as a fit to the strategy of rapid business growth.

When the benefit of changing stays at the theoretical level and while the benefit of certain practices changes in this system is unclear in practical level due to the constraints, it is less possible for the managers to continuing insisting to push the changes and investing on building the system to seek for the better practices.

The reasons that the firms always choose the most strict criteria could be explained in the following ways. Firstly, in SOEs, the state and the firms are naturally intensely related, especially in the key industries including financial service sector where state-owned sector is still having the biggest market possession and stay at the leading position in Chinese domestic market, and play the most important role in shaping, planning and supporting the economic development in the current system. As the tradition of taking stability as one of the main characters of processing development in state-owned system, the systematic changes would not be made radically in a short time. As financial security is considered as a vital issue by the state, the external constraints on ownership and especially the control to SOEs is essential to ensure the operation safety of financial services sector.

The reform of HR system during share restructure period is considered as significant enough and this changes and revolution has been made to the most likely extent within this ownership system. However, it seems that the advantages of the advanced HR knowledge and policies had not been able to show their advantages during the implementation within the state-owned system. During all the following years, the development process of this HR system has been moving backwards. SOE B invested in building the HR system through hiring consulting company to research and set up the whole HR system and working policies, which had been considered as being at the advanced and leading position in HR development in all the big four. However, after these following years, the HR policies and system tend to being at a similar level again. The system set in 2004 is considered as emphasising on and fitting the element of marketization, which has been recognised as being gradually weakened, especially

reflecting in recruitment, performance management and motivation system as discussed above. The HR policies in that system are standardised and detailed. During the weakening of marketization, this system seems could not fit the operation anymore and has been recognised as becoming too complicated in the operational level.

Chapter 7 The role of state in matching SHRM with Business strategy

7.1 Introduction

As noted in the literature review, the vital role that the state played in the development process has been suggested by a large amount of research (Poon, 2009; Gabriele, 2010; Felipe et al., 2013; Lo and Wu, 2014). The role of the state in Chinese economic development has been complex and multifaceted (Lo and Wu, 2014). The role of the state can be difficult to define and studied because this encompasses more than a single actor, and many different institutions and government departments can influence HRM outcomes in various ways. The state plays important roles as both the external national policy maker as well as the internal organisational leader in SOEs. Thus, it is important to take the complexity of the roles state plays as stakeholder and leader. Cooke (2009a) suggests HRM studies on key management changes that resulted from radical social and organisational transformation are needed, which will be addressed in this research. This chapter provides further empirical evidence to understand this external factor, comprising with the discussion in relation to the evidence on HR activities, which are discussed in chapter 5 and 6.

This chapter aims at answering the question of what role does the state play in setting and implementing HR strategy in the Chinese financial service sector? How the political influence of the state strengthens or undermines the role of HRM? In order to answer these questions, the analysis of this chapter combines with the discussion in chapter 2.3.3, the role of state for understanding economic environment of business in China. This chapter continues the discussion of the research questions from the perspectives of finding out the key role of the state in shaping the changes of HR strategy. Among all the key roles, the role of the state becomes most important one that having influences on all the other key factors including political, economic, social, cultural technological factors. As introduced in the contextual chapters, since the shareholder reform scheme since 2004, the state published and introduced a series of regulations and policy including new LCL and its amendment, the economic stimulus package which set out to boost economic

growth. The national development plans: China's 12th 5-Year Plan and 13th 5-Year Plan then slowed down the aggressive economic growth and rather sought for sustainable economic growth (Chapter 19, China's 12th 5-year Plan) and shifted the focus on anti-corruption (Chapter 56, China's 12th 5-year Plan). These policies have all directly or indirectly impacted the development of SHRM in Chinese financial service sector. As the key influencer to chief executives on the board of SOEs and the supervisors and monitors of the whole nation, the role of the state could be the simplest one because they are the same body to setting the plan for the environmental factors and the firms. On the other hand, the role could also be as the most complex one because there are many contradictions between the policies considering all the economic, social and political factors as well as the development of each firm. The state seems to become the most key role to shape both of the environmental factors and the internal strategy of business and SHRM of SOEs.

This chapter consists of two main aspects from which the state shapes the development of SHRM in the Chinese financial service sector. Within the discussions in section 4.2 (Liu, 2009) and through providing further empirical evidence on this issue, the role on the boards inside the firms, combined with the role of supervision and monitoring inside and outside the firms shows their effects in two different ways. Firstly, section 2 explores the role that the state plays in shaping SHRM through shaping business strategy (Cooke, 2004; Zhao et al., 2012), where further empirical evidence are provided to discuss the exploration of the formulation and the feature of the normal HRM structures set for supporting SOEs' long-term development as well as the principle of people management in the joint-stock sector, and what the exact impacts have been on the formulation of HRM strategy of organisations from the external factors and specific events. The last key part of this chapter interprets the state influence on SHRM in SOEs from a broader picture through figuring out the mutual relations of the state and the firm: the position of the state in the development of firms as well as the position of firms within the planned transitions of the economy and the country. The main task of this chapter is to clarify the fundamental and potential relations between a non-fit style SHRM and the effective development model of the firms and the related environmental factors.

7.2 The role of the state in shaping HR policies through business strategy

This section discusses the role of the state in shaping HR policies through business strategy. This role is played through the internal role on board in SOEs (Liu, 2009), and through the external economic policies, where empirical evidence will indicate the economic policies on Chinese focus. This section consists of three subsections. In each subsection one example is presented to indicate the role of state in shaping HR strategy and policies through business strategy. There is good deal of literature that proves the importance between the state policy and HR activities (Beer et al., 1984; Fombrun, 1984; Lundy, 1994; Kaufman, 2013; Kaufman, 2015; Wright et al., 2015). Through these examples in the current empirical study, the Chinese feature with planned and transitional approach of this relation is introduced. These discussions explore the reasons of shaping this Chinese approach to HRM introduced in the last chapter. Considering that the reform of SHRM has been aiming at shifting towards supporting marketisation or organisation (Zhu and Dowling, 1994, 2000; Chow et al., 2008), this section introduces how market-based and non-market-based factors could play together to create a non-fit HR system. The frame of this chapter includes the exploration of the following question: How the long-term and short-term oriented HR strategy has been shaped. The state policy of China's 12th 5-year plan and 13th 5-year plan pay important role in shaping environmental factors, such as the speed of economic development, and the construction of industries, which affects the business strategy of the companies in a significant way. Due to these changes in business strategy, HR policies and practices within firms are adjusted in different ways.

The economic transitions of China have been planned and steered by the state (e.g., China's 12th 5-Year plan; 13th 5-Year Plan). So followed by the business strategy of SOEs, was the formulation of labour market and the HR strategy within firms. As discussed in the last chapter, the Chinese approach to HRM has shifted from personnel management into SHRM in the last decades, which proved that the specific environmental factors of regulatory and policy changes have always been the key drivers of these changes (Boxall and Purcell, 2011). The most significant event that has driven SOEs to start building their strategic HRM system rather than simply personnel management is from one of the state polices published in 2004, relating to shareholder reform. The issue of the reform was raised by the state, through policies and guidance. These shareholder reform process

caused significant restructuring of the banking system. It was aimed at significantly affecting bank efficiency, and preceded further reforms in the operating system and, business strategy in firms (Chan, 2010). During 2005, three of the Big Four state-owned banks announced plans to partially privatise and take on minority foreign ownership. Thus, the “globalisation” of the Chinese banking industry appears to have begun in earnest (SOE A, General Manager 3). This sped up domestic business development and made the bank become more open to the world in terms of business and labour markets. Another significant event that has resulted in strategic changes in business plans of both state and private sector is the 2008-09 Chinese economic stimulus plan as an attempt to minimize the impact of the global financial crisis (JSC A, General Manager). Evidence on how the state boost the economy by offering economic stimulus package can also be found in Western media reports (Bradsher, 2009). Expenditure also rose to stimulate the economy in response to the global economic slow-down, to absorb the bad loans in the banking system, and to expand the social safety net (unemployment insurance and pensions) as a way to facilitate SOE restructuring. These also included a push towards global recruitment in 2008 resulting from the shareholder reform as well as the global financial crisis. The ongoing process of industrial restructuring and issues raised from the large investment included surplus capacity. These events and the following impacts have played important roles when shaping the HRM system in the last decade, either by impacting HRM system through the changing of organisations business strategy or changing the labour market. These impacts will be discussed in detail developing material from the last chapter.

7.2.1 HRM and business strategies in the short-term and long-term

One of the essential points from the idea of non-fit looks at the perspective of how HRM supports business strategy. This section reveals this from two significant characters of business strategy in SOEs and JSCs. Firstly, from the long-term oriented perspective, this section starts with understanding how campus recruitment plans and the building of training systems support long-term business strategy; how the campus recruitment plan has been implemented and the way it is designed to fit labour demands. It also explains that in organisations with short-term oriented business strategy, the HR functions are set to hit the target but result in lower security for both employers and employees.

In order to understand how HRM becomes ‘non-fitting’, this section explores the approach that the state impacts on the essential strategy of firms from the fundamental level - the ownership as suggested by Cooke (2009b) and Zhu and Warner (2019). This level of impact on HR strategy in firms is reflected at whole dimensions. The ownership type of companies makes the most significant difference in shaping business strategy between firms in China. The different HR strategy in SOEs and JSCs discussed in the last chapter is the willingness of the investment in training, and the talent-reserved plan versus high level of payment for key positions. The approach of setting HR strategy in sectors of different ownership basically reflects and follows the approach of how they form their business. When setting business strategy and HR strategy, the most significant feature that makes SOE and JSC consider environmental factors differently from each other is their ability to responding to the external environment. This is consistent with the points in resource-based view (Wernerfelt, 1984). As considered in the last chapter, SOEs have been constantly setting and implementing business strategy based on a long-term sustainable development plan. Long-term business strategy is usually formulated by a considerable amount of factors and also in the process of its implementation (SOE A, General Manager; SOE B, General Manager). Thus, long-term business strategy is suggested only to be set within an organisation that usually is at a leading position in terms of the market share and considered having advanced operating system, with at least the willingness to invest in researching the environment. In this study, SOE A, B and C, the biggest state-owned commercial banks, present this characteristic. SOEs have been staying in the leading position in terms of either productivity or development of the management system for a long time period within the Chinese financial sector.

“No matter how the environment is changing, we still need to stick to our development plan in order to keep the sustainable development.” (SOE C, General Manager)

Seen from this answer of the General Manager of SOE C, in order to meet the demands of both the development target of the organisation and the demands of the states. As introduced by the policy maker A (member of the Chinese People's Political Consultative Conference (C.P.P.C.C.)), when facing an uncertain global economic environment, China’s sizable policy plans are considered to maintain comparable overall macroeconomic stability in case of unexpected domestic or dramatic external economic

changes. Even though unexpected factors could always occur, this policy system still offers the chance for employers to predict how the market is likely to develop, through understanding the published plans of states. Organisations need to comply with this, placing some constraint on what they can do. Especially, SOEs' managers are closer to the state's leading direction because of the state's ownership and corporate governance, so that they are close to policy development and even more able to predict the environment. In a similar way, the transformation of HR systems and policies in SOEs has also been developed in a relatively stable way and shows a relative fixed system. The HR plans are still made at a number that are at an ahead position than the real demand raised from market. These could be reflected in recruitment plan, training expenditure and performance target. Since the role on board of the state, general managers of SOE A and SOE B claims that it is more likely for them to have their HR strategy planned and shaped for long-term development. These are reflected in the large expenditure in training and talent reserve planning.

“Training system is extremely important to our bank. The whole HRM strategy and labour supplies are relying on the training system without which the HRM system of our bank would not be able to work efficiently.” (SOE A, General Manager 1)

The General Manager from SOE A indicated their recognition on the importance of building HRM strategy, especially paying attention to training systems. The building of the training system is beneficial to reacting and supporting long-term development of the organisation. They suggest that their organisation has the 10-year development essentials and outline for a long-term business strategy. The 3-year development plans published by the state provide the directions for SOEs to shape their 3-year development plans for short-term strategy that are based on the trend of state policies. Within every 3-year cycle, there are annual subjects to achieve. At the end of each year, achievements would be reviewed and evaluated to indicate whether they are on track for reaching the goals of the business strategy. The 10-year long-term development plans are considered to be more difficult to set up due to there being more unpredictable factors. The long-term business strategy is set up based on a direction showed by the state policies and the judgements on the trend of economic growth and economic cycle. However, there still remains space for

adjustments of factors that could not have been predicted. Thus, short-term and middle-term development plans are needed in order to adjust the goals responding to the environment. All the implementation of these 10-year development outlines and 3-year development plans must go through the deliberation of the board of shareholders. It is the management people's duty to suggest these plans and the board's duty to research and approve them. The process of proving it is very complicated. Their overall business and development strategy reflects this long-term track, as illustrated below:

“Overall, we focus more on trainings including job rotations and exchange to make sure employees are able to adjust the changes and development in environment and new business fairly quick and efficient.” (SOE A, HR)

On the other hand, the total amount of employment and the structure of employees are being adjusted. Being recognised as the foundation of the organisational recruitment system, internal training systems and even the whole HR system, the plans for annual recruitment of graduates has been adjusted in SOE A.

“Before, we usually recruit over 10,000 new employees from the annual campus recruitment each year. Recently the amounts of recruitment have been reduced, for example to 8,000 employees for 2015.” (SOE B, General Manager)

The structure of the recruitment system has been set as a strategic system, however it has also been considered and interpreted as not a purely marketized system in its implementation. Firstly, even though in the financial service sector, especially in SOEs, the recruitment system set by the head offices tends to follow standardised recruitment policies. There are still a large number of candidates that are recruited because of their social contacts. Even though there is a clear and transparent standard recruitment process, there are actually a large number of candidates meeting these standards. As discussed in chapter 5.3, from those who can meet the standards, the social contacts play an informal but important role to shape the implementation of recruitment. Those candidates who have the social contacts, such as having a background with any stakeholder that can have a mutual impact with the business of the bank have better chances to be recruited.

SOEs spend a large amount of capital to training employees. When employees join the company for 3,5 years, or 7, 8 years, they usually become experienced and work at a management position (SOE A, General Manager; SOE B, General Manager; SOE C, General Manager). However, it cannot be avoided that during this process, some employees could get job-hopping, some have been ‘hunted’ by other organisations, while some are hunted by smaller commercial banks and joint-stock sector for higher payment, who have always been trying to pay more to attract experienced and skilled workers from SOEs.

