

**Performance appraisal in western and local banks in China: the influence of firm ownership on the perceived importance of *guanxi* practice**

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## **Abstract**

The Chinese cultural factor *guanxi* has an important influence on the implementation and effectiveness of HRM practices in China (Chen and Chen 2013; Nolan 2011; Rowley and Benson, 2002; Warner 2014). However few studies have investigated how *guanxi* influences performance appraisal in organizations with different ownership structures. We investigated this issue by studying three banks operating in mainland China: a state-owned commercial bank, a foreign owned bank and a city commercial bank. Both quantitative data (survey of 308 employees) and qualitative data (22 in-depth interviews) was used. Macro-level convergence and micro-level divergence was found among the banks. The reform of the performance appraisal system in the state-owned commercial bank indicated a degree of convergence in the appraisal system towards a form commonly found in western banks, at least on the surface. However there were differences in implementation level in the three banks. The perceived influence of *guanxi* on performance appraisal was strongest in the state-owned bank and weakest in the western-owned bank. The reasons for this included generational differences in cultural values, the international experience of employees and managers, and the degree of alignment between senior managers and others over the purpose of appraisal.

**Key words:** banking; convergence; China; *guanxi*; performance appraisal

## Introduction

Since the opening up of the banking sector to foreign competition in 2006, Chinese banks have experienced wide-ranging reforms. These include changes in ownership structure, increases in management accountability and the introduction of human resource management (HRM) practices based on linking pay to performance. The drive behind these reforms was partly influenced by the policy of 'linking up with the international track' (*yu guoji jiegui*) which emphasises the advantages of convergence towards international practices and technical standards which, it is argued, may help China develop a more efficient, competitive and performance-orientated economic and business system (Guthrie 1998; 2009; Wang 2007).

Performance appraisal, in particular the emphasis on linking pay and promotion to specified financial targets, is seen as especially important for the motivation and development of the highly skilled knowledge workers needed for a successful and competitive banking sector (Joshi, Cahill and Sidhu 2010; Kuvaas 2006). As such, each of the four Chinese state-owned banks have introduced performance-based appraisal practices in order to improve firm performance and help build skills and capacity in the sector (Cousin 2011). At a theoretical level, these adjustments raise important questions about the precise nature of HRM in Chinese organisations. For example, does the strategic decision by policy makers to adopt HRM systems developed in western capitalist societies indicate a degree of convergence and standardisation in international HRM practices? Or are there specific institutional and cultural factors which continue to encourage divergence or hybridization?

Certainly, the notion that China should acquire foreign methods and technologies has a long history dating back to the 'self-strengthening' movement of the late Qing dynasty (1861-1895). The slogan: 'Chinese learning as essence and western learning as function' (*zhongxue wei ti, xixue wei yong*) initially related to policies aimed at 'learning' about western military technology so as to resist western powers (Spence 1998). Later reformers, such as Deng Xiaoping, decided that in order to compete with the west economically, and reform internally, China also needed to know about western management methods, their economic and educational systems and their administrative and organisational forms (Warner 2014). Strategic HRM practices developed in the west were gradually introduced into the SOEs in the 1980s and became more widely adopted in the labour market during the 1990s and 2000s (Zhu, Warner and Zhao 2011). This trend was also encouraged by the rapid increase in the number of foreign invested enterprises (FIEs) operating in the mainland (Cooke 2009). At one level then, state policies have, for quite some time, encouraged convergence towards western norms in HRM in certain elements of the Chinese business system (Cousin 2011; Sachs and Woo 2001). That said, there is a large body of research which argues that Chinese cultural values may influence the implementation of HRM practices developed in the west leading to divergence and differentiation (Cooke 2013; Rowley and Benson 2002; Warner 2010). Another important source of divergence stems from differences in national level regulations and business systems. The 'national business systems' approach draws attention to the way in which interlocking social, economic and political institutions create a distinctive way of organizing economic activity (Whitely 1992; Witt and Redding 2013). In terms of how MNCs operate globally, this perspective emphasises the

tendency for institutions in the home country to guide the HRM practices used by the firm in its international operations. However these, in turn, may be modified by the different regulatory and political environments of various host countries (Almond, Edwards, Colling et al, 2005; Bae, Chen and Lawler 1998).

To the extent that foreign banks were allowed entry to the Chinese market allegedly to increase competition and introduce new skills, we could state that certain elements of the business system in China, at a macro-level, are relatively supportive of the use of a performance appraisal process based on linking pay and promotion to the achievement of specified financial and efficiency-based targets. Of course, as Edwards and Kuruvilla (2005) note, one of the problems with the national business systems approach is that it tends to downplay internal diversity and 'sub-cultures' within the nation. There are many groups within China who have conflicting interests, for example officials, trade unions, directors, middle management and employees (Cooke 2002; Ding and Warner 2001). Different groups may resist reforms and attempt to defend existing privileges, and this is certainly the case with some of China's financial SOEs. Indeed, in 2012, the then premier Wen Jiabao noted that the state-owned banks 'had too much power' and 'ought to be broken up' (Barboza 2012) While officials may make 'rational calculations' on the nature of the changes in organizational practice that they wish to implement, these may be contested and struggled over both within and outside the organization. Jing and McDermott (2013) note that reform in SOEs requires an understanding of the strategic actions of senior managers acting as change agents within the organization and their ability to handle conflicting interests between internal and external

stakeholders. Likewise Rowley and Bae (2004) have noted that there is a need to identify not just the level of change in HRM (e.g. policies, practices and day-to-day schemes) but also the degree of acceptance of the changes by key groups (such as employees, cadres, management).