“Even though all these happened, we need to insist on that the core HR strategy of training staff by ourselves. This can fit in, support, and is the fundamental of our long-term development plan.” (SOE A, General Manager 1)

The training system is relatively stable and predictable. The training department in head office is in charge of the training system of the whole sector, and every branch has their training institution. In SOE A, the whole structure of training systems was kept the same over time. The system is structured by several methods including the training for management, for specialists and for helping to adapt every new recruit to a position or to job rotation within the firm. For the specialist, it includes new business training and improving general skills. The head office makes the direction and plans, branches and departments set up their own plans and implement them depending on head office’s decision. There is a training academy in head office and training centres in branches.

In contrast, JSCs usually follow a different position and make an annual plan rather than a few years. Compared to long term business plan, as claimed by the executive manager of JSC A, they have short-term plans for their business strategy for no more than two years. At the current stage, most JSCs in Chinese financial services sector are at the position of responding to the environment rather than a leading position, no matter in which size the firm has been developed. The set-up of their HR strategy is also following this approach. The joint-stock firms usually follow the labour demands from the external market, while SOEs tend to source labour based on their internal business strategy.

One example to indicate the differentiated HR strategy between sectors having the state on board or not, is the time period in reacting to the economic plans. In the interview, having been experiencing high speed economic growth and contraction during the last decades, SOEs and JSCs showed various approaches to HRM. They were facing the issue of higher turnover rate within a period when the whole financial sector was performing at a high profits level from 2010-2014. The growth rate was above 6%. The reasons include that, even though it keeps 6% increase, the demands for equity trading is comparatively low and the supply of projects is quite limited (SOE D, General Manager). Nowadays, the costs for company equity trading are decreasing. Apart from direct and indirect equity trading with banking sectors, organisational customers also trade within security market and debenture market, which have a big influence on the direction of banking sectors' investments. Under this circumstance, it results in the high turnover rate in the whole industry no matter whether it is in SOEs or private firms because this was an easy environment for them to gain large profits and easily make profits no matter which company they were working in (SOE D, General Manager; SOE L, General Manager; JSC A, General Manager). However, the recruitment system, along with pay and reward systems can be quite different from company to company, and in different ownerships, when facing the high turnover rate.

“The turnover rate in our bank is fairly high. Our HRM strategy is more anxious to achieve quick success and get instant benefits. Actually, this is much far away from our strategy. In our HRM system, it is often like that whenever we want to recruit someone with offering a high pay roll and they could only work with that company for a couple of years. After they leave, we ‘hunt’ for another experienced worker to replace.” (JSC A, General Manager)

This case is however hardly found in SOEs. SOEs always tend to be “prepared”. In order to achieve this, as introduced in the last section, campus recruitment and talent reserve plan becomes the foundation of SOEs' HR system. And the structure and approaches stay stable. For SOEs, one example to indicate the stabilization of HR system in the changing environment is the approach of practice adjustment during economic cycle changes. The economic cycle is turning on the slowing down points after a few years' rapid growth, especially under the “4 trillion economic stimulate plan”, the economic condition in the

financial sector comparatively performs better than many other industries in terms of the operation and profit, but it is definitely not as growing fast as the past few years, business is not as easy as it was in the past few years as well. Under this circumstance, the big four SOE banks still kept their campus recruitment and talent reserve plan at a similar level for number of new employment. Only SOE B has reduced their recruitment plan at one year due to internal reasons. The main difference appeared in performance management and appraisal criteria.

This stability has been sufficiently supporting the long-term development because they could always stay at a first initiative position towards their business strategy, which is set mainly depending on their internal development and growth plan rather than the external environment.

Following the discussions in Chapter 4, another example to indicate the role of the state in shaping HR strategy through business strategy is changing the labour demands through shifting more business development focus towards overseas markets (SOE B, General Manager; SOE E, General Manager). The local market is considered already too saturated to have more opportunities. As the policy-making and monitoring sector for financial and banking organisations, CBRC and PBC monitor and transit the regulations. The external trainings that they provide for helping employers, and the internal training that employers provided for employees to understand regulations and policies are considered essential for helping with developing the strategic plan.

“We follow the policy and state development plan quite closely. Other than publishing and informing regulations, the government provide trainings for employers. Once there is a new regulation published, there will be some trainings to help learning them and to make sure the banking sectors got noticed. For example, in 2013, CBRC organised a big training activity on the monitoring policies of big banking sectors for the boards and directors. Every directors of all big banking sectors joined that training and the training was about the monitoring policies and regulatory.” (Policy maker B, Manager 1)

Apart from monitoring polices, employers of SOEs also need to set up their HR response to national economic and social development plans, such as strengthening global economic integration. To the domestic dimension of investment in infrastructure, the national 13 5-Year Plan (national development plan) adds for the first time an internationalised development strategy, through the emphasis put on the ‘One Belt One Road Initiative’ (OBOR) launched by President Xi Jinping in September 2013 with the aim of connecting China to more than 60 countries in Asia, Europe and Africa. OBOR envisages the active involvement of Chinese institutions and companies in overseas infrastructure investment and its financing. It can be seen as a partial solution to Chinese over-capacity by linking domestic manufacturers to markets abroad. It is also a developmental strategy for chronically under-developed provinces and will act to ramp up infrastructure investment of many local governments.

The big four state-owned banks, as the pioneer in implementing state policies, started to shift their business targets into global markets (SOE A, General Manager; SOE B, General Manager). Establishing institutions in these 60 countries became one of the main tasks for the big four to develop. At the same time, from the perspective of HR functions, recruitment strategy, the design of HR development pathway and training system have been facing the new challenges that HR adjustment should be taken to fit the internationalization business strategy since then. It also especially reflects on the demanded labour skill and amount of labour. The demanded labour skills, the local labour policies to fit the overseas institutions drive the firms to build up and complete their international HRM system. In order to do so, SOE A arranged an overseas recruitment drive in 2008. SOE B developed a new career development pathway for employees. The demanded labour skills changed. Firstly, there are growing demands of language skilled employees and those who are familiar with the local regulatory system. The action that they have taken to fit changing demands of skill is to recruit more graduates who have overseas education backgrounds or majored in language. This is still based on their campus recruitment system.

7.2.2 Changes in labour demands and risk management

It seems that there is a trend that state regulation for financial markets tends to develop towards becoming easy for the business activity of enterprise (JSC A, General Manager), however some regulations that set for creating a sustainable development environment for financial markets is not necessarily reflected in terms of being easy for enterprise business activities. An element that becomes increasingly important to be emphasised in performance appraisal systems is risk management (SOE A, Branch Manager; SOE B, General Manager; SOE C, General Manager; SOE K, General Manager). This increasing demands in organisational risk management is a result of the external economic fast growth in GDP. In here, the state plays a strong external role as they enhanced their monitoring in risk management since the growth of NPL (non-performing loan) in the financial sector (SOE K, General Manager). Even though there were still a great number of opportunities to continue the aggressive business and economic growth in a short period, the high restrictions of risk management demands have changed the business environment. The requirements for HRM are changing as a result of these risk management policies. It seems like setting up barriers and constraints on business activities and performance management through strict regulations do not fit with the trend of marketisation. However, is this non-fit necessary to be considered as a poor HR outcome? The following empirical evidence show that even though it can create certain level of managerial challenges, the level of resistance and tensions is kept at an extremely low level.

Talking about the stability of staff, in the past the profits of the banking sector were really high with stability of staff. Recently the economic cycle, went into a period of slower growth, and non-performing loan (NPL) ratios increased. This resulted in employees feeling more and more stressed about their jobs, their performance and their income.

“Actually, the structure of our pay roll system has not been dramatically changed. The performance appraisal related pay system is more stable and consistent in these years, the fixed pay always contents a very small percentage, and most percentage is still depending on PRP and incremental performance appraisal.”
(SOE F, General Manager)

However, along with changes to NPL, one of the important changes in performance appraisal criteria is the increasing demands of risk management. The change of environmental factors was that when economic growth was slowing down, there emerged more non-performing loans (NPL), the rate of NPL rebounds. For operations, the stress and pressure of dealing with NPL and controlling NPL and the quality of credit assets had been increasing. In these two years (interview data collected in 2015), the rate of NPL had raised to 2% in banks in general while it was less than 1% in the past. There are two reasons for this circumstance. One reason is that in the past the rate was too good and less than 1% was a fairly incredible and unbelievable rate in the global market (SOE C, General Manager). During the years of shareholding reform and IPO for banking sectors, the NPL business had been separated from the banking sector. The other reason is that the operation and business conditions were really good, and some invisible NPLs were emerging. The current condition at the time of writing is that manufacturing sectors and small enterprises are facing difficulties in their business operations, and these all result in problems with NPLs. SOE C has the advantages of the stability of business operations. They have large amounts of 12 grades provisions which are provided for the NPL banking sectors every year, and it stabilises the banks. Much of the annual profits are withheld. However, this still results in challenges in performance management and situation raises the requirement for having new criteria of performance management in firms, which is becoming strict according to the internal monitoring system to avoid NPL. Employees are required to pay more attention and efforts in avoiding investments in NPL.

This is mainly reflected in working procedures. A subsidiary of a multinational company indicated that they are facing more and more strict state rules to follow (JSC K, Employee). JSC C suggested that, other than the state monitoring policies, their internal management system had even more strict policy to processing business projects that were set up.

“We have set strict rule on risk management in our labour process. We ask every employee to install a training application on their phone. Every time when there are updates risk management policies from the head office, we push this as a compulsory notification to this app in order to let them receive on time.” (JSC C, HR specialist)

Overall, current regulations for risk management and control are perceived as tight if it is considered from the marketisation aspects, but it is also believed as being necessary for sustainable development (SOE A, General Manager 3; SOE B, General Manager; SOE K, General Manager; JSC C, General Manager). Even though it sets up some barriers and constraints for business activities through strict regulations, there is little evidence to indicate any resistance at firms' level. Organisational HR policies that are set up in corresponding indicate a high level of supports to it. This introduces a model of actively keeping a temporary non-fit at strategic level in order to seek for a long-term development.

As well as facing the challenges for strict regulations for risk management, another factor that driving the shifts of demanded labour skills is the increasing demands for diversified business model. Driven by the national plans of strengthening global economic interactions (One belt one road) and the internal development plan of the SOEs, with the trend of opening to overseas business, the demands for banking sectors' business models become more diversified. According to the General Manager of SOE C, in the past, one single product's product life lasted for decades and the skill of providing a loan and working capital loans had not changed for decades. But it has since become a more common product. The standard products are not as effective for gaining profits. More financial products are currently developed according to each single customers' demands. The marketing and central control room keeps innovating different products to match each customers' needs (SOE C, General Manager; JSC A, General Manager). There are more biunique customized products. All these require higher business skills for employees and adjustment of performance appraisal standards, especially for the employees working in functions such as marketing (SOE A, Branch Manager; SOE C, General Manager). They require higher marketing skill to be more reactive to market conditions and demands. In recent years, every bank is talking about innovation and transformation for living, which also requires more strict standards for calling someone a qualified worker.

“The next development points for banking sector are transform and innovation and it is always a continuing process. In the past, people said that banking sector can earn profits with just lying on the bed (which means it is a very easy thing),

but now it is different. There are more and more demands for new innovated products and new business formation.” (SOE D, Branch Manager)

In the situation that business in local markets is facing more and more challenges, for different sectors, there are different impacts. For smaller banks and JSCs, they focused more on local markets and making business grow through establishing more branches. For SOEs, which have become huge organisations already in terms of size and market occupation, started to extend their business overseas. One of the SOEs bought standard bank groups in South Africa, while another of them bought an airline company in Singapore. Thus, they started to have more and more recruitment plans to react to the foreseeable increasing demand of language skilled employees in their talent reserves. The international economic environment is believed to have larger impacts on their business strategy and demanded amount and skills of labour.

Developing overseas markets becomes one of core business strategy of SOEs. SOE [X] currently has 628 institutions in 41 countries and regions. More global business extending plans were set to reach 60 countries and regions in 3 years and 80 countries in 5 years, which is a quite rapid development plan. It is also their duty to offer support to the state policy of ‘one belt one road’ which relates to 65 countries and regions among which they have business with 16 countries for now and might have covered maybe half of these countries in the future. When they start business within these countries, there would be large labour demands for it, and these labour demands would mean more high-skilled professionals with qualified language skills, financial skills and experience (SOE [X], General Manager). (Company codes are removed here due to confidential reason.)

The nature of banking sector is to support the real economy. Considering that the financial products market is growing and financial services tend to be more diversified, SOEs need to keep the strategy following the trend and have their labour talent reserves to match their strategy.

In practice and implementations, however, there is still space where some level of non-fit can be solved. The HR plans corresponding to the required HR changes sometimes lag behind. For example, since the monitoring system for NPL has become more and more

strict, the profit space and the methods for conducting business and gaining profits has changed. There is a labour shortage in risk management departments and customer managers. The lack of policies to prevent job-hopping makes it easy for customer managers to leave and bring the customers to their new company.

SOE A has a pathway for staff leaving depending on their performance appraisal system. According to Chinese labour law, it is not allowed to dismiss people or end contracts without a legal reason. However, there is a clear policy in contract law that there could be some outcomes of performance appraisal that can lead to dismissal. For example, when an employee fails in performance evaluation or appraisal, they are able to have another chance to have specific training for continuing working and returning to their position. However, if they fail the second time, the organisation is entitled to end the labour contract through legal procedures. They could also negotiate with them that not to renew or extend a contract when their current contract ends (SOE A, HR).

Comparing this with when the reform of HR strategy started, more and more employees started to psychologically accept this management concept and model of taking performance appraisal. The resistance from employees' perspectives of accepting the changes apparently is much easier than the progress of setting up the new strategy and policies from the employers and managers perspective.

“This is considered as a progress in employees' concept comparing with those past years when the working positions mean ‘iron rice bowl’ which is really secure and even someone could not perform very well and only not to make big mistake, they would never be dismissed.” (SOE A, General Manager 2)

The building of legal system has been progressed and are considered as becoming more complete, and employees' working concepts changed with the legal changes, which is perceived as a “rapier” (two-side thing). On one hand, it allows the organisation to operate under clearer legal systems and procedures. Meanwhile, employees' awareness of right-protections becomes stronger. The completion of legal systems benefits both employers and employees:

“There are not so many labour distributions in our organisation actually. Employees know the policies, rights and duties very well when the policy system is very clear. We manage the system instead of paying so many attentions to manage single cases.” (SOE A, General Manager 1)

“The business of JSC A is developing so fast that some employees feel difficult to follow the rapid development. JSC A used to try to motivate simply through payment and set a large percentage of payment as performance related, which made employees feel extremely stressful. Now more welfare is offered to employees.” (JSC A, General Manager)

Joint-stock firm A announced an employee share ownership plan in 2014 to their core staff, including directors, supervisors and senior managers. This took the form of a bespoke wage policy separated from the mainstream wage policy to attract talent, and was a flexible pay system contingent on performance of employee stock-option schemes. Voluntary benefits for employees' future concern were also included (e.g. social insurance, company pensions). However, in the beginning when they announced this policy, there were debates around whether the subscription conditions were attractive enough (JSC A, General Manager and Employee). As reflected by the manager of JSC A, some employees raised the concerns that it was not considered as playing an important role as they planned to motivate better performance, because there were limited additional incentives. The manager has found a few reasons for that. Firstly, the company chooses to issue new shares instead of buying back old shares. If the company believes its share price is undervalued and wants to motivate its staff, the best choice is to cut employees' base salary and use this money to buy back stocks from secondary markets and then gives these stocks to its employees. But issuing new shares indicates the company needs capital and thinks the current share price is acceptable. Secondly, the subscription price has a lock up period of three years and the stock price has to be higher than a specific point after three years to bring a positive return. So it is possible that the plan may not be well received by its staff, and the final subscription may be less than the upper limit. Thus, at the beginning of this announcement, the company forces its staff to subscribe. Moreover, JSC A is a fully market-oriented company, which is well known for its incentive-compatible pay. The staff bonus was already highly dependent on their operating

performance, so the additional incentives from stock ownership may be limited. After continued easing, the liquidity condition of this firm improved but its risk appetite has decreased amid rising asset quality risk, so the 8bn raised by the stock ownership plan may not necessarily generate desirable yields.