This paper aims to contribute to the debate on convergence and divergence in HRM practices in China by focusing on the extent to which the perceived impact of *guanxi* on performance appraisal varies in banks with different ownership structures. By comparing different ownership forms, we can investigate country of origin effects, noting whether or not the foreign MNC bank needed to modify its appraisal practices to fit the Chinese context in terms of both culture and business system or, alternatively, whether it might benefit in some way from a 'host' environment where policy appears on the surface to support these changes. Likewise we can examine how state-owned banks, with their very specific institutional, cultural and organizational histories use performance appraisals in the current climate. In the next section we will review our key concepts.

## **Literature review**

Broadly defined, performance appraisal is a mandated process in which an employees' work performance and personal attributes are judged, rated and formally recorded by an appraiser over a specified period of time (Coens and Jenkins 2000). Performance appraisal during the period of the planned economy (1949-1978) was most commonly used for assessing promotion opportunities for cadres

and appraisal criteria were tilted towards demonstrating the correct *biao xian* (attitudes and behaviors) (Ding and Warner 2001). This included reward for qualities such as party loyalty and the ability to set a good 'moral' example which recognised individuals on the basis of their diligence, modesty and self-sacrifice, the so-called 'labour hero' model (Funari and Mees 2013; Zhao 1995; Zhu and Dowling 1998). From the late 1970s onwards, the economic reforms initiated by Deng Xiaoping concentrated specifically on improving the financial performance of SOEs and, amongst many other changes, this process involved the introduction of high performance work practices, such as performance appraisal (Zhu, Warner and Zhao 2011). However, given the importance of banking and finance for China's economic security, it was one of the last state-owned sectors to be exposed to reforms (Cousin 2011). Changes in HRM began in earnest in the mid-2000s and these included a more instrumental approach to appraisal based on linking pay and promotion to the achievement of 'objective' goals such as profit or efficiency-based targets (Bai and Bennington 2005; Cousin 2011; Zhao and Du 2012).

In relation to the pre-reform period, performance appraisals in SOEs are now generally more market-orientated and, at an aggregate level, this appears to correlate with improved employee and firm performance (Akhtar, Ding and Ge 2008; Rowley, Benson and Warner 2004). Akhtar, Ding and Ge (2008) argue that in market-based economic systems, firm performance is increasingly linked to the quality of human capital. As such they suggest that further convergence in HRM practices between the west and China is likely over the coming years. However, other authors note that SOEs tend to face significant constraints in the implementation of results-

based performance appraisal because of long-standing institutional factors, such as the conflicting policy pressures from local government, central government and trade unions (Ngo, Lau and Foley 2008). Moreover, the skills and experiences of managers in SOEs tend to be somewhat limited and initiating change can be difficult when many employees continue to identify with pre-reform norms and values (Warner, Goodall and Ding 1999; Ngo, Lau and Foley 2008). In comparison to SOEs, FIEs face fewer institutional constraints and have greater flexibility and autonomy in how they implement and manage their HRM systems, including performance appraisal (Chow, 1992; Warner, Goodall and Ding, 1999).

As well as the differences between SOEs and FIEs in the implementation of performance appraisal, there is a large literature arguing that any HRM practice developed in an Anglo-American context cannot be applied without adjustment in Chinese societies because of the existence of a distinctive, particularistic culture (Cooke 2013; Hofstede 2001). Culture itself is a contested concept and definitions vary depending on the epistemological standpoint of the author (Hofstede 2001; Jack and Westwood 2009; McSweeney 2002). Nevertheless there is much empirical research on the influence of what might be called 'Confucian' culture on HRM practices in Chinese societies (Warner 2010; 2014). In brief, the key elements of Confucian culture rest on the fundamental principle of maintaining harmonious social relationships. These relationships are often structured around preordained norms and rules based on hierarchical principles and respect for authority and seniority (Chen and Chen 2013). These principles emerge in everyday life through a number of inter-related social-psychological phenomena such as *guanxi* (personal



relationships), *renqing* (correct behaviour), *ganqing* (sentiment or feeling), *bao* (reciprocity) and *mianzi* (face) (Bond and Hwang 1986; Hwang 2000). A lot of the research conducted in the 1990s and 2000s indicated that these elements of Chinese culture may limit the transferability of western HRM practices to Chinese organisations, over and above any differences that might be attributed to the national business system (Cooke 2013; Child 1994; Rowley and Benson 2004; Warner 2010). A number of studies have shown that these factors can complicate the implementation of performance appraisal systems in Chinese organisations. Key findings are that respect for seniority makes employees less likely to participate in open dialogue with supervisors about their performance (Easterby-Smith, Malina and Yuan 1995; Entekin and Chung 2001); that the need to maintain face mitigates against peer appraisal systems or critique of the supervisor (Cooke 2013; Poon, Wei and Rowley 2010); and a focus on group harmony promotes a preference for recognising 'softer' performance criteria such as punctuality, loyalty and team-effort and rewarding seniority regardless of performance (Cooke 2013; Lindholm 1999; Taromina and Gao 2009; Warner 1993). Focusing specifically on the link between *guanxi* and performance appraisal, studies have shown that employees perceive that those who have strong *guanxi* connections with, either the appraiser or the appraiser's line manager, will receive preferential treatment (Bai and Bennington 2005; Bozionelos and Wang 2007). Subjectivity and bias in the appraisal process, in the sense that some employees are favoured over others (either because of their *guanxi* connections, or the appraiser's desire to reward seniority), is also seen as a barrier to achieving the profit and efficiency-based performance criteria that are

now more frequently applied in the appraisal process (Bai and Bennington 2005; Cooke 2008; 2009).