This section indicated the reason of why risk management was considered as necessary, even though there was increasing demand for building motivation through incentive pay systems, there were more and more difficulties in performance management. However, comparing with the resistance from employees' perspective, these difficulties are more from the managerial perspective itself in terms of setting up clear, sustainable criteria that are not against individual aims of development (SOE B, General Manager). SOEs were trying to achieve their own development targets, supporting the state's development policies as well as transforming the management system towards a more sustainable and strategic model (SOE A, General Manager 3). The multiple aims request different criteria and policies to support, which might somehow cause contradiction between each other. Thus, even though the main aim of the strategic HR system is to support the transformation into a marketisation system, it seems that it is inevitable to put in more elements of control during the development stage.

7.2.3 The effects of the 'new economy' on SHRM

Seen from the facts listed above, the requirements for employees have been changed. In the past, extensive operations were considered more beneficial for gaining profits and the requirements for employees were not that strict. But subsequently the requirements for employees have become more and more strict. As discussed in the last section, in the past, one single product's product life lasted for decades and the skill of providing a loan and working capital loans had not changed for decades. But the standard products are no longer as effective for gaining profits in present days. More financial products are currently developed according to each single customers' demands. The marketing and central control room keeps innovating different products to match each customers' needs (SOE C, General Manager; JSC A, General Manager). All these require higher business skills for employees and adjustment of HR practices (SOE A, Branch Manager; SOE C, General Manager). They also require higher marketing skill to be more reactive to market

conditions and demands. In recent years, every bank is talking about innovation and transformation for living, which also requires more strict standards for calling someone a qualified worker.

In the past, banks dedicated to ‘ride on a horse to enclose a ground’ which means to establish more new branches and subsidiaries in order to extend their business (SOE D, Branch Manager). They paid most effort to establishing physical branches. During that period, labour demands were at a considerable high level and the recruitments also kept at a high level. Within the new trend of economic growth slowing down from 2014 and high market saturation for new branch, and also the development of Internet Economy and Internet finance, banks are leading the customers to trade online and meanwhile customers are also getting used to trade online, the demands for low skilled workers and counter workers have been decreasing.

“We used to recruit 300, 400 employers for each year, we now also recruit 300, 400 employees for each year as what we usually do as a state-owned sector. But these 300, 400 employees are different from past. In the past, the stability of staff is high and the turnover rate is relatively low. The amount of those who transferred to joint-stock sectors are so few. But now, the total amount of employee increasing for each year is zero, which means how many left, how many would be recruited to fill the gap. Those who left include normal work transfer and rotation, and those got retired. The recruitment target is to fill the gap and controlling labour costs is another main issue and target. After all, these are about counter service workers.”
(SOE D, Branch Manager)

As mentioned in section 5.3.2, the ‘New Economy’ in China is driven by information technology, new energy and e-commerce. The business strategy of finance organisations has moved focus more and more into the innovation and IT skills with the development and new formulation of Chinese economic structure. The New economy is constantly attracting significant political support from the state, which is beneficial to commercial banks’ development. It also plays a role as a force to shape HR strategy and practice. Commercial banks have been all developed from traditional banking business. In the new economy, new technology will replace the traditional business modes, and demanded

labour skills are changing significantly with that. Employees are facing the challenge of adapting to the new technology, and even facing transfer to other positions in order to fit in the new HR structure of the companies (SOE A, Branch Manager).

Following guidance of state policies and responding to the trend of the new economy, new finance and new technology, labour demands have re-focused on interdisciplinary talent. The traditional labour demands focused on risk management and financial loans specialists, experienced in financial technology. Current trends of demanded labour skills focus on the interdisciplinary abilities of both financial skills and information technology (IT) skills due to the higher demands of online business supported by the new economy.

The current state policies are encouraging support to new economies with new technology. Online business and e-commerce becomes one of the most significant business fields for the financial service sector to pay attention to. Within the context of a fast-growing new economy, one of the current pressures for operation of the financial service sector is extending the market regardless of the ownership. The other is risk management and internal control for increasing the quality of loans. Another issue is to care about and emphasise is creation and innovation. Thus, the labour demands for interdisciplinary workers are dramatically increasing. Financial companies are adjusting their recruitment strategy to match this labour demand.

In SOEs, in general, the core recruitment is made up by financial, economic and management graduates, while law and IT graduates are also required to a lesser extent. There are also demands for language students in head offices, especially those who majored in English to fit in the globalised process. Overall, in the financial service sector, graduates in a financial and economic related subject still consist most of the recruited staff. Management, science and technology graduates are also required.

“In order to fit in the environment of the fast growing of new economy business, the technology development team of our organisation become quite important so we recently have been recruiting people majored in IT and science technology.”
(SOE A, General Manager 3)

Similar to SOE A, SOE C also adjust the targeted candidates in their campus recruitment:

“The rapid development of Internet finance and banking service is a big shaking for traditional banking services. Our bank is paying a lot of efforts to operating this type of business. Thus, to match the current labour demands for banking sectors, we take this into consideration when we recruit people from campus.”
(SOE C, Branch Manager)

The labour demands for high skilled workers in technology have dramatically increased. However, in the Chinese labour market, available labour cannot match demand. Specific demands of IT professionals with rich financial knowledge and working experience in finance are practically difficult to find.

SOEs are also starting to pay more attention on social recruitment than before. Banks are establishing the ‘Big Data Centre’ for employment (SOE G, HR). The centre became used for more social recruitment. Social recruitment contributes to bringing in more skilled and experienced employees while it takes more time to train employees recruited from campus.

However, the lack of interdisciplinary skills is still a big issue for them to deal with. There is still a large gap for those recruited from banks to fit in the positions at internet financial services. The banking sector must still get large impacts from the traditional operation style and system.

“There is demands of talents having diversified professional skills such as those who have both of financial and IT skills. There is shortage of labour supply for these groups of people. The company believes that real talents are trained in practice and prefer to recruit people who are good at learning.” (SOE E, General Manager)

This trend also uncovers the issue of staff turnover at SOEs. This trend has grown in recent years because of the development of private financial sectors and lots of IT companies expending into the financial market due to the increased demands of online

banking services (JSC A). They have also been trying to recruit employees from SOEs. Big SOE sectors are facing more difficulties and challenges because of this activity.

The JSCs also finds these as important business opportunities and a push for them to reconsider their HR system.

“In new economy, new technology will replace the traditional business modes, and labour demands must change with that. Those who are not able to adapt to the new technology, would be transferred to other positions and we will put more effort to find experienced workers with IT skills.” (JSC A, General Manager)

“The traditional performance management is more focusing on profits, however, the profits of online banking business would not be significant within short time. In order to response to this, the measures of performance are changing. For example, how many customers have been brought in, how many times the application has been downloaded, the flow of page views, etc., has become the new measures of performance.” (JSC A, General Manager)

It also reflects in the performance management and motivation system:

“In the past, we mainly focused on the profits, for example, from loans business. It was countable. However, we need to develop the new technology and new finance now, we set up new criteria for the performance management. However, it is not reasonable to use the old way to count the performance. The development of new technology and knowledge is not countable in a short period. We set the medium and long-term plan for the performance management system. The new criteria added include how much new customer have been brought in, how many customers are using the online service, and also the flow of visiting the app.” (JSC A, General Manager)

“Our main purpose of the decision making when we responding to the environment is to firstly to be competitive to other banks, and are able to recruit the people we want, the high skilled worker that we are “hunting” would finally

come to join us. Overall our responses are supportive to reach our aims, not never lose, but still significantly supportive.” (JSC A, General Manager)

However, there is still room to improve this system, as the market and environment is changing dramatically. For example, when JSC A wanted to headhunt from JSC B, JSC B would try to retain their staff. If JSC A offered a better payment, JSC B would likely offer more in return. Other companies also headhunt from JSC A. The negotiation pay system, thus became a normal method used between JSCs to keep key position staff, because the main issue in JSCs is to focus on individuals in key positions.

“We have the advantage to offer better payment in our HRM system, interestingly, this is a method that could cause instability of jobs but could also somehow help us to prevent from the high turnover.” (JSC A, General Manager)

“The new economy is an opportunity to attract more and more political support, which is beneficial to commercial banks’ development. It also helps to shape the HR system. Commercial banks all come from traditional banking business. In the new economy, new technology replaces traditional business modes, and labour demands must change with that...There is a large demand for employees who have both financial and IT skills. However, it is hard to find this kind of talents in labour market. Training seems to become the only option. There will be more investment to this part. The training of the organisation cannot match the demanded skills. It is hard to find right trainers.” (JSC A, General Manager)

In this circumstance, the manager claims that JSC A are having two strategies to increase the chances of recruiting employees with the potential to develop demanded interdisciplinary skills. Firstly, recruitments are made towards experienced financial professionals who have IT knowledge, followed by offering them training to a higher level of IT knowledge. Secondly, recruitment is targeted towards experienced IT professionals and training is offered for them to help increase financial knowledge gradually. Compared with previous years, more investment for inter-disciplinary training has been made.

The manager also emphasises that the main changes to demanded labour skills driven by the new-economy business are from profits focused to broader measures. The need to develop new technology and new finance has been increasing. It also reflects on the performance management and motivation systems. The traditional performance management in JSC A mostly focused on profits, for example, from loans business. However, the profits of the online banking business would not be significant within that short time. Also, the development of new technology and knowledge is not measurable in such a short period. It is no longer reasonable to use the old way to count the performance. In order to respond to this, the measures of performance are changing. For example, the General Manager of JSC A claims that how many new customers have been brought in, how many times the application has been downloaded, the flow of page views, etc., have become new measures of performance.

Firms always pay more attention to business in the industries supported by state policies. When new policies are published, such as the recent policies of supporting small business, JSC A established a new department to focus on the business of this specific industry (JSC A, General Manager). However, because this is a newly emerged business in the banking market and few people have experience at this field, they need to train the employees of this department by themselves. For some industries that have existed for a long period, there is no problem to obtain proper knowledge for private firms through either recruitment consultants or having short time training programmes. When there is a large demand for employees who have knowledge in a newer field, it is hard to find this kind of talent in labour market. Training becomes the only option. Private firms even make more investment into this. The training of the organisation cannot match the demanded skills, and it is hard to find the right trainers. Meanwhile, practical experience can always work as training and improving and skills of an employee. Thus, significant challenges are posed.

At the current stage, the outcome of the training could not totally satisfy demand. There were even some training that could not match the original purpose due to the lack of experience in the market of trainers. To train experienced financial professionals for IT

knowledge and to recruit experienced IT professionals with financial knowledge is not as quick as training for the traditional business.

SOEs also face the issue of setting up new departments. For example, the state is encouraging support for small enterprises' development, most SOEs then set up new business departments focusing on this market (SOE A, General Manager 1; SOE C, General Manager; SOE E, General Manager). However, there is a labour shortage when building up this team. They could only train employees for this new business by themselves because there are no experienced workers in the labour market. However, since the completed training system, it always cost less time for them to react and develop the training program (SOE A, General Manager 3). It is also believed that even though there is a temporary shortage of labour supply for these groups of people, real talents could be trained in practice and people who are good at learning would be preferred (SOE B, General Manager).

“We have been largely relying on our internal training system. The training system supports the sustainable development of our HR management.” (SOE A, General Manager 3)

The employer from SOE A regards training as a significant element to develop and support business. As discussed in chapter 5, they perceive their training system as a stable and complete system. Because the recruitment and selection system is largely relying on 'campus recruitment', the training system is held in the same regard as recruitment in their HRM system. The training programs are structured with three main systems, which include management skills systems, professional skills systems and position adoptions training. Job rotation is compulsory for most new staff. For example, in SOE A, the head-office holds a training college for employees. The subsidiaries and branches have their own training centre managed by the training college. According to the labour legislation, it is hard to dismiss or make redundancies. Job rotation becomes an approach to solve the problem caused by less demands for specific positions. Thus, position adaption training is important to those who have been transferred to another position.

“During the job rotation, it is actually easy for managers to find out the abilities of learning of each individual employees. And we define the ability of learning is one of the most important indicator of employees who have the potential to have better performance.” (SOE B, General Manager)

Seen from this, SOE B regards the learning abilities of employees shown in their job rotation as one of the potential indicators to predict performance. It is not necessary to become a formal indicator that written down in any HR functional policies to form the management, however, it naturally shifts the potential and possibility of career progression pathways of employees depending on their managers’ attitude. However, this is also somehow influenced by their managers’ personal preference. For example, managers might see different perspectives on employees learning progress and focus on various aspects from each other. Some of the managers regard interpersonal ability as most important. They thought this may help to extend contacts and develop better customer relationships. While others just simply prefer those who has better writing skills and who are able to produce a nice report. Even though there are clear performance management criteria in HR policies, the managers still usually take their own preference into account when they nominate candidates for different positions.

This section introduced a model of fit when the state is supporting a new economic and business development model and there is no significant contradiction between both internal and external policies.

7.3 The role of Chinese financial service sector in supporting the broader national plans of the state

Based on the facts discussed in the last section, some national plans such as strengthening global economic integration, enhancing risk management and new economy shapes the development of SHRM from both strategic and implementation level through business strategy. From the banks’ side, some regulations, such as risk management is believed to be tight but is necessary for sustainable development, which introduces a model of keeping a temporary non-fit but seeking to a long-term fit. It also introduces a model of fit when the state is supporting a new economic and sustainable business development model. On one hand, there is no significant contradiction between both internal and

external policies at strategic level. On the other hand, in practice, the HR plans corresponding to the economic changes sometimes lag behind. This section looks at the overall impacts of national plans on SOEs and some contradictions between the development of SHRM and some social factors. The nature of banking sector is to support the real economy. SOEs especially stay at the position to supporting national plans and leading the market.