As this study focuses specifically on the influence of *guanxi* on performance appraisal, we will also briefly review the main theoretical debates on how the increase or decrease of *guanxi* in contemporary Chinese societies relates to the theme of convergence and divergence in HRM practices. Apart from *guanxi* itself, there is also a separate phenomena, *guanxi xue* (or *guanxi* practice) which refers to the material aspect of relationship building or the 'manufacturing of obligation and indebtedness' which can be achieved through gift and favour exchange (Guthrie 1998, 2009; Yang 1994). The use of *guanxi* practice in a business context raises a number of ethical questions which have been studied from both culturally relativist and normative standpoints (Nolan 2014). On the one hand, there are those who argue that *guanxi* practice is an important part of China's Confucian heritage and is based on *ganqing*, feelings of strong attachment and care between dyads (Ho and Redfern 2010; Hwang 2000). From this standpoint, *guanxi* and *guanxi* practice are distinct from the forms of networking found in other societies and are an essential feature of Chinese culture. This body of research takes as a foundational assumption that China is a particularistic and collectivist society and is unlikely to change significantly in the future (Chen and Chen 2004; Hofstede 2001; Inglehart and Welzel 2005). Researchers working in this perspective argue for continuing divergence in HRM practice because cultural factors, such as *guanxi*, will frequently influence the decision-making of those attempting to implement western-inspired HRM practices in the Chinese context (Cooke 2008, 2013; Nolan 2010).

On the other hand, there are those who differentiate *ganqing* based-*guanxi*, from the kind of 'instrumental' urban-based *guanxi* practice used in modern organisations as a means of evading formal procedures and as potentially damaging to both the organisation and to society at large (Chen and Chen 2009; Dunfee and Warren 2001; Nolan 2013). This body of research argues that *guanxi* and *guanxi* practice are largely products of local Chinese institutions, rather than a fixed, immutable cultural characteristic, and are, therefore, subject to change as those institutions modernize (Gold, Guthrie and Wank 2002; Hansen and Svarverud, 2010; Lin and Ho 2009). From a 'national business systems' perspective, the policy drive to introduce performance appraisal systems based on 'objective' goals indicates a desire amongst officials to shift the institutional framework away from one which relies on the use of instrumental *guanxi*, towards a system ostensibly based more on the recognition of merit. As such, convergence in HRM is thought broadly possible, though it may take some time to filter through different institutions and organizations (Akhtar, Ding and Gu 2008; Guthrie 2009). Moreover, there are studies which show that some Chinese employees welcome appraisal systems which specifically reward personal initiative and encourage individual accountability over personal connections (Bai and Bennington 2005; Bailey, Chen and Dou 1997). At a societal level, Yan (2010) has noted a growing sense of individualization among younger, internationally-educated, urban professionals who have growing expectations that they should be rewarded on merit (Bai and Bennington 2005; Hansen and Svarverud 2014; Yan 2010). Indeed, despite evidence from the business research literature on the enduring influence of Confucian culture in management practice, it is possible to observe significant

changes in Chinese urban society which indicate that 'traditional' Confucian values are not as homogenous as they might appear to be at first glance. These include changes in marriage and kin relations (such as later marriage for women and increased divorce rates), the development of a youth culture and rapidly growing consumerism (Hansen and Svarverud 2014; Lin and Ho 2009; To 2013; Yan 2009).

These debates are important for advancing our understanding of the relative importance of *guanxi* in performance appraisal and for identifying factors which might inhibit or facilitate its effectiveness in different kinds of organisation. In brief, while a traditional Chinese characteristic such as *guanxi* will probably be present in each of the banks in this study, we would predict that it will have a different level of influence on performance appraisal in companies with different ownership structures, institutional heritages and employee profiles. Studying these interrelationships in more detail will help us develop a more nuanced understanding of the relative influence of culture and institutions in HRM in China.

## **Methodology**

### *Sample*

The three banks selected were: a state-owned commercial bank (State Bank), a foreign commercial bank (Foreign Bank) and a city commercial bank (City Bank). The research was conducted at the Regional Headquarters of each bank in a city in eastern China. It was possible to administer an employee survey and conduct in-

depth interviews with key informants in each bank (see Table 1). State Bank has a long history of operating in the mainland and has already experienced numerous internal operational changes associated with the strategic reform of the banking sector. The highest tier of management in State Bank is the Board of Directors which includes the Chairman and the Party Secretary, the Vice Party Secretary, the Company President and CEO and several Vice Presidents. This group initiated the HRM reforms and instructed the senior managers at the Regional Headquarters to implement the changes. The senior managers at the Regional Headquarters were very committed to applying the reforms because this exercise would, in turn, form part of their own performance appraisal and associated opportunities for career progression. All of the managers and employees in the Regional Headquarters were from mainland China and around 8% had either studied or worked overseas. The average age of all employees was 37 years old. In State Bank it was possible to interview the HR Director as well as two general Department Managers (who were responsible for appraisals) and five employees with direct experience of the appraisal system.