7.3.1 National plans and their effects on SOEs

The main contribution of this section is to explore the external determinants shaping HR strategy in different ways and in different intensity. The approach and intensity of impacts from a same determinant could be differed when the principle contradiction of the state changes, as in suggested by a branch manager:

“Labour demands are changing because of the development of technology. However, apart from technology skilled employees, employees in other positions can all be adapted from each other. For example, counters have been transferred to marketing positions or risk assessment positions.” (SOE A, Branch Manager)

A few factors are believed to be having big influences on the market. Among all the external environmental factors, natural, culture and technological environments are always considered important and could never be ignored in any decision-making process in SOEs. However, the managers also suggested that as a financial service sector, among external environmental factors such as political, law and regulation, economic, social and cultural, natural, and technological factors, the factor of the national and international financial market environment has the most significant impacts. Economic environment is the most important one among all the factors to impact the business and operating development of the organisation.

The market is not radical, it is still in a more traditional business model.

“As a financial sector, of course we pay more attention to the national and international financial market environment. The broader economic

environment and external economic growth which can have most significant and essential impacts on our business.” (SOE A, General Manager 1)

Joint-stock managers also suggest the importance of economic environmental factors. Economic factors rank as the most important factor that influence the business operation of banking sectors (JSC A, General Manager). The law and political environment should be another essential factor that employers are paying close attention to. Law and policies shape and restrict business and operation activities of organisations. The most significant new technology economy that is changing the environment of financial markets is the online banking service. This market has already grown to a huge scale, but the monitoring policy has not caught up with its growing speed. How to restrict it efficiently and keep it developing within a controllable condition becomes the main issue for the monitoring department to address. Thirdly, the technological environment is also important, the technique for data storage is different from five years ago. Then, culture factors are also important elements. These factors are looked at in more detail below.

“The first primary element that we take into consideration when formulating HRM strategy is still the demands from our business operating, growth and development. I think this is the nature of development of an organisation. To adapt to the development needs of our organisation is always the priority factor to be taken into consideration.” (SOE A, General Manager 1)

In order to adjust to the environment, restructuring and adjusting the construction of the bank have emerged. According to the environmental change, there are more and more new departments and institutions that have been established. For example, in order to have more merging, SOE A established a merging department. New technology and customers’ consuming habits and behaviour are the most significant changes in the external environment. They used to focus on savings and deposits, investment and personal financial products. Now, their demands have become more diversified. They have new demands for the profit rates and the type of investment products. The development of technology brings in new financial products to fit in their demands.

The economic environment is the most significant factor to impact on business operations and management in China. For example, five years ago, the steel industry performed well due to large investments due to the state fiscal policy. But now due to the excess production capacity, the steel industry is declining. For the financial industry, when the economic environment is growing, the industry would be definitely growing as well. When the economic environment is declining, the financial industry would likely decline also. It reflects the economic factors in the following ways when it is slowing down. Firstly, the loan supply is impacted. Secondly, the quality of capital, which means the invested loans could not be returned. Thirdly, the pressures of competition would increase. Thus, it is believed that economic factors are influential environmental factors to banks.

Economic factors and the political and legal environment are considered even more important than the other factors. Whether the economic environment or political environment is more important to the organisational business strategy depends on the specific time periods. Within a specific period, which environment is changing more dramatically could have more impact on the organisation's operation. Multinational operations depend on the political environment. For example, the period of 2007-2008 when the economic environment was changing dramatically, SOE B had to pay more attention and focus to deal with the economic environment. After 2010, as introduced, the economic environment became stable and some previous businesses became non-performing assets. The new economic environment encourages the organisation to explore global markets.

“When we are talking about which one is the most important factor to our business, I would say it really depends on each specific moment because the environment is changing all the time, but definitely economic environment and political and law environment are the two factors that are more changeable among all factors.” (JSC A, General Manager)

The other influential factors including social, culture and natural environment are more stable over longer time periods and comparably less changeable than the economic environment. During the changing of economic and political environments, which of

them is more important depends on what changes most significantly at that specific moment.

The manager also explains the history of recent decades and the current position for banking sectors within the economic and political environment. During the process of reform the political environment could change dramatically. In recent years it was a period with significant changes in political environment. The beneficial policies from the 'Reform and Open period' was put to use in earlier years. Meanwhile, the speed of economic growth declined. The benefit of a large population also reduced because of the aged tendency of the population. The natural environment also faced problems resulting of the rapid economic growth in earlier years. The traditional model of economic development could no longer to work efficiently. The government can only rely on a further reform and open to push the development through ZHIDUHONGLI (beneficial from policies).

“In overall, the external environment has significant impacts to our business, especially to 'fundamental building' industry (e.g. JiJian are some important target customers of JSC A) and for banking sectors including SOEs. Financial and banking sectors are the most relevant sector to state's macroeconomic policies and directions.” (JSC A, General Manager)

“Where the most significant external impacts on the set up of our business and HR strategy from, in 2010-2013, I think the changes in economic environment play more important role than others, but in the recent years I felt the political environment and policies play more important role.” (SOE B, General Manager)

During 2010-2013, there were good business opportunities and the policies for economic growth were positive, so there was less need for them to worry about policy changes. But in recent years, the directions of policies tended to seek different development models, and we needed to consider more about the changes and challenges rather than purely focusing on business growth.

Among all the external influential factors at national level in China, economic factors are one of the elements that are easier for employers to predict. Chinese sectors by any means

are interacted with the global market and are not independent in development. Indeed, China economy was not badly affected by the Asian Financial Crisis, and GFC, because China was still at a different stage of economic development compared with those more developed or marketized economies. China started economic development at a later point, but the speed of growth was fairly fast because the global market was already there, with all the opportunities for rapid expansion. China has its unique path for development of the economy, however, China gets involved in the global markets more and more, and consequently, the influence from global markets is returning on China (SOE A, General Manager 2). It is predicted that if there would be another economic crisis in the future, the Chinese economy could be influenced much more than the previous two recessions. For example, the GFC in 2008 was a result of the indiscriminately use of financial derivatives. At that period, there had been no financial derivatives in China yet and this was bind with the real economy, so that this also helped with preventing Chinese economy to be away from the shaken from the global market in that time point (SOE B, General Manager). However, as more and more integrated with global market and the fast development of financial derivatives in the following years, the role that the external economic environment plays to shape the strategy of Chinese organisations will become increasingly important.

7.3.2 Contradictions in the development of SHRM

As a developing country and transactional economy, China has been facing rapid changes not only in economic policies, but also social and regulatory changes. When all these multi-policies are taken into implementation, there are interests to see whether the effectiveness of the development of SHRM have been impacted. While both of the SOEs and JSCs are considering their attractiveness to high-skilled workers, the state policy of anti-corruption and pay restrictions puts more pressure on them to achieve limited pay growth and other welfare levels. At the same time of economic transitions and the reform in HRM, the state is also constructing the social factors and political environment towards the 'harmony society' position. A series of policies have been published to enhance the equality, fair and clean management systems in government institutions and also SOEs, such as anti-corruption policies and pay restriction for executive managers. These factors and policies are set with no direct intention to shape the HRM policies and

implementation, but to resolve other political and social issues. However, these factors have been playing a role to change employment relations gradually and have raised issues and challenges in SHRM of SOEs.

The pay restriction for executive managers is currently related to those who are managed by the Organisation Department of the Communist of China, which is aiming to cover all the SOEs. This policy suggests that, from 2015, the total annual pay and reward for chief executives of SOEs could not exceed RMB 600,000 Yuan, which results in a reduction of 40-50% in their actual personal income compared to previous years. This results in a significant gap between the executives in SOEs and JSCs since there is no limitation in pay for the JSC. After the implementation of pay restriction of SOEs, the actual highest executive pay in JSCs became 10 times higher than the highest executive pay in SOEs. Even though this policy is only related to the chief executives at this moment, it is still raising concerns in the whole SOE to some extent.

“I think it may have a big impact on us. In our bank, it directly impact on the president and vice presidents. However, even though the current policy has not said there should be expanding of this restriction to other employers or employees, some of the employees might still think there is a chance that this might impacts on others’ payroll system as well. It is less likely that only one group of people is under the restriction while others not. Even if the executive managers would not take this concern towards others, there is the chance that the Financial Minister and HR Minister would follow this policy and push it to expand. The impacts are most likely extending to middle levels and line managers.” (SOE B, General Manager)

“I do not think this trend will impact on employees of fundamental positions because their pay level is the foundation of the building of the whole payroll system pay system.” (SOE B, General Manager)

The fundamental level is fixed, and the middle level is set as X times it and the executive level should be Y times of it. Thus, there should not be any reduction for fundamental

levels but middle levels could be impacted a lot. (The value for X and Y are anonymous due to the confidential reasons.)

On the other hand, if the impact is not expanding to the middle level, it is also suggested by the manager that there will be some issues. The limitation of the executive managers' annual payment is RMB 600,000 Yuan, which is at a similar level to the team leaders, department managers and head of divisions (ChuZhang). The president, the chairman of the board, the chief executives are in charge of over 10 trillion of assets and around two hundred billions in annual profits. As suggested in the last chapter, this raised a big gap between the high-risk responsibilities and the level of pay and incentives. The executives in the banking sector are taking and bearing a high level of risk and social responsibility while gaining a much lower level of payment for themselves. This might decrease their creativities and innovation for the business. Even though they are officially public servants, the security and safety of the business might become their first concern to avoid mistakes and risks rather than striving for higher performance.

According to the HR development pathway for these executives, if they have not made any mistake for 3-5 years at these positions, they will most likely be promoted to other government institutions such as CBRC or PBC for the financial sector, however they would rather seek another HR development path for themselves. This is likely to raise an ethical issue and pose a risk of holding back from being innovative to avoid any risk. For big SOEs, which are supposed to be the mainstay of the national economic development, their power to be supportive and influence the industry might weaken. It might have a big influence on the whole development and operation strategy of banking sectors.

Even though at the current stage the middle-level employees are still earning as much as before, this policy is impacting on their motivation. One of the motivations for them to work hard is career progression and HR development. The associate managers are expecting to be promoted to chief managers, managers are expecting to become associate presidents or even presidents. But now, it is a different situation. The chief executives could be at the end of their career and they might be no longer willing to have further development or promotion. They might start to consider that among the positions at the same level, it is possible to make more money. Of course, in SOEs the payment is far less

than joint-stock companies. In state-owned banks, RMB one million Yuan for annual payment is believed to be good pay and could be the highest level within this sector. While in joint-stock banks, the minimum level for the same positions could reach RMB 4-5 million Yuan. In this circumstance, they might start to consider leaving and joining other companies. This causes both the loss of human resource and customers as discussed in the last chapter, and it also causes another ethical issue regarding conflict of interest.

In the past, officials benefited more from their specific welfare regimes, or even some so called 'grey area' incomes. Many of their expenses, including food and transportations could all be refunded. Some officials were assigned to financial sectors to become executives and the chairman of the board, and their official incomes were higher than other officials. However, at the same time, other officials have so much grey area incomes they were not thinking the positions of executives in a financial sector could earn much higher than themselves. For some, the bigger power means better than incomes. They were not concerned about the marketisation of the financial sectors. One of the interpretations on the reasons of it is that, no matter how much the presidents of banking sectors could earn, one million or two million, they have other incomes and welfare anyway and those who earn more might still try to build a close 'Guanxi' with them or even 'bribe' them. In this sense, those who had less incomes were still satisfied with their situation. Since the anti-corruption activities and state policies have been introduced, a lot including "The Eight-point Regulation of the Centre" (8 Xiang Guiding) announced on 4 December 2012, at a meeting of the Politburo of the Communist Party of China, all grey incomes have been forbidden. All these grey incomes had been disappearing gradually and their official pay became their only income, which was far less than before. The anti-corruptions regulations also caused reduction in the training expenditure of higher management positions. As discussed in the last chapter, overseas training programmes for managers has been mostly cancelled in SOEs in order to avoid any suspicion of spending public funding for personal use (SOE D, General Manager). This might cause unbalance in personal engagement compared to the executives in the banking sectors. They are officially entitled to the same level positions in the government. From the industrial perspective, the banking sectors earned much more than other officials in terms of profits. The managers working in the banking sector are required to support profitable jobs of other industries while they could not take any personal profits from it.

Rather they earned more and more through their increasing profits and performance. There could be an external non-fit and unbalance in this sense.

The managers interpret the initial purpose of this state policy as an approach to support anti-corruptions, which is one of the main issues that the government is trying to address. So even though this creates difficulties and challenges in implementing market-oriented salary competition systems and incentive systems, which result in internal non-fit of SHRM in pay and performance, anti-corruption itself is still considered as a positive policy and is beneficial for the development of the Chinese political and economic environment. In other words, some policies that support anti-corruption might result in some direct short-term challenges, which is inevitable during economic transitions. There is also some consideration of the equality among all the state dispatched officials.

“The anti-corruption is a good trend anyway and the trend for more marketization is suggested also. These would result in that more and more elites would be pushed to the open labour market. We could also perceive this as the real purpose of this policy. To push the elites to the labour market and let them to active and develop the market economy the government made this policy maybe. Even though during the implication of this policy, the officials and employees of state-owned companies are struggling somehow.” (SOE B, General Manager)

This is also considered as beneficial for the joint-stock sector. Managers from the joint-stock sector consider this as the largest policy bonus since ‘Reform and Open’. For the human resource and labour market, it is also a big shake-up. The Chinese labour market structure is different from western countries. The most professional and talented people are working as officials in government. They have the most wisdom and best educational background and qualifications and best career experience. They could surely be defined as elites of the society.

“I perceive this police as a reflecting of this government’s aim to adjust the allocations of social resources through economic methods. In the past, the elites had been too much concentrate on working in the government. But now, more of

them start to working into the real economic markets after the recent state policies.”
(SOE C, General Manager)

The turnover rate of officials is at a high level. Why is there is no space for increasing the pay and rewards of officials? There could be limitations in the government budget. It has been mentioned for many years by the state that the number of officials should be reduced but it had never worked and still more and more people became officials to benefit from the public pay and compensation (SOE H, General Manager). But the current policies raise some voice that it will drive people to be less willing to become an official. These anti-corruption policies are also considered as resulting in the natural reduction on the number of officials and when it reaches a proper size, the government might start to raise the pay and rewards to officials from that point.