Foreign Bank was headquartered in Europe<sup>2</sup> and has a much shorter history of operating in the mainland than State Bank. Its operations were established with specific strategic HRM systems already in place. As Foreign Bank is a global multi-national company, the nationalities of its Board of Directors is dominated by

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<sup>2</sup> We understand that the nationality of the bank is important for evaluating the effect of 'home country' on organizational culture. However in order to fully protect the anonymity of Foreign Bank we cannot provide specific information about its nationality other than to say that it is headquartered in Europe.

professionals from the US and Europe. Within the Regional Headquarters under investigation approximately 6% of staff were not from mainland China. However, these individuals were concentrated in management positions. There were 15 members of the General Board at the Regional Headquarters and only one of these was from mainland China (others were from Hong Kong, Europe or the US). At the level of Departmental Head, only 20% of managers were from the mainland, however at Team Leader level this figure rose to around 80%. Almost all employees below this level were from mainland China. While there were policies in place to recruit and promote more mainland Chinese into senior positions, the current senior management team in Foreign Bank is dominated by overseas Chinese and other foreign nationals. Around 60% of all employees in Foreign Bank had international experience, defined as having either studied or worked overseas. The average age of all employees was 28 years old. In Foreign Bank it was possible to interview two experienced staff members in the HR Department (though not the HR manager directly), two general Departmental Managers and three employees with experience of the appraisal process.

City Bank was included because it stood as a hybrid organizational form between State Bank and Foreign Bank. It was established post-2000 and had adopted a finance and efficiency-based performance appraisal system at the outset. Consequently, unlike State Bank, it was not trying to reform an organizational culture based on the norms of long-standing state ownership. However, unlike Foreign Bank, all of its owners, managers and employees were mainland Chinese and were thus fully immersed in the culture of *guanxi* as it operates in urban areas. In

this article, because of space constraints, we only use the statistical data collected from the employee survey in City Bank for comparison with State Bank and Foreign Bank, however the qualitative interviews collected in City Bank were used to inform the analytical framework of the study more generally. A brief description of the three banks and the data sources collected are shown in Table 1.

\*\*\*\* TABLE 1 HERE \*\*\*\*

### *Procedures*

Two methods were used for data collection: i) a quantitative survey of employee's perceptions of the influence of *guanxi* on performance appraisal and ii) in-depth qualitative interviews with employees and supervisors. Initial access to the banks was gained through gatekeepers who were already known to the authors. The professional status of this individual varied between the banks, but each gatekeeper was able to assist in gaining permission from senior managers to administer the survey to employees. Managers in the HR Department of each bank were asked to provide a list of the potential participants. A key selection criteria for inclusion in the survey was that employees had been in the bank for more than a year and had experienced the performance appraisal cycle at least once, from the start (the setting of the objectives for the coming year) to the end (receiving a performance rating from the supervisor). All respondents were invited to participate on a voluntary basis and anonymity and confidentiality were guaranteed. Following the survey, in-depth interviews were then arranged on a one-to-one basis.

The final sample for the employee questionnaire was 308 employees, with 108 valid questionnaires returned from State Bank, 100 from Foreign Bank and 100 from City Bank. A 7-item scale measuring the perception of the impact of *guanxi* on performance appraisals (measured using a 5-point Likert scale) was included in the questionnaire. Typical items included:

- 'Performance ratings are often distributed based on employees' *guanxi*.'
- 'The supervisor provides more help and supervision to those employees who have strong *guanxi* with senior managers.'
- 'Employees who have strong *guanxi* have more opportunities to express their opinions to the supervisor during the appraisal.'

As discussed in the literature review, for cultural and institutional reasons, state-owned enterprises often experience greater difficulties in implementing HRM practices than enterprises with other ownership forms, such as foreign invested enterprises or private companies (Ding and Akhtar 2001; Ngo, Lau and Foley 2008), thus it was hypothesised that:

*Employee perceptions that guanxi positively impacts on appraisal outcome will be significantly higher in State Bank than in City Bank and Foreign Bank.*



## Results

A one way ANOVA was used to compare the mean scores between the three banks on the scale measuring the perceived link between *guanxi* and performance appraisal. The mean scores are shown in Figure 1. There was a significant effect for the perceived influence of *guanxi* on performance appraisal at the  $p < .000$  level for the three banks [ $F(2, 305) = 19.33, p = 0.000$ ]. Post hoc comparisons indicate that the mean score for State Bank ( $M = 3.67, SD = 0.72$ ) was significantly different at the  $p < .05$  level to the mean scores of both City Bank ( $M = 3.25, SD = 0.78$ ) and Foreign Bank ( $M = 2.95, SD = 1.00$ ). The mean score of City Bank ( $M = 3.25, SD = 0.78$ ) is also significantly different at the  $p < .05$  level to the mean score of Foreign Bank ( $M = 2.95, SD = 1.00$ ). The results show that employee perceptions that *guanxi* has an impact on appraisal outcomes is highest in State Bank, followed by City Bank, followed by Foreign Bank. Thus the hypothesis was supported.

\*\*\*\*FIGURE 1 HERE\*\*\*\*

### Why the difference? Insights from the in-depth interviews

In addition to the employee survey, a series of in-depth interviews were conducted with key informants in each bank. These interviews offer a rich insight into the interpersonal and organizational processes at play in each bank. They provide us with important indicators as to *why* the group differences identified in the survey data might exist. As noted earlier, because of space constraints we will focus

principally on the differences between State Bank and Foreign Bank in the following sections, highlighting the key themes which emerge from the data.

### ***The case of State Bank***

#### *The enduring influence of guanxi on performance appraisal*

Prior to the introduction of HRM reforms in 2006, the lack of a formalised appraisal process in State Bank had actively encouraged the use of instrumental *guanxi* practices. As one respondent said:

If the employee had a good *guanxi* with the supervisor, for example he gave gifts to the supervisor on occasions, the supervisor would provide a good performance evaluation in exchange. Also, if the employee had a strong *guanxi* connection with some important person in the company, the supervisors would provide a good evaluation to him, in order to satisfy and develop *guanxi* with that important person for other purposes in the future.

It was this kind of behaviour which the Board of Directors at State Bank considered to be an impediment to firm performance and professional development and was a key reason for the initiation of HRM reforms.

However, despite a high level of commitment amongst the leadership team in the Regional Headquarters for driving through reforms in performance

appraisal, there were clear indicators that preferential treatment, based on employees' *guanxi* connections, still influenced the process. For example, respondents reported that the practice of '*guanxi* recruitment' continued in State Bank. In the pre-reform period, State Bank had an explicit policy of recruiting the children of current employees and this was regarded as an important perk of the job. While the HR Director reported that this policy had been officially abolished in 2009, interviewees noted that a number of graduates were still being recruited into the bank if they had a *guanxi* connection with a senior manager. One employee described the recruitment of a colleague through this route:

His father is a high level official in the city government ... [and is a] classmate of a senior manager in my bank. He was recruited into my bank with the help of this manager, even though he only has a literature major degree from a third tier university, which is not qualified at all. I don't think this person is able to perform well in my workgroup due to his lack of expert knowledge. Our supervisor would ask others to help him when he was given new tasks. But our supervisor also provides him with more help [than the rest of us] and gives him very satisfactory appraisal evaluations, all because of his *guanxi* with the senior manager.

Furthermore, interviewees noted that even if they themselves had been recruited through open competition, it was still necessary to develop *guanxi* relationships with line managers and senior managers within the bank. Indeed, employees mentioned

that an individual's ability to develop *guanxi* is considered an important (if informal and undocumented) performance evaluation criteria, particularly amongst older supervisors. As such, employees actively sought to interact with managers outside of work by visiting their homes on special occasions and offering gifts. The organizational culture within State Bank was such that even new employees who are not well-connected quickly adapt to these practices and seek to establish their own *guanxi* networks. As one young employee said:

I did not have any *guanxi* when I first entered the bank. I found that the *guanxi* network is quite important here, so I have kept developing *guanxi* with two managers, the head of my workgroup and the head of the department. I understand this kind of investment will be beneficial to me in the future.

#### *The consequences of performance appraisal: promotion, bonus and face*

The reform of the performance appraisal system in State Bank was accompanied by a reform to the promotion system. An informant in the HR Department noted that, prior to the reform, the normal procedure was that a manager nominated a preferred candidate for a position, without any formal assessment. The manager simply needed to provide a reason for the nomination which was often based on the strength of the personal connection between the employee and the manager. However, during the reform of the promotion system, the bank set up a 'scientific' promotion system based on quantitative talent assessment which included

psychometric measures (such as personality and aptitude tests) as well as the numerical score achieved in the performance appraisal. The HR Department now calculates the scores for all the employees in a pool and provides the names of the top three to five candidates to the manager in charge of promotions. The candidates' appraisal outcome over the past five years is an important factor in this process and is perceived to be somewhat more influential than the results of the psychometric tests. As one respondent observed:

... if you have the ambition for future promotion, you should try your best to get higher ratings in appraisal. If you can get an 'excellent' or a 'merit' rating over several years, you have a better opportunity of being promoted to a managerial position.

As well as promotions, the appraisal report has an impact on the employees' annual bonus. At the start of each year, the senior managers allocate a bonus to each department, then the Head of Department allocates an annual bonus to each employee. Those with a higher performance appraisal rating will obtain a higher bonus. The Head of Department may consider different factors in allocation, such as seniority, but the employees' individual appraisal outcome will have an important impact on their annual bonus. Finally, appraisal outcomes are important for employees in State Bank because employees care about *mianzi* (or face). Due to a lack of confidentiality in the system, appraisal outcomes tend to become known by others in the workgroup and an employee can be humiliated by a poor appraisal outcome. *Mianzi* is an important cultural factor in China and is one reason why

providing criticism of an employee's performance may be especially difficult for Chinese supervisors (Cooke 2013). As Bozionelos and Wang (2007) note, an employee normally gains or maintains *mianzi* by his or her achievements at work and an employee may lose *mianzi* by receiving a poor assessment relative to peers. Thus, as well as the material and instrumental concerns related to promotion and bonuses, employees in State Bank are strongly motivated to obtain better performance ratings because they wish to maintain *mianzi*. This, in turn, encourages them to adapt to the *guanxi* practices of gift giving and out-of-work socializing with supervisors as a means for advancing themselves within the *guanxi* network of the bank and for protecting *mianzi*.