Some participants were questioning whether it should be a policy to make a balance between the SOEs and the JSCs through weakening some benefits of SOEs. However, SOEs have grown as giant organisations and other sectors are still far away in terms of the coverage of the market. With the new task of shifting towards overseas markets following the economic transactions planned by the state, of course it is not possible for SOEs to be replaced in the short term at all because SOEs and joint-stock sector start to focus on different markets in the future. Since SOEs start to shift their focus on overseas markets, and the joint-stock sector is continuing with the domestic market, both of their labour demands are changing in different ways. The pay and progression systems could stay the same because the motivation for employees to work within these two sectors becomes more important when they choose where to work:

“I still work in SOEs because I think we are in a good faith that we have better opportunities to work with the overseas institutions. Even though my salary is foreseeably growing gradually following our pay roll system, I still think a larger development space is more attractive.” (SOE B, Employee)

“Our company is not involving with any overseas development at this moment, but is it not that the domestic market is better for development?” (JSC C, Employee)

In addition, as mentioned above, there is internal and external non-fit between the restricted pay and increasing demands of incentive pay in SOEs, and contradictions between the purpose of the policies. The broader picture that the state is drawing to build is a healthier political environment and society rather than the aggressive economic growth seen in the last 5-Year Plan. From the perspective of business development and strategy of firms, SOEs have opportunities to shift towards the overseas market. Employees would still be willing to work in SOEs for a different career path. While the other sector is also facing more opportunities to have bigger market coverage in the domestic market and also better competitiveness in the labour market due to offering better pay. There is non-fit in the SHRM approach, but in a broader picture either from the state's perspective or the firms perspective, it is not necessarily negative.

7.4 Conclusion

Main findings emerged from the discussion:

- a. The internal role and external role of the state in shaping Chinese SHRM
- b. The challenge in the development of SHRM in a developing country and transitional economy

In this chapter, the features of SOEs and JSCs have been further introduced by the tradition of 'self-driving' with long-term business plans for SOEs and the reacting position with shorter term business plans for JSCs. The external factors that have impacts on the formulation of business strategy, and HRM, include environmental elements from political, legal, cultural, technological and economic aspects. Among all these factors, economic factors are one of the elements that most employers suggest has had significant influence on their organisations in recent decades, since it is facing protracted change. The significant features in the current economic environment include the economic stimulate plan and rebalancing the economy, post GFC. The restructuring of the economy with high tech and clean energy manufacturing requires the financial service sectors to consider engaging with these types of business activities and enterprise. The ongoing introduction of the new economy encourages the growth of internet business. Informal and self-employment also lights up the direction labour demand is shifting towards, while

specific impacts and HRM responses have been addressed to fit the Chinese financial service sector. Many of the social changes are considered as necessary in building the 'harmony society' but not all of them are made to develop economy. Even though the rapid social and economic changes create some challenges and non-fit to the development of SHRM, there is still evidence that firms can find a way to adapting these changes rather than resistance. This shows that the impacts of the contradiction of policies has been kept at a limited level, and the system would be naturally shaped as fit. The mechanism of HR is stable, but the changing economic environment is still shaping the HR practice gradually. The state plays the role of regulator and enforcer of laws, and more generally is concerned about employment. China's main SOEs continue to play a major role in both the domestic and global markets, particularly in strategic industries and sectors, but China's SOE and market reform should continue, as the government has pledged.

Nevertheless, we still have to consider the fact that the building of HRM is never the main focus of the employers. Whenever they are asked whether HRM is important to their organisation, the answers are always yes. Both SOEs and JSCs agree that people create the most value and should be seen as the core competency of their organisation. However, most of them would not believe that significant changes will be made to their HRM system in the expected time period. SOEs are seeking longer-term business plans and sustainable development strategies. The state-run system is still having big influence on their operation through cooperate governance, playing the role as majority shareholder, and the building of labour law systems. No matter how the state is claiming that they are trying to push and speed up the marketization and restructuring of economic system in China, and the many policies they have published to support this change, the locating and implementation of the changes have suffered resistance from either the remaining system itself or the managers and employees.

One of the barriers to reaching the goals of change at full capacity is bureaucracy. Most of the data shows that employers have their own judgement on the trend of economic development. When talking about the most influential environmental factors for their organisation, they stress the impacts of history and the development of state policy, the current direction of state policies, and try to estimate the near future. Some of them talked about what happens within the HRM system of their organisation but stress how they

have been trying to fit with the legal requirements or the way they could contribute to the economic development plan and direction of the state.

When analysing the employers understanding of HR strategy and practices, it could be found that there was no guarantee that systems are responding to the environment. Fit is not necessarily being considered when business strategy faces change. Seen from the facts above, the movement of the Chinese economy towards a market orientation has been characterised by the diversification of forms of public ownership and the growing economic significance of the private sector and foreign investment. These changes have clearly had impacts over time on the Chinese labour-force. Translating to HR strategy and practice, changes in recruitment, training, pay system, career progression and performance management are all required. The employers are aware that there is the need to change. The results turn out to be that the change happened only in certain practices and at a certain level. Resistance to change came mostly from structural factors including historical issues other than employees.

In SOEs, big changes happened when HRM systems changed with the restructure of the whole organisation during the shareholder reform period. However, some functions are still at a personnel management level, while other functions could see the hope of reaching the expectations and requirement of change. The JSCs is a market-type system where external hiring is adopted as practice, and there is very little formal training. Performance appraisals tends to be results-orientated, job security is minimal, and jobs are not clearly defined. Their performance appraisal criteria are short-term oriented, and while they provide minimal levels of employee training and development, they use high pay systems as their core HR strategy.

Even though the best fit and SHRM models prescribe working efficiently, resistance always happens and the non-fit of certain practices and approaches to the core strategy keeps the system running when the key aim is economic growth other than people. Regarding the key contribution of exploring the 'non-fit' in SHRM, changes in the external environment call for high and significant adjustments in HRM strategy and practices. Some of these required adjustments were reached while some faced high levels of resistance, which presents continuing challenges. However, since the principle aim

has shifted from aggressive economic growth into the building of harmonious societies, seeking sustainable development models and anti-corruptions, non-fit of SHRM could also play an important role when it is still supporting the growth of business in the planned models. Therefore, these HRM dilemmas could be seen as inevitable and is not a surprise during the process of reform.

Why are there such shortcomings in relation to HRM? In Chinese culture, people reduce their search for individual value if the team or organisation is facing multiple levels of change and reform. The state and firms, especially SOEs are raising targets for individuals. The development of HR systems is always on the plan, and even though the development of people management systems might increase efficiency, the task of changing HRM systems falls to the bottom of the 'to do list', when other pressing concerns emerge. It is hard to define a principle contradiction in this country from the theoretical level, however at the implementation level, integrating a radical transformation of people management even at the organisational level with the enhance of labour protection, sustained economic development and transformation, and the increasing complexity of labour market, which would all need to be tackled at the same time, create bigger challenges policy makers and employers. However, actively choose some non-fit of certain forces at one stage, may provide better chance to tackle the other issues and help organisation operation to be sustained and efficient. At the current stage, build-up of the labour protection is legally put on to the first place. This might be seen as a sign that the transformation of people management in China is heading to the direction of dealing with employment relations rather than the sole focus on HR management.

Chapter 8 Conclusions

8.1 introduction

This thesis aimed to explore the strategic fit of HRM, HR adjustment and the reality of its implementation. The thesis analysed a range of specific external factors notably economic factors, and the role of the state, in shaping HRM strategy and HR adjustment. Close fit between strategy and HRM is seen to be one of the most important considerations in an HRM system (Cook and Armstrong, 1990; Boxall and Purcell, 2011). External economic factors are said to be important for employers to understand and react to effectively in order to maximise the effectiveness of their HRM strategy (Schuler, 1992; Lundy, 1994; Truss and Gratton, 1994). However, due to the complexity of these economic elements and their variation, the ‘best’ approach in HRM may differ depending upon the contextual environment. Cooke (2009a) suggests there is still space to explore SHRM models and adjustment of HRM in regards with the nature of current Chinese HRM practice, and has called for more studies to capture the changes that have occurred in HRM in China. Thus, an analysis of potentially new or emerging approaches to HRM in the Chinese context could open new avenues for research into HRM and theoretical understanding of HRM strategy. This study also examines the connection between firm-level HRM practices and the external environment; another area where more studies have been called for by Batt and Banerjee (2012), especially at the sub-field of SHRM (Kim and Wright, 2011).

This thesis contributes to knowledge of how strategic HRM is configured and adjusted in relation to the economic environmental changes in China. The thesis looks at the notion of fit from two perspectives: firstly, finding out which economic factors and events the employers believe play an important role in shaping their HR strategy; and secondly, finding out how strategy is formed and implemented. At each of the strategic and implementation levels, it discusses the HR adjustment in recruitment, career progression, performance management, and pay and reward systems. From the perspective of economic fit, the findings show that the state policies of encouraging marketization,

internationalization, strict risk management and restrictions on executive pay, could become a positive method to improve HR systems as well as causing constraints on implementation of the system at the same time. From the SHRM perspective, this research investigates the fit and non-fit between HR adjustments, in the development of a Chinese approach to people management.

The aim of this thesis was to explore the development of SHRM within the Chinese financial service sector. The focus is on employers' perceptions of SHRM for the following reasons. Firstly, employers are able to provide the information about the broader picture of the business strategy, and its connection to HR strategy, which is one of the most important elements of the present study. Secondly, they are able to provide the information on the perceptions of the state policies that have important impacts on their business strategy.

In section 8.2 and 8.3, the contribution of the thesis to theory will be discussed. In section 8.2 new insights into SHRM and fit theories are set out, and the new concept of non-fit is explained. Through an analysis of how HR adjusts in response to economic factors and the role of the state, this study sets out an approach to understanding the concept of non-fit. Section 8.3 considers the economic and political impact on HRM, which contributes to the existing SHRM theories through deepening the understanding on external factors. Section 8.4 introduces the specific empirical contributions of this research including the contributions to our understanding of Chinese HRM and to the Chinese financial service sector. Section 8.5 sets out the methodological implications of the thesis and draws directions for future research, while section 8.6 looks at the implications of the research for practice.

8.2 Strategic HRM (fit versus non-fit)

This thesis builds up the idea of non-fit in HRM, positing this as a novel contribution to SHRM models and fit theories. This thesis adds a line to both the contingency and configurational perspectives on HRM. To do this, it builds up the concept of non-fit in three aspects. First, it provides a conceptual definition of non-fit. Second, the approach to identifying non-fit is developed. Thirdly, a potential pathway for HR decision making

process when non-fit exists is proposed. The following subsections discuss these three aspects of non-fit in detail. Through the examination of fit and non-fit, this thesis contributes to a gap in SHRM literature by providing clear examples of how the need for transformation in SHRM is identified, or to be able to confidently assist firms to move to new perspectives (Meyer and Kirby, 2010; Searle and Dietz, 2012). One of the most important social transformations in China is the process of marketization, which inevitably impacts on organisations. Existing literature reveals the impact of the marketization movement on employment practices, including the pursuit of competition, efficiency, flexibility and labour-cost minimization (Zhu and Dowling 1994, 2000; Chow et al., 2008). However, it might still be wrong to assume that Chinese HRM policy and practice are entirely market-oriented. If this is the case, does this mean that the transformation of Chinese SHRM has ‘failed’? Through a discussion, practice by practice, characteristic by characteristic, in Chinese firms, the HRM approach adopted, along with the most influential elements of this approach can be identified, building to an understanding of ‘non-fit’. There are theories to explain fit between SHRM and business strategy, however, there is a lack of understanding of clear ‘non-fit’ in HRM understanding. This study finds and develops the concept of non-fit at both strategic and implementation level. However, as seen from the HR outcomes and HR efficiency, it might also be wrong to assume that non-fit of SHRM hinders business activity and expediency.

a) Why understanding non-fit matters: towards a conceptual definition

This subsection discusses the first aspect of conceptualizing non-fit. There are three non-fit dimensions: 1) the lack of fit between HR practice and a particular force; 2) lack of fit between HR attempts and HR outcome; 3) the contradiction between external forces shaping HR system and practices. The first two dimensions are drawn from the discussions of chapter 5 and 6, the third dimension is drawn from chapter 7.

On one hand, finding non-fit can be understood as an alternative approach to seeking fit. There is no doubt that internal fit and external fit can enhance organisational effectiveness (Delery and Dorty, 1996; Delery and Gupta, 2016). Finding where a lack of fit is and looking at adjustment might be seen as simply looking at fit. On the other hand,

organisations may actively choose external non-fit in certain circumstances. Economic factors are one of the influential external forces of shaping HRM patterns (Beer et al., 1984; Fombrun, 1984; Schuler, 1992; Truss and Gratton, 1994; Lundy, 1994). Seeking fit externally and internally is always considered as an important approach to strategically configurate efficient HR system. However, Boxall and Purcell (2003) criticize best fit arguing that in a changing business environment companies and their strategies are subject to multiple alternating contingences and that it is merely possible to adjust entire HR systems to new challenges frequently. Indeed, since frequent external changes are taking places in the environment, it might not be beneficial to adjust the HR practices all the time. In addition, empirical evidence from this research indicate that even where effective implementation of HRM practices does not occur, resultant HR systems may still contribute to the growth and development of organisations. This thesis supports these arguments by giving clear examples of how conflicts between HR practices can be caused by multiple alternating contingences. This research argues that, in certain contexts, rather than seeking fit, staying with non-fit to some extent can be more beneficial to effectively support business strategy when it can keep and maintain sustainability, stability and consistency of the HR system. A stable system can support the long-term plans and development of firms. Multifaceted forces may make it too complex for firms to ever find a best fit approach. When it seeks a best fit to one force, it can create contradictions with others (Cook et al, 2018). Balancing the conflicts between different needs, especially when they lead to different directions can be more important to seek seamless HR adjustments to each single force or attempts to make adjustment on HR configuration all the time. Finding non-fit in order to adjust them, or actively choosing to stay with external non-fit in circumstances, can prevent the potential disruptions and contradictions caused by insufficient adjustments, and thus may help to keep the core and sustained competency of an existing HRM strategy and system. Therefore, it is important to understand non-fit. is important to the efficiency and sustainable development

Turning to the third dimension of the non-fit, the contradiction between the forces that shaping HR system and practices, a supportive and similar point has been found in Boxall's (2018) recent debates on implementing SHRM at social level in regard to conflicting interests among individuals, organisations and societies (Nienhueser, 2013; Boxall, 2014, 2018). Boxall (2018) summarises the critiques on how HRM cause societal

damage. These include bad ideas in HRM, or good ideas taken to an unhealthy extreme (Nienhueser, 2013), a badly designed and implemented performance-related pay system (Boxall, 2014), dual focus of strategic HRM on performance and well-being (Boxall, 2018), which can all have the potential to cause societal damage. In the Chinese cases, understanding the role of the state is particularly important, as discussed in chapter 4 and chapter 7, the Chinese state impacts on HRM in different dimensions. It is important to take into account the complexity of the roles the state plays as stakeholder and leader when understanding the certain policies that have the potential to cause HR adjustment and make HR choices in a broader context. One example from this research, is the contradiction between labour protection and labour costs. The provisions introduced in the new Labour Contract Law, with the intended goal of enhancing labour rights and labour protection, caused increase in labour costs. However, as an essential step towards the labour law development, labour protection should be considered as the priority. Another example is the conflicts between the demands for marketisation of pay levels, and the existing pay restrictions, pay mechanisms and even anti-corruption policies for SOEs executives. Non-fit with the trend of marketisation, in this case, is considered as necessary in supporting the national plans and policies for the equality or flexible pay mechanism, which had been taken as a priority comparing with the marketization of pay levels at the current stage.

b) The approach to finding fit and non-fit at the strategic level

Referring back to the discussion on the non-fit at the organisational strategic level, the adjustment of specific HRM system and practices indicates three types of non-fit: 1) there is non-fit of SHRM in both the setting up the system and at the implementation level due to the strong remaining influences from the traditional types of personnel management. The idea of “the body of SHRM with the mind of personnel management” occurs from here; 2) there is non-fit of the Chinese approach of effective SHRM with well-established and dominant western models, entailing different adjustment and understandings of particular HR practices; 3) there non-fit of HR practices with the emerging economic value-oriented and marketization of business strategy. Managers seek to support their organisations to stand with a more complex social identity, and both employers and managers have to accept this type of non-fit and look to overcome the tensions.