#### *Evidence of gradual attitudinal change within State Bank*

Despite having the support of the top management team, the general perception of our informants was that the reform of the performance appraisal system had been met with considerable resistance. However, that said, there were some indicators of attitudinal change among at least some of the supervisors involved in appraisal. Our informants noted that a few supervisors did appear to be complying with the new regulations and were attempting to make appraisal decisions based solely on an employees' performance. One appraiser in State Bank observed:

The new appraisal system provides direction to us on how to make a proper evaluation for each employee. Performance is the most important thing, rather than *guanxi* or seniority. Now I can refuse to benefit those

employees who have *guanxi* [within the bank] and I can use the new regulations as a good reason to explain my decision to these employees.

And an employee noted that he had observed change in other workgroups, though not his own:

I know that the new appraisal system had a big impact on some supervisors. They strictly follow the new policy. I think the employees in their workgroup are lucky. However, with my supervisor, I don't think he has implemented the new policy. He still does what he did before in appraisals.

So for a few supervisors the reform of the appraisal system in State Bank is a welcome measure. Their adoption of the new system may, over the longer term, create norm diffusion throughout the organisation as a whole, leading eventually to a decline in the influence of *guanxi* on appraisal. If so, this would echo Guthrie's (1998) idea that the development of a rational-legal system based on codified regulations and performance-based reward, may gradually lead to a decrease in the influence of *guanxi* in public life more generally. For the time being, however, the information from our respondents indicates that while there may be surface-level change in HRM systems (indicating a degree of convergence at the macro-level with international 'best practice'), *guanxi* recruitment, bias in the appraisal process, and the tendency for employees' to actively develop *guanxi* with managers are lasting features of the organization. The complicated *guanxi* network within State Bank is

resistant to change and, according to our respondents, has an enduring impact on most supervisors' decision-making in performance appraisals.

### ***The case of Foreign Bank***

#### *Procedural transparency reduces the influence of guanxi on performance appraisal*

As shown in the survey results, employee perceptions that *guanxi* influenced performance appraisal outcomes were lower in Foreign Bank than in both State Bank and City Bank. Foreign Bank is a global multi-national firm that implements a 'best practices' approach to HRM throughout its operations and it began trading on the mainland with a formal target-based appraisal system in place. From the information gained from company documents and our informants, it appears that the appraisal system itself showed strong 'home country' effects and had not been adapted for use in Chinese societies, either formally or informally. The performance appraisal criteria matched those used elsewhere, namely a focus on performance targets which broadly related to achieving financial goals and specialist skills development. Furthermore, appraisal procedures were made clear to all employees during induction and the process itself was subject to regular internal checks by senior managers outside the particular workgroup. Interviewees noted that the emphasis on financial performance and an awareness that procedures were monitored tended to restrict and reduce the influence of *guanxi* throughout the organization. As one employee said:



The decision-making process for performance appraisal in my bank is transparent ... I don't think *guanxi* will have a big impact on my supervisor's decision in the appraisal. The Department Head checks the results for every employee in every workgroup in the Department. The Head can clearly see each employee's performance in terms of every criteria in the report. This helps to reduce bias in the appraisal result.

*Emphasis on performance and resistance to guanxi practices by supervisors*

In each of the in-depth interviews, employees from Foreign Bank noted that *guanxi* does not, in their view, have a particularly strong influence on supervisors' decision-making in performance appraisal. Employees attributed this to the performance-oriented culture of Foreign Bank which ensured that supervisors and employees generally focused on quantifiable results. Furthermore, participants noted that it is not common for employees to have informal interactions with their supervisors, such as having dinner together or engaging in gift-giving. This means that there is no real opportunity for employees to try and develop *guanxi* with supervisors.

Interviews with the managers provided further support for this. They noted that the highly competitive and performance-oriented culture at Foreign Bank strongly influences their decision making in appraisals and that any attempt by the employee to develop *guanxi* is viewed as 'annoying' and counter-productive. An employee stated that:

... *guanxi* has very little effect on my supervisor's appraisal decision. The employees' 'real' performance matters a lot in his distribution of performance ratings. *Guanxi* is not so important here.