When analysing employers' understanding of HR strategy and practices, it was found that there was no guarantee that systems are responding to the environment. The rhetoric of seamless fit is not necessarily matched by the reality of adjustments in business strategy. The movement of the Chinese economy towards a market orientation has been characterised by the diversification of forms of public ownership and the growing economic significance of the private sector and foreign investment. These changes have clearly had impacts over time on the Chinese labour-force. Changes to HR strategy and practice, changes in recruitment, training, pay systems, career progression and performance management are all required. Employers may be aware that there is the need to change. The findings of this thesis reveal that change has happened only in certain practices and mostly at the implementation levels rather than the strategic level. Resistance to change came mostly from structural factors including historical issues other than employees.

Even though both best fit and SHRM models prescribe working efficiently (Delery and Dorty, 1996; Delery and Gupta, 2016), resistance always happens and non-fit of certain practices and approaches to the core strategy keeps the system running when the key aim is economic growth other than people management. Regarding the key contribution around 'non-fit' in SHRM, changes in the external environment call for significant adjustments in HRM strategy and practices. Some of these required adjustments were reached while some faced resistance. However, since the principle aim of China has shifted from aggressive economic growth into the building of 'harmonious societies', seeking sustainable development models and anti-corruption, non-fit of SHRM could also play an important role whilst still supporting the growth of business in the planned models. Therefore, these HRM dilemmas could be seen as inevitable and are not a surprise during the process of reform.

When the benefit of change stays at the theoretical level and while the benefit of certain practice changes in this system are unclear in practice due to the constraints, it is less possible for managers to continue to insist on pushing for HRM changes and invest in novel HRM systems.

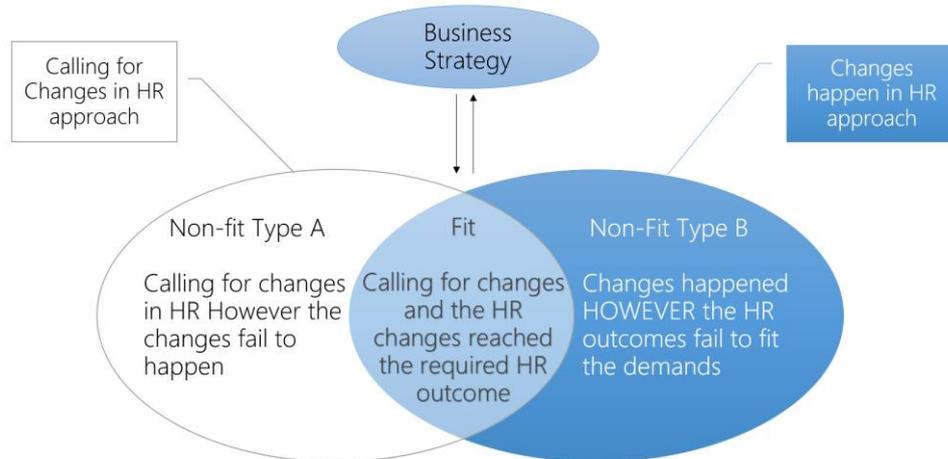
Referring back to the findings for a specific example, the thesis revealed that in SOEs, big changes happened when HRM systems changed, with the restructure of the whole organisation during the shareholder reform period. However, some functions are still at a personnel management level, while other functions could see the hope of reaching the expectations and requirement of change. The joint-stock sector is a market-type system where external hiring tends to be adopted, and there is very little formal training. Performance appraisals tend to be results-orientated, job security is minimal, and jobs are not clearly defined. Their performance appraisal criteria are short-term oriented, and while they provide minimal levels of employee training and development, they use high pay systems as their core HR strategy. When a company had ambitions of expanding their market, the individual performance appraisal criteria were set aiming to fit this purpose and support the business strategy.

c) *The approach to find fit and non-fit at the implementation level*

During the discussion of HRM practices in chapter 5, there were two types of non-fit in general at the implementation level. These are conceptualised in a framework in Graph X. This shows that here are three ways that adjustments in HR practices could respond to business strategy. When business strategy calls for different demands and needs different supports through HR approaches, 'fit' happens when HR practices meet the targets that the business strategy is demanding. Otherwise, two types of non-fit can emerge. The first non-fit can happen when business strategy calls for changes in HR, yet the changes fail to be made. The second type of non-fit can happen when the adjustment or reform in HR approach, systems and practices are made in order to respond to the business strategy, however, the HR outcome fails to meet the required target.

This framework emerged from the discussions on HR practices in chapter 5. For example, in recruitment practices, Non-fit type A occurs where recruitment strategy calls for changes and adjustment of HR however the changes fail to happen. Intense marketization of recruitment to fit the marketization of business strategy are required, however, the long-term history of recruitment under the planned job allocation system still impacts on the way employers select employees. Zhang (2012) suggests that some problems which are caused by a traditional approach to HRM implementation, such as recruiting and promoting unqualified employees due to intense social connections, can be alleviated

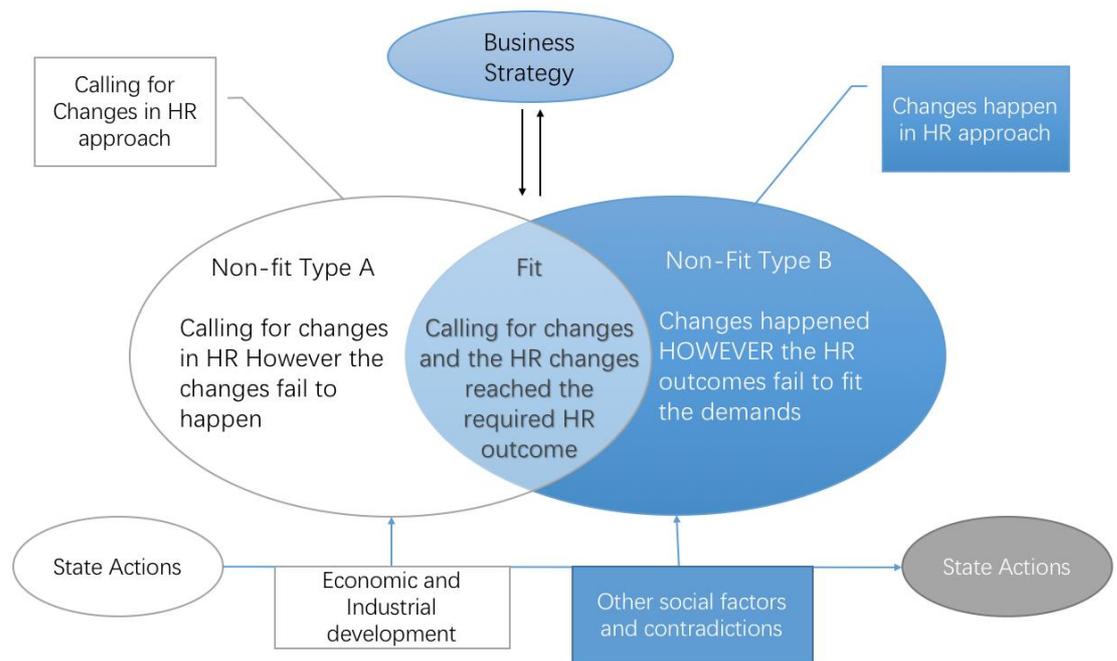
from adopted western HRM practices such as competency-based selection and performance-based reward systems. In reality, however, the implementation and strategy of competency-based selection and performance-based reward systems also face either the similar challenge from the remaining influence of the consideration of ‘Guanxi’, or other challenges such as the contradiction between strict risk management and motivation.



*Graph X Fit and Non-Fit between Business strategy and HR approach
(Author's self-made reviewing graph)*

The second type of fit is where HR adjustment has been made according to where it calls for changes, and the HR outcomes are successful to fit the original targets. Relatively, Non-fit type B is where changes happen in HR approach, however the HR outcomes fail to fit the demands. Chapter 6 has considered the main character of ‘consistency’ in the Chinese approach to HRM, where the practices are stubbornly wedded to a so-called ‘safe-zone’ of traditional practices, creating tensions and resistance when change is encountered. HR adjustments in individual firms are not uniformed. It indicates the various adjustments of HRM due to the continuous existing difference between SOEs who relies on the building of working systems, and JSCs who paid more attentions on individual talents. Certain HR adjustment and activities can be achieved by the JSCs but cannot be fitted in SOEs. A ‘holding back in development’ was evident, however, it does not necessarily prevent the building of SHRM to more effectively support the efficiency of people management, considering the complexity of the influential factors. Whilst there

is considerable debate about whether incentive or egalitarian pay systems should be considered as high-performance work practices in the west, in China, evidence shows that employees prefer to accept performance-based pay, and would like to enlarge income gaps rather than receive an egalitarian wage (Chen 1995). Thus, a performance-based compensation system may improve Chinese firm performance by effectively motivating employees to work harder. However, since SOEs' payroll budgets are controlled by the State-owned Assets Supervision and Administration Commission (Liu, 2009), SOEs can only decide the internal distributional mechanism given available budgets. Moreover, performance evaluations in some SOEs continue to follow a similar format as that for civil servants. Performance management criteria are too general to evaluate employees' performance (Brødsgaard and Li, 2014). This restricts their discretion to develop more competitive and adaptive compensation systems.



Graph Y The role of state in Fit and Non-Fit between Business strategy and HR approach (Author's self-made reviewing graph)

Other factors also play a role in calling for changes and creating resistances for non-fit. In this case, the state actions play an important role in shaping the HR system and

development. Seen from Graph Y, state actions and policies are not only impacting on SOEs and other firms but also have been implemented largely through changing organisational operations and strategy to reach the targets.

d) The pathway of HR decision-making processes when non-fit exists

In this empirical research, seen from the HR decisions and HR outcomes that the employers have made, a pathway of HR decision making process when non-fit exists are now suggested. When facing external changes, if an HR adjustment is necessary to be made? This process involves two steps in general. It firstly needs to evaluate whether the adjustment fitting the external forces would cause foresee contradiction to other HR practices, especially the sustained consistency and competency of the existing HR system. Secondly, when there are contradictions between the forces shaping HR system and practices, a decision is required to be made that which contradiction is the lesser one, thus to follow and minimise the conflicts.

8.3 The External Economic and Political impact on HRM

This thesis has deepened the understanding of the economic impact on HRM systems (Beer et al., 1984; Fombrun et al., 1984; Schuler, 1992; Truss and Gratton, 1994; Lundy, 1994), and can become a starting point for a deeper exploration of the economic motives of HRM (Kaufman, 2015a; Boxall, 2018).

As notified in Chapter 2, the main economic environmental factors which have been considered in this thesis include economic reform, marketisation, economic growth in GDP, profit-making and economic policies. Economic policies include shareholder reform, economic stimulus plans, encouragement of new economy, national economic development plans. The economic factors that have not been covered in this research include inflation, interest rate, demands and supply, etc. This is because these factors have not raised a higher level of consideration in regard to HR adjustments in the Chinese financial services context, and because HR adjustments caused by these factors are relatively easier to be made to reach both internal and external fit without considering too many contradictions since their SHRM transformation from personnel management into SHRM, according to the participants of the current research. However, this still provides a platform for future HRM, employment relations and economics research which might

take a closer look on these factors. There is lack of definition or existing studies which can provide a clear taxonomy for all the external economic factors in HRM research field. This study thus has provided a platform for future research.