#### *The consequences of performance appraisal: bonus and promotions*

As with State Bank, the consequences of performance appraisal were improvements in promotion prospects and higher bonuses, however the maintenance of face (*mianzi*) did not emerge as a theme amongst employees in Foreign Bank. In terms of bonuses, our informants all noted that the outcome of the performance appraisal was directly linked to the employees' annual bonus and that managers allocated the annual bonus based only on employees' ratings. Those with the highest ratings receive the highest bonuses. This contrasts with State Bank where managers consider other factors such as the *guanxi* connections of the employee and their seniority in the bank. Moreover, as one supervisor observed because their own yearly bonuses are linked solely to the performance of the workgroup they manage, almost all supervisors are performance-oriented. They do not tend to make decisions based on employees' *guanxi* connections in appraisal because, to make sure of an excellent team performance overall, they need to have high-performing and productive employees in their own group. Finally, the performance appraisal reports play a key role in the promotion system at Foreign Bank. Interviews with members of the HR team revealed that, in order to be considered for career progression, employees' performance appraisal ratings need to be consistently high over several years. Clearly then, as with State Bank, achieving good scores in a performance

appraisal is very important to an employees' career and income. Our informants were satisfied, however, that the appraisal system was generally fair and transparent and that they would usually be judged on merit, not their *guanxi* connections.

### **Implications of the findings for the convergence and divergence debate**

#### *Evidence for convergence*

The clearest evidence for convergence in performance appraisal practices can be identified in Foreign Bank. Our in-depth interviews demonstrated that there was relatively clear alignment between the goals of performance appraisal, as advocated by the senior management team, and the attitudes and behaviours of the supervisors and employees involved in the actual process (Rowley and Bae 2004).

Other studies have shown that MNCs generally find it somewhat easier to implement western-inspired HRM practices than SOEs (Cooke 2013; Zhu, Warner and Zhao 2011). One reason for this is that the HR managers in MNCs are usually expatriates or local Chinese who have received overseas management education. These managers have been exposed to the 'best practices' approach and have international experience, often in the 'home country' of the MNC, which they then bring into the organisation (Akhtar, Ding and Ge 2008; Warner 2004). In our case study, the management team consisted largely of expatriates and around 60% of the employees in the bank had had international experience. We would argue that the educational and professional background of the labour force in Foreign Bank created

a form of normative isomorphism, or convergence, towards home country practices in the appraisal process (Edwards and Kuruville 2005).

In addition, employees at Foreign Bank are generally younger than those at State Bank (Table 1). As noted earlier, there is an indication that, for some of China's younger generations (especially those based in urban areas with graduate backgrounds, professional aspirations and international experience) there may be some resistance to engaging in forms of personal interaction, such as *guanxi*, based on 'traditional' cultural practices (Lin and Ho 2009; Yan 2009). For this group, a reward system based broadly on merit may be more appealing than one which requires the cultivation of *guanxi*. This may be another reason that employees were relatively satisfied with the system. Of course, it may also be the case that those without *guanxi* tend to gravitate towards professional careers in MNCs because, by their very lack of connections, they are excluded from equivalent jobs in SOEs. However, they may also feel that they are more likely to succeed in an MNC because there may be a closer alignment between their own desire for professional recognition and a company where the appraisal system generally does deliver a path for progression based on merit (Rowley and Bae 2004). Either way, our findings indicate a degree of convergence in the appraisal system used at Foreign Bank with those found in the country of origin (which is akin to other western MNCs), both in terms of basic system design and everyday practical application.

There is also some evidence of convergence in State Bank. The strategic decision by the Board of Directors to implement a performance-based appraisal system in State

Bank is a key example of an attempt by officials to modify this element of the national business system by shifting assessment criteria towards improving firm performance. The Board of Directors instructed and incentivised the managers in the Regional Headquarters to initiate reforms to the performance appraisal system. As our interviews have shown, this has not been an easy task for the managers, nevertheless some of our interviewees had observed compliance with the new system by at least some supervisors. Generally speaking, however, there was a notable lag in State Bank between the claims made about performance appraisal in official company documents and the actual day-to-day practices between supervisors and employees.

#### *Evidence for divergence*

While the strategic decision to reform the performance appraisal system in State Bank may indicate a degree of convergence at the macro level, both our employee survey and our in-depth interviews indicate that *guanxi* connections still influenced the process. As noted earlier, the organizational cultures of SOEs have long been shown to be resistant to change in relation to HRM practices (Ding and Warner 2001; Warner 2014). Explanations for this include institutional approaches which highlight the entrenched norms and values associated with the goals of management in the pre-reform period (Ngo, Lau and Foley 2008; Warner, Goodall and Ding 1999). Others focus specifically on the nature of 'traditional' Chinese cultural practices such as *guanxi* which, it is argued, do not fit readily with the ostensibly individualistic and target-based orientations of western HRM practices (Cooke 2013; Poon, Wei and

Rowley 2010). Our interviews demonstrate that the enduring influence of *guanxi* on performance appraisal drives divergence in HRM practices in State Bank. However, the 'type' of *guanxi* practice in State Bank appears to be highly instrumental and is cultivated principally to ensure career progression (Chen and Chen 2013). It was not framed or justified in terms of a 'special' Chinese characteristic based on demonstrating *ganqing* (sentimental feeling and special care within the dyad). Those who did not have *guanxi* connections prior to their arrival at the bank, and were personally ambivalent about engaging in practices of favour exchange and gift giving, needed to adapt quickly in order to build a future for themselves.

Furthermore, in State Bank there is a tension between the strategic objectives of the Board of Directors, who wish to use performance appraisal to improve efficiency and competitiveness, and the use of *guanxi* practices by supervisors and employees as a means of evading the accomplishment of performance-related targets. There are, therefore, conflicting interests between the major actors engaged in the appraisal process in State Bank. On the one hand, the main driver for convergence comes largely from an 'outside' stakeholder, namely the Board of Directors. While the managers at Regional Headquarters have been incentivised to drive through the changes, they face resistance from key 'internal' stakeholders (namely the supervisors and employees directly involved in the appraisal process). Divergence is likely to continue in State Bank as there is a lack of alignment between the goals of 'outsiders' (the Board of Directors) and the preferences of 'insiders' (supervisors and employees) in relation to the purpose of performance appraisal (Jing and McKenzie 2013; Rowley and Bae 2004). There is a need to recognize that 'culture' itself can

become an important element of internal organizational politics. That supervisors in State Bank resist the new appraisal process can be defined as 'political' in that they are attempting to defend their interests and to co-opt employees into the process of evading the achievement of performance-orientated goals (Edwards and Kuruvilla 2005; Ferner and Quintanilla, 1998). In brief, divergence occurs in State Bank not just because of the mismatch between Chinese culture and western HRM practices but because of organizational politics and conflicting interests between internal and external stakeholders in the Bank itself.

### **Limitations and directions for further research**

A number of authors have noted that *guanxi* and *guanxi* practice are rather sensitive research topics because they have negative connotations in a business context, often being synonymous with corruption and bribery (Bian 1994; Guthrie 1998; Nolan 2010). As such, participants may tend to deny any knowledge of *guanxi* or lie about their own actions in relation to the practice. However, it is now generally established that gathering information on sensitive topics can often be accomplished through in-depth interviewing, particularly when the topic is nested within more general questions (Bian 1994; Corbin and Morse 2003). In the pilot interviews for this study, great care was taken to develop an interview schedule which ensured that the topic of *guanxi* was introduced in a sensitive way. Furthermore, Guthrie (1998) notes that if *guanxi* practice were such a 'deplorable' topic, then participants would not comment on it at all and there would be no variation in any of the data collected. Like Guthrie, however, we found that participants are actually prepared to

express a wide range of views on both *guanxi* and *guanxi* practice, indicating that while it is a sensitive topic it can still be investigated in some depth. We would agree with Yang (2002) who argues that, given the sensitive nature of *guanxi* research, gathering authentic data requires that the researcher spends time in the field building trust with participants in naturalistic settings, which is what was attempted in this study. While not without its problems, we would suggest that, providing there is an element of researcher reflexivity in both the interview process itself, and in the subsequent interpretation of the data, then this kind of data can have a high degree of ecological validity (Creswell and Miller 2000).

The study also raises a number of important theoretical and empirical issues which require further examination. It would be interesting, for example, to study the influence of *guanxi* practice on the appraisal process in other Chinese communities, such as Taiwan, Hong Kong and Singapore. Such a comparison would make it somewhat easier to disentangle the cultural and institutional elements of the influence of *guanxi* on performance appraisal as these Chinese societies have had western-inspired HRM practices in play over a longer period than the mainland. A cross-national comparison on the role of other forms of indigenous East Asian networks on performance appraisal would also help to extend the findings beyond the Chinese case (Horak 2014) as would an examination of appraisal processes in other knowledge intensive sectors in the region, including technology based industries and other professional services (Horak, Bacouël-Jentjens and Beyler 2013). Methodologically, it would also be useful if the findings recorded here could be replicated using larger samples in a longitudinal design. This would give more



substantive weight to our claims about convergence and divergence in the use of western HRM practices in China over time.

## **Conclusion**

There was evidence of convergence in the performance appraisal system at the macro-level in that each bank attempted to use assessment criteria based on financial and efficiency-focused targets. However an investigation of micro level variables, such as cultural and generational differences, international experience, home country effects, and institutional politics provided evidence of significant divergence. Our study shows that when there is a clear alignment between the goals of the organization and the values of employees and supervisors, then convergence may occur. This was the case in Foreign Bank where *guanxi* played a relatively limited role in the appraisal process. In State Bank, however, 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. It is not inevitable that *guanxi* will continue to drive divergence in the use of performance-based appraisal systems in China. However in the state-owned bank studied here its influence endures due to a lack of alignment between the values and objectives of internal and external stakeholders.

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**Table 1. Sample details**

	<b>State Bank</b>	<b>Foreign Bank</b>	<b>City Bank</b>
<b>Firm size</b>	15,000 outlets	7,000 outlets (85 in China)	160 outlets
<b>Data Source: Questionnaires n= 308</b>	125 returned out of 151 (82.8% response rate)  Analysis based on 108 questionnaires	112 returned out of 145 distributed (77.2% response rate)  Analysis based on 100 questionnaires	113 returned out of 132 distributed (85.6%)  Analysis based on 100 questionnaires
<b>Data Source: In-depth interviews n=22</b>	Head of HR Department Two managers Five employees	Two employees in HR Department Two managers Three employees	Two employees in HR Department Two managers Three employees
<b>% of employees with international background<sup>3</sup></b>	8%	60%	n/a
<b>Average age<sup>4</sup></b>	37 years old	28 years old	n/a

<sup>3</sup> Defined as having studied overseas or had international work experience. Information derived from key informants and annual reports.

<sup>4</sup> Information derived from key informants and annual reports.

Figure 1 Mean scores for employee perception that *guanxi* connections have a positive influence on performance appraisal.