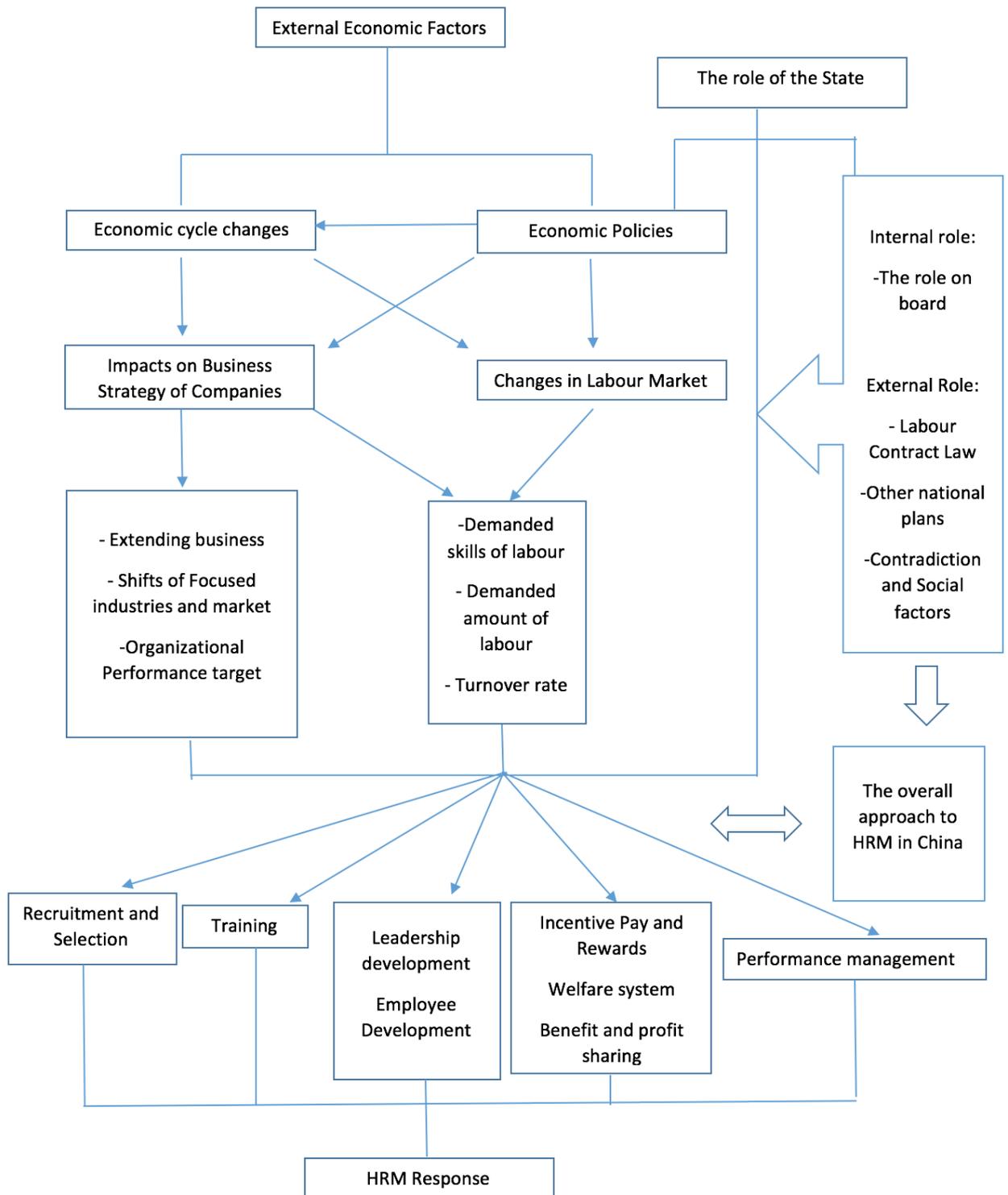
As Boxall (2018) argues, understanding economic motives is part of the ongoing challenge of integrating ideas from different disciplines that meet in the intersection of strategic HRM. Another recent trend in HRM studies is that the focus has shifted from consideration of just external factors towards more detailed analysis of internal factors (Kaufman, 2015a). However, considering the dramatical changes of economic environment, the trend of shifting the focus from external factors into internal factors might leave larger gaps that are underdeveloped in exploring the impacts. Thus, this research combines the impacts of external environments and other influential factors. Existing literature emphasised the importance of economic and political impacts on HRM. This thesis sets out to make the new contributions to the knowledge around the factors of shaping and adjusting SHRM and the reality in its implementation. Understanding the economic environment could become a starting point to understand economic motives.

Graph Z develops the conceptualisation of the path of external economic factors and the state, looking at how these impact on the development of SHRM in firms. Compared to Graph A, it develops further indicators of the role of the state in the right rectangle and the indicators of how economic cycle changes impact on business strategy. It divides the role of the state into internal roles and external roles, and has added 'other national plans' and 'contradiction and social factors', according to the empirical findings and analysis from chapter 7. In the left main framework of Graph Z, the specific vital role that the state played in the economic development process has been suggested by a large amount of research (Poon, 2009; Gabriele, 2010; Felipe et al., 2013; Lo and Wu, 2014). This research deepens understanding of the role of the state in shaping HRM strategy through economic development. It helps to answer the first research question - what environmental changes do employers believe are driving reform in people management in China - Chapter 4 introduces and analysed the contextual background of the environmental changes - including the state policies that direct the development of business and HR strategy, and the labour market, that the employers perceived as influential factor to their HR decisions. Chapter 5 discussed the transformation of SHRM

and HR practices considering the external economic factors. Chapter 6 drew the characteristics of a Chinese approach to HRM following the discussion of chapter 5 and reveals the most significant role among all the influential factors that shaped these characteristics. As indicated in the right corner in the bottom of the graph, it indicates the overall approach to Chinese. The results of Chapter 7, which are shown in the right rectangle of Graph Z takes a further look into the role of the state as an external influential factor as well as an internal factor.

Chapter 4 firstly discusses the labour legislation environment that might have impacted on employers' HR decisions. As SOEs naturally had a stronger relationship with the state, HR systems of SOEs had been already strongly influenced by the state. The results indicate that even though there is very little direct influence from the labour market and labour legislation changes on SOEs' HR adjustment and strategy, it plays a more significant role in shaping HRM policies of JSCs. Other labour policies, such as those which encourage more employment opportunities affecting the HR reform during economic transformation, in contrast, gained more fit from SOEs' HR systems because of their higher level of stability. Political and external economic factors, on the other hand, affect the shape and outcome of HRM systems as contextual factors. In other words, environmental factors are having impacts on the way HRM reform happens. It introduces some environmental factors that set up a clear target for HRM reform to achieve. Developing within the environment of market orientation, the impact of the marketization movement on employment practices includes the pursuit of competition, efficiency, flexibility and labour-cost minimization (Zhu and Dowling 1994, 2000; Chow et al., 2008). Imbalances in Chinese economic life has always existed in different forms along with the development of economic growth. It follows that HRM needs to balance between several issues at the same time: the business growth and considering the labour capital, designing of job positions motivation systems for employees.

State policies can have an impact on organisational business operation and activities in industries and the labour law system. Through a consideration of the role of monitoring of these institutions and the role on boards, the features of the relationship between SOEs and the state has been addressed. The points about management of SOEs and the state are



Graph Z The role of external economic factors and the state in the development of SHRM (Author's self-made graph)

reflected in the corporate governance and the decision-making process of all operations and business activities since the state is the biggest shareholder of the SOEs. The JSCs are also operating under the monitoring of the institutions, however with more flexibility in their internal operation system. These relations provide a fundamental understanding of how SOEs and JSCs could be influenced by and be close to the economic state policies and the chance of predicting and following the long-term state economic plans.

The right rectangle in the Graph Z generalises the roles of the state in shaping HRM polices and practices directly and indirectly. This research develops the understanding of the role of leaders in developing a multistakeholder perspective on SHRM as suggested by Meyer and Kirby (2010). In Chinese contexts, apart from the direct impacts of staffing position mechanism (Shambaugh, 2009; Warner, 2013) the state plays important roles as both external role as the national policy maker as well as an internal role as organisational leader and shareholder in SOEs. It is important to take the complexity of the role the state plays as stakeholder and leader. The first role of the state is shaping HR strategy through shaping business strategy of firms. It considers this combined with the analysis of the state role on the board of organisations. The results indicate that the state impacts the development of SHRM from two aspects. Firstly, through shaping the long-term development target of business strategy. For SOEs, their business strategy is impacted by the state from both state polices and the state role on board.

For JSCs, the impact from state on shaping their business strategy is from solely state policies. Two types of state policies have significant impacts from this aspect: firstly, the institutional and industrial regulatory and legislation changes shape the demanded labour skills and amount of labour, for which adjustments in recruitment and training are made, while the regulations on strengthening risk management shapes the performance management. Secondly, the orientation of planning the economic structure and types of economic growth, which has also significantly impact the development of recruitment and training according to the changes of demanded labour skills and amount of labour. SOEs, are the strongest supporter of delivering the state policies and the national plans and their business goals and organisational targets are set by their internal development path, but they have more external determinants that are relevant to the state to consider than JSCs. Thus, they may face more HR challenges and tasks to adjust to.

Taken together, the overall taxonomy of the role of the state in shaping HR strategy include: 1) the direct impact through staff positioning mechanism; 2) the internal role on board through cooperate governance and taking part in strategy setting process; 3) the external role through state policies and the national development plans. These findings indicate that the state has an impact on shaping HR strategy through labour law, while the state influences Chinese economic development through direct intervention industrial policy. The state has played a significantly interactive role in Chinese economic development in terms of promoting structural change and thereby growth in GDP and employment. This adds a line to the follow-up HRM studies on key management changes that resulted from radical social and organisational transformation, which are suggested to be explored by Cooke (2009a).

8.4 Contribution of the thesis to understanding of HRM in Chinese firms

The empirical findings develop knowledge on the theoretical framework of Chinese SHRM from three perspectives: firstly, by capturing the unique complexity of HRM in China; secondly, it uncovers the unique management contexts and introduces the nature of current Chinese HRM; thirdly, it explains how and why such strategies are formed and how they work under certain contexts in the Chinese financial service sector.

This research firstly contributes to our understanding of Chinese HRM by capturing its complexity, where more studies were demanded by Cooke (2009a). This Chinese context-specific HRM study firstly uncovers the unique management environment. There is considerable evidence to indicate the existence of a good deal of Chinese unique business practices (Tsui 2006; Barney and Zhang 2009; Child 2009). It takes further consideration of the context of the economic transition in China, where the unique path of HRM evolution is varied from the western world (Child 1994; Cooke, 2005, 2011; Lamond and Zheng 2010; Warner 2010). In attempting to form an effective SHRM system, it takes account of not only what changes and adjustment are required, but also what HRM systems have existed in the past. This thesis adds further points to the unique management contexts of the Chinese approach of HRM including the role of the state on boards, the role of supervision and monitoring, and that China is facing a trend of strengthening labour protection, no matter which position they are in the economic development stage.

Although China has unique experience in industrial revolution and the history of Taylorism scientific management (see Zhu and Warner, 2019), further elements emerged from this thesis to light up the challenge of fit in the development of SHRM theories. HR strategy and orientation are facing contradictions between supporting high speed financial growth, rising labour cost and less flexibility in legislation and regulatory systems, increasingly strict performance criteria for risk management and requirements for higher level growth. All of these multiple aims calling for changes together are more likely to be leading the development in different directions, which results in confusion when setting up and implemented practices. Comparing to the one clear aim of SHRM that supports long term development of business strategy, it seems that within the Chinese context, variation makes the efficiency of the adjustments in HR systems hard to be defined.

The nature of current Chinese HRM indicates a rather complex pathway, with multiple influential factors shaping the development of SHRM in China. This supports and follows Warner's suggestions on Chinese HRM as 'Western, yet Eastern', 'Capitalist, yet Socialist' (2009) and 'Sino-Marxism as well as Confucian values' (2010, 2011), and offers more empirical and theoretical research for a sharper picture of contemporary Chinese HRM, especially to have a specific understanding on a precise understanding of why Chinese HRM has evolved to the particular forms we find it in today (Warner, 2009). In the discussion of the first two research questions of this research, among all the external factors, the state is indicated to have heavier influence and plays a more complex role in shaping SHRM of firms. HRM in China encountered a cross road in 2009 while there was 'a fast-changing environment. This is the foundation of understanding the external pressures for the transformation of HRM in firms. It also points out the political and economic elements and events that directly pushed the change and development of HRM. Companies' abilities to recruit, train, motivate and retain qualified workers does seem to impact upon their business success. Companies were required to leverage their HR potential in order to emerge unscathed and emboldened from the economic downturn. Issues such as employee empowerment, loyalty and retention, and new labour laws stand out as the top issues among the agendas for China-based HR managers.

Chapter 7 explored the answer to the third research question and sheds light on the role of state. The results show that the influential economic factors include the economic policies and economic cycle changes. The state, who makes the economic policies for

economic development of the country is considered as having the largest impact on economic environment itself and the HRM in firms.

The second research question - how have employers experienced and responded to the development of the Chinese approach to HRM during reform in financial service sector? - was discussed in chapter 5 through an analysis of the details of how the Chinese financial service sector attempted to transform from personnel management into SHRM. By answering this research question, it contributes to SHRM theories by exploring specific SHRM itself (Cooke, 2009a), and develops the knowledge of the particular prominent notion in Chinese HRM research of fitting western HRM in a Chinese context (Warner, 2012; Zhou et al., 2012; Jia et al., 2012; Fang, 2012; Cooke, 2012; Leung, 2012). In the participating firms, building of HRM was transferred and learned from western countries and has been adjusted and used. In earlier empirical research in Chinese workplaces, it was doubted whether western HRM would have been assimilated so quickly in China (Warner 1986). Most existing studies of Chinese SHRM look at performance-oriented, high-performance HR practices, high-commitment/performance model of HRM, resource-based view, resource dependence view and institutional theories, that are commonly found in Western studies (Cooke, 2009a). This thesis has explored the adjustment of western SHRM models in regards to the nature of current Chinese HRM. Findings in Chapter 6 contribute to building up the theory of an overall approach to Chinese HRM, which is not simply replicating a certain kind of foreign HRM model of best practices from western literature. It is believed that traditional values still continue to prevail in the contexts in which it has been implemented (Chen 2008; Warner 2010). Indeed, the development of SHRM in China is still largely under the cultural and traditional way of doing things with the institutional differences between firms of different ownerships. According to the results of this study, we still cannot define that the current Chinese approach of HRM is an entirely market-oriented, efficiency oriented or performance driving system. It is a mixed structured system considering the strong effects from the influence of the state. The results of this thesis provide further support to Su and Wright (2012)'s suggestion that there is a hybrid system of commitment and control in place in China. However, even though a hybrid system reflects the landscape to some extent, when looking into precise nature of specific practices and implementation, this study goes further by exploring the characteristics of adjustment of HRM the extent to which it is an efficient SHRM model. For example, even though performance is a strong

indicator of shaping business and HR strategy in China, where the relationship between SHRM and its influential factors is potentially similar to the west, Björkman and Fan (2002) argue that high-performance work practices may be not effective in China.

This study also fills the gap of understanding how and why such strategies are actually formed and work under certain contexts. It is easier to draw on how far society has changed in China in recent decades from background academic sources, rather than taking account of how something as specific as HRM evolved over the years in existing literatures. While taking the complexity of the influential factors into account as discussed above, this thesis also contributes to understanding of HRM approaches in the Chinese financial service sector by figuring out the most significant factors that drive the development of their people management. It also sets out the overall differences between different ownerships of SOEs and JSCs. Furthermore, in SOEs, the state and the firms are naturally intensely related, especially in the key industries including financial service sector where SOEs are still having the biggest market possession and stay at the leading position in Chinese domestic market, and play the most important role in shaping, planning and supporting the economic development in the current system. As the tradition of stability is one of the main characters of processing development in state-owned system, the systematic changes would not be made radically in a short time. However, according to the recent policy changes on stock ownership incentive pay in SOEs as discussed in chapter 5, it might be interesting to have following research on the implementation of this to explore the changes in the motivation system of SOEs. These might be areas to explore in future research on HRM and external factors.

8.5 Methodological implications and implications for future research

While quantitative research on HRM has been published in abundance, Guest (2011) argued that the knowledge base is little further forward in that it has been unable to explain management activity surrounding HRM implementation. Qualitative research might deepen knowledge of why and how HRM practices are formed. The findings within this thesis have uncovered new knowledge on offering a more precise picture on the role of influence factors that shape HRM implementation.

The generalizability of this research to economies transitioning from a centrally-planned economy to a decentralised, market-based economy, which could cause institutional turbulence (Peng and Heath, 1996; Judge et al., 2009), is obtained in relation to theoretical propositions rather than statistical populations. The context-specific focus shifts the main focus from ‘universal’ into ‘specific’ and particular. The detailed qualitative accounts often produced in case studies not only helps to explore or describe the data within its contexts, but most important “is to explain the presumed causal links in real-life interventions that are too complex for survey of experimental strategies” (Yin, 2008, p19). This is supportive to achieve the goal of the research in regard to the complexity of the external forces shaping HR strategy. In order to take the new insights, the data analysis process adopted in this research is designed to providing a platform for novel and unexpected themes to emerge (Stake, 1995). In this context, this thesis concerns the considerations that employers have taken when they determine their HRM strategies and systems. There could be factors, such as the financialised capitalism, that could become a positive method to improve HR systems as well as causing constraints on implementation of the system at the same time. Moreover, even though it is theoretically inductive and exploratory, this case study on a whole sector with participants from a variety of firms in terms of ownerships, sizes, types of business, deepens knowledge from a context-specific research angle.

The analysis of non-fit offers a wider applicability to SHRM and fit theories. The thesis opens new directions for future research into fit and non-fit. This thesis presented analysis of fit and non-fit, and the role of external economic factor and the state in a single sector. Similar cases can be drawn from broader setting of firms within each ownership form, which helps to understand the overall approach to Chinese HRM. The findings on the conceptual framework of non-fit is built up in a transactional economy and a developing country. It is possible to gain further understanding on developing the concept of non-fit in developed countries by conducting future research. It also provides a platform to test and exam the decision-making processes when non-fit exists in different contexts. Furthermore, this research provides an overview of the development of Chinese SHRM from the last decade until the present day, since China has been experiencing social transformations. Also, due to the complexity of economic elements, there are still policy

changes happening and their following impact on SHRM remains to be explored in the future.

8.6 Implications for practice

For employers and managers, there is value in understanding the role of leaders in developing a multistakeholder perspective as suggested by Meyer and Kirby (2010). When leaders do decide to move to a multistakeholder perspective, the analysis of the roles of external economic factor and the state provides some direction for HRM decisions. Since SHRM needs to be functionally supportive to business strategy and become a core competency of their firms, a good understanding of the role of SHRM in Chinese firms in reality, reviewing of debates and understanding of the relationship between HRM and external economic factors, is important for employers. Understanding the external environment and considering the complexity of external factors is beneficial for all stakeholders. Having a good understanding of the development of SHRM of SOEs or JSCs is also helpful for policy makers.

How can non-fit benefit the configuration of HRM in firms, then? This thesis is not suggesting that environmental changes should be ignored. Rather, it argues that there should be decisions to be made on: firstly, whether adjustments are truly necessary to take place and how to make this judgement in certain contexts; secondly, if changes are necessary, what is the approach to make HR choices between contradicting forces. Some forces can play a more important role than others. Usually, when an existing HR system can still support the business strategy, changes and adjustments have rarely happened. This can be defined as an evaluation process of the current system. The approach of finding non-fit is useful for two perspectives. Firstly, it offers a direction for managers to evaluate their SHRM system, by which they are able to find the reasons of non-fit, and which non-fitting practices are adjustable or not adjustable. Secondly, it also indicates that due to the complexity of influential factors in reality, it is not always useful to seek a best fit approach, because some degree of non-fit is inevitable.

8.7 Conclusion

The findings of this research have added a detailed analysis of the roles of economic factors and the state that are likely to influence the configuration of a strategic HRM system in the Chinese economy. This research provides a new insight on the approach to understanding fit theories through developing the conceptual dimensions of non-fit and developing the meaning and understanding of non-fit. It sheds new light on the multi-forces context in SHRM research. To do this, it develops an approach to dealing with the complexity of a multi-stakeholder-based best fit, and also argues that staying with non-fit can be more beneficial than seeking a rhetoric of seamless HRM adjustment and fit in providing an effective support in certain contexts. Firms that are moving towards better fit, by definition, have non-fit. This may be temporary, or more permanent. Indeed, some non-fit may be systematic, and may actually arise from firms trying to adapt to the external environment, or policies of the state. This would seem particularly likely during periods of rapid change. However, firms can still achieve good or good enough HR outcomes without close fit. Even where effective implementation of SHRM does not occur, resultant HR systems may still contribute to the growth and development of organisations. Actively choosing 'non-fit' at both strategic and implementation level may even enhance the effectiveness of organisational operation under certain circumstances. The Chinese case, given its unique management context and the richness of social and economic transformation, makes it become a particularly interesting lens through which to observe this field. The development of SHRM in China reflects how organisational HRM strategy supports operations.

This research is especially valuable to scholars researching the configuration of HRM systems, especially in regard to the external environmental 'fit' perspective. It provides an alternative approach to the understanding of fit and HR adjustments through which contradiction between HR forces or HR outcomes have occurred. In doing this, for employers it challenges the theoretical assumptions of the efficiency of striving for a rhetorical seamless fit to strategy. It has also enhanced theoretical understanding of the complexity of external forces shaping HR strategy in a broader perspective. It extends and deepens theoretical knowledge on external fit of SHRM through illuminating the dynamics of the changing economic environment and state policies and their impact on HRM. It also finds a taxonomy to understand the role of the state. This thesis therefore

provides unique value for multiple stakeholders including policy makers and organisational employers.

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Appendix A: Semi-structured interview questions – Part 1: For Policy Makers

A. Background questions and HR activities in their organisation

1. Can you please tell me about your role in the organisation?
2. What are the main activities of the organisation?
3. Can you please tell me a bit about the HR activities in your organisation? How would your HR policies have been made and how do the HR practices are implemented? Can you please talk about the job design, selection system, pay and rewards system, performance appraisal system and training programmes?
4. To what extent the recent HR practices are differed from personal management?

B. State policies & functional questions: (For PBC) I am interested in this issue because it is believed that state policy is the most important element to direct the strategy and operation system of Chinese companies, especially state owned companies. State policies can impact on the operation of organisations in both direct and indirect ways. Not only the industrial developing orientations, but also the labour market and such many economic factors which organisations should pay their attentions on.

5. Can you explain how the policies made by PBC impact upon other banks? Formally and informally? Can you give me more details, and examples for each? How do you communicate with each other and with other banks?
6. Here has been a move towards open market, marketization and so on. How has this impacted upon PBS and how do you translate this agenda into specific policies, for you and other banks?
7. What is the role of party members in financial institutions do you believe? Are there any strict rules to regulate party members and non-party members?
8. What is the recent trend for new institution settings of banks? Is there any new direct regulations or policies for institution setting?
9. What sort of considerations are you thinking when authorizing a main leader to a commercial bank?
10. What kind of trainings do you provide to executive managers of financial institutions?

11. What is the future trend for responding to state's policies? Is there any new state policies are going to react on financial policies?
12. Are there any problems or difficulties on transferring state policies to your and other banks? Please explain the difference between public and private banks when transferring state policies to them.

A2. State policies & functional questions: (For the executive of China Securities Regulatory Commission (CSRC) and China Association for Public Companies (CAPC)):

1. Can you explain how the policies made by CSRC/CAPC impact upon other companies? Formally and informally?
2. What is the trend or direction when CAPC helping public companies to improve their corporate governance?
3. What is the trend and strategy of promoting mature capital market?
4. How does government supervise banking sector?
5. What is the future trend for responding to state's policies?
6. According to state policies, which industries and sector would be paid more attentions or practical efforts on and how would this impact upon your decision-making?
7. Are there any problems or difficulties on the power?

C. The connections between China Banking Regulatory Commission (CBRC) and Ministry of Human Resources and Social Security (HRSS) of the People's Republic of China (For PBC): Questions in this section aims at helping have understanding on how state policies be transferred and consistently agreed between governmental organisations and banks, especially in terms of HRM aspect.

1. Can you tell me which institutions might be involved with the decisions of making the policies? What is the working process? What kinds of decision-making need PBC to get other institutions involved with? How are your responsibilities defined?
2. How would financial factors and labour market conditions impact on each other? Is there a priority for considering these factors or conditions when these institutions setting public together?

3. Due to different responsibilities and functions these institutions have, with the trends of marketization and fast development of economy, how do or how will the connections between these institutions change?
4. Have the changes of the connections impact on the effectiveness of pushing state policies?

C. Labour market

1. The employment rate and unemployment rate are important issues in labour market. The state has also been issuing about the shortage of jobs for new entrants. Have you ever noticed if there are any relations between economic environment and the changes in unemployment rate?
2. What kinds of considerations about labour market do you have when supervising companies/setting up financial and currency policies? Would the trends of employment and unemployment be taken into consideration?
3. How the new employment contract law published in 2008 has impacted on your and other banks? In which way and how did you adapt to it? For example, about the encouragement of easing enterprise burden, increasing employment opportunities and curbing labour disputes.
4. Are there any stimulation policies for creating more jobs? Would that be taken into consideration for setting financial or currency policies/supervisions?
5. How would you expect the changes in labour market impacting the HRM system within financial sector in general? How exactly would these policies impact on HRM policies?
6. How would the policies for easing enterprise burden impacting on motivation policies, performance appraisal and reward system?
7. How would the policies for curbing labour disputes impacting on pay and reward system and labour process of banks? Such as the job design for working time, production quota etc?
8. As we understand, the current HRM system in Chinese state owned companies are stable, would there be a trend to change it? The financial and banking industry seem to have more flexibility in operation in order to follow the trend of becoming more commercialization. What would you expect to happen to training system, performance management, pay and reward, and recruitment?

D. Public sectors and Private sectors

1. How does government supervise public sector and private sector differently?
2. How would the impacts from PBC's financial policies/supervision of CSRC differentiate from each other upon public and private sector? As we understand commonly, the public sector has stronger connection with state policies. To what extent or aspect the connection are reduced in private sector?
3. Are there any problems or difficulties on the power? Are these problems and difficulties are differed from public and private sector?
4. What are the trends of the differentiation between public and private sector? Would the differentiation become more significant or weaken?
5. How do you expect the HRM system in public and private sectors be developed according to the trend of marketization and fast economic development or any new state policies?

Appendix B: Semi-structured interview questions – Part 2: For Employers

A. The general information about the external environment

- 1 What external factors have the most significant impact on organising your company?
- 2 Which aspects of your operation system can be more related to external environment?
- 3 To what extent the internal factors of your company such as organisational culture, structure, policies, employee skills and past strategy can relate to the external factors?
- 4 What have you done to adapt the operation system to the external environment?
- 5 What changes are you planning to have in order to adapt to the recent trends of external environment?

B. The general information about state policies

- 1 Which state policies are the most significant to the operation of your company? Such as the policies set for solving the problems including the shortage of jobs for new entrants, especially for rural migrants from China's interior regions and qualified college graduates, easing enterprise burden and curbing labour disputes.
- 2 How the currency policies impact on the operation of your bank?
- 3 How the fiscal policies impact on the industrial structure and the operation of your bank?
- 4 What kind of connections do you have with government institutions? What kind of power do they have to influence your operation? Please give examples on both formal and informal impacts. How do you communicate with related governmental institutions?
- 5 To what extent and in which aspect the state policies can impact on organising your company? Do you think these powers have been enhanced or reduced during the development of marketization and different stage of economic cycle?
- 6 Have you noticed any changes in state policies recently?
- 7 What have you done to adapt the operation system to state policies?
- 8 What changes are you planning to have in order to adapt to the recent trends of state policies?
- 9 According to state policies, which industries and sector would be paid more attentions or practical efforts on and how would this impact upon your decision-making?

C. the general information about economic factors

- 1 Which economic factors have usually been considered when operating your company, such as economic cycle, fiscal policies etc.?
- 2 To what extent the state policies can impact on formulating your business strategy?
- 3 Have you paid attention on how economic cycle develops and the relevant state policies?
- 4 What have you done to adapt the fast growing economic conditions?
- 5 What adaptations will be made for the recent trends of economic factors? Are there any changes in the job design for employees?
- 6 How would you predict the development of your HRM system and employment relations? How would you set up your motivation system? How would you benefit from these changes?
- 7 Would you plan to set up more training project to adapt to the economic conditions?

D. The trend of labour market

- 1 Would you pay attentions on the trends of labour market?
- 2 What economic factors do you think can effect on labour market?
- 3 What are the recent changes in labour market? Have these changes impacted on your company's business or HR strategy? Please comment on your recruitment, performance management, pay and reward system, training programmes and motivation system.
- 4 Can you please describ the labour demands of your company?
- 5 Have your labour demands been changed with to the changes in external environment, state policies, economic factors and labour market?
- 6 Can you please tell me about the business strategy of your company? How would it impact on your labour demands at different stages?

E. the HRM system

- 1 Can you please describ the HRM strategy, HRM system and practices of your company? Please comment on your recruitment, performance management, pay and reward system and training programmes.
- 2 What are the key factors impacting on HRM decision-making in your company?
- 3 Can you please talk about what and how state policies can impact on HRM strategy?

- 4 Have there been any changes be made in your HRM system? What considerations do you have when making these changes?
- 5 How does the HRM strategy support your business strategy? Would the HRM strategy be changed with business strategy?
- 6 How do you interpret the more creative background? Have you considered about adapting the HRM practices such as training and recruitment to it?
- 7 How do you adapt your HRM strategy to the changes in labour market?
- 8 What adaptations of HRM practices have you been made to the changes in state policies and economic factors you mentioned above?
- 9 What is the main purpose for you to make these changes when responding to the external environment? What outcomes and benefits do you expect to gain from these? Please talk about both positive and negative outcomes.

Appendix C: Semi-structured interview questions – Part 3: For Employees

A. Employees' experience of the changes in the organisation

- 1 Can you evaluate the HRM system of your company? Have you noticed any changes in the operation system of your company? (Depending on the data collected from their employers) What is the most significant change?
- 2 How long have you been working in this company? What you would say if comparing your current experience for your position with the past in any aspect, such as pay and reward, job description, performance, training and promotion?
- 3 Can you tell me about the trainings that your company provides and ask you to take? What skills do you think is the most important to your company at your position? Have it changed comparing with before? What skills are required to be developed more?
- 4 Do you pay attention to external economic environment of your company? How do you expect your company to adapt the economic development for your position and in operational aspect?
- 5 Can you describe your job satisfaction on your pay and reward, job description, performance, training and promotion? Have your company adapted these to the economic changes and how have you been satisfied with or unsatisfied with these adaptations?
- 6 Have you ever paid attention to state policies relevant to your industry or position? Do you feel it has significant impact on your company's operation or your job? Did your company have any adaptations to it?
- 7 Have you ever care about the changes in labour market? Do you think the changes in labour market have impact on your company's operation or your position?