

***A Comparative Study of Performance
Appraisal System in Three Banks in
Contemporary China: The Role of Guanxi in
Appraisals***



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Declaration

I certify that the thesis I have presented for examination for the MPhil/PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others. No part of the dissertation has been previously submitted to any university for any degree, diplomas, or other qualifications.

I declare that my thesis consists of 115,555 words in the main text.

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Abstract

Performance appraisal is one of the most popular and widely studied areas in human resource management, industrial relations and organizational psychology. However, most research in this area has been conducted in the USA or UK and reflects a Western context. Some studies on performance appraisal in Chinese organizations have been carried out, but, in the main, these concentrated on the periods of command economy (1949-1984) and transitional economy (1985-1997). In recent years, more and more Chinese state-owned companies and private companies have started to reform their performance appraisal system, by adopting Western style performance appraisal systems. However, there has to date been no academic research on performance appraisal system in Chinese companies with different types of ownership in a market context.

The Chinese cultural factor “guanxi” has been found to be one of the most important cultural factors which influences performance appraisal in Chinese organizations. Nonetheless, no study has clearly analysed how guanxi influences performance appraisal in Chinese companies, leaving a significant research gap in our understanding of the impact of guanxi on appraisal and its outcomes. Therefore, this thesis conducted in-depth case studies, consisting of both quantitative (employee survey) and qualitative research (interviews) methodology, on the performance appraisal system in three banks with different ownerships in China, exploring a range of research objectives drawing on performance appraisal theories, justice theories, and guanxi and guanxi practices theories.

Based on the results of the pilot study, a scale, which includes two factors “guanxi’s impact on outcome” and “guanxi’s impact on communication”, was developed to measure the impact of guanxi on performance appraisal in Chinese organizations. The statistical analysis of the employee survey indicated that guanxi’s impact on appraisal outcome was negatively related to employees’ perceptions of distributive justice, procedural justice, satisfaction with performance ratings and trust in supervisors; while no significant relationship has been found in this study between guanxi’s impact on communication and employees’ attitudes and behaviour. According to the comparative study of the appraisal system in the state-owned bank, foreign bank and city bank, significant differences of employees’ reactions to guanxi in appraisal, appraisal fairness and appraisal itself were found among these three banks. The employees in state-owned banks perceive less fairness and satisfaction with appraisal, but greater and stronger guanxi impact on appraisal, compared to employees in the foreign and city banks.

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Chapter 1 Introduction

1.1. Background

In Western literature, employees' reactions toward appraisals, especially employees' perceptions of justice and employees' satisfaction with appraisals, is widely considered to be one of the best criteria for measuring and evaluating the effectiveness and efficiency of performance appraisal systems (e.g. Keeping & Levy, 2000; Levy & Williams, 2004; Cardy & Dobbins, 1994; Cawley, Keeping and Levy, 1998). Almost all the studies of employees' reactions toward performance appraisal systems have been conducted in America and reflected the American context; however, there is a shortage of research on employees' reactions toward appraisals in non-Western country contexts with different types of cultures, because theoretically, culture has a great impact on individuals' interpretation of events and definition of appropriate behaviour (Skarlicki, 2001).

The performance appraisal system in China has gone through different stages. In the existing literature, the majority of research on performance appraisal systems in Chinese organisations focuses on the periods of command economy (1949-1984) and transitional economy (1985-1997) (Cooke, 2008), while in the past two decades, performance appraisals have been mainly studied as an element of 'HR bundles' in the research of Strategic HRM (Ngo et al., 2008; Björkman and Fan, 2002). Therefore, there has been very little discussion of performance appraisal systems and their reform in Chinese organisations with different ownerships in a market context, leaving a significant gap in our understanding of the key characteristics and changes of performance appraisal systems in Chinese organisations.

Guanxi, the interpersonal relationships between two individuals, has been reported as a potential barrier for Chinese organisations in adopting Western style modern performance appraisal systems (Lockett, 1988; Warner, 1993; Child, 1994; Bjorkman

and Lu, 1999; Bai and Bennington, 2005). However, there is a lack of in-depth research on the impact of guanxi on performance appraisals, which may explain explicitly what kind of guanxi and how guanxi influences the implementation of performance appraisals, and employees' subsequent reactions and behavioural outcomes in Chinese organisations.

In recent years, more and more Chinese state-owned enterprises have started to reform their old traditional performance appraisal systems by adopting western style modern ones, aiming to establish a scientific and objective evaluation system for employees' performance. Foreign invested enterprises, whose HRM practices have been reported as being transferred from their parent countries (Law et al., 2003; Gamble, 2006), have comparatively more advanced performance appraisal systems. Hence, this research will explore the design and implementation of current performance appraisal systems, the process of their reform and the impact of employees' guanxi on appraisals in different Chinese organisations with different types of ownerships.

1.2 Research Objectives and Questions

Although a large number of Chinese organisations have started to reform their appraisal systems, the implementation of current performance appraisal systems, their reform and their outcomes at both individual and organisational levels remain unexplored in the literature. Given the diversity and complexity of internal organisational culture and the structure of different organisations with different types of ownership, it is crucial that the appraisal systems and their reform are designed and implemented with full consideration of their internal circumstance and external competitors, especially regarding how employees react toward the appraisal systems and their reform.

In order to obtain an insight into performance appraisal systems in different Chinese organisations with different ownerships, this research conducted three in-depth case

studies, using one state-owned bank, one foreign bank and one city bank. The main research question for this project was *“How has performance appraisal system been implemented in different organisations with different ownerships in China, and what has been the impact of guanxi on it?”* Based on the research gaps and relevant theories, four sub-questions are proposed, as follows:

1. What is the role of guanxi in performance appraisal systems?
2. How does guanxi in performance appraisals influence the employees’ perceptions of justice, affective reactions toward performance appraisals and behavioural outcomes?
- 3 How do performance appraisals work in Chinese organisations?
- 4 How does guanxi’s impact on appraisals and employees’ reactions toward appraisals vary across three organisations in the same sector of different ownership in China?

1.3 Thesis Structure and Overview

This thesis is organised into nine chapters as follows (see Figure 1-1). Following an introduction in Chapter 1, Chapter 2 will briefly review the literature of performance appraisal systems, organisational justice theories, the development of performance appraisals in Chinese organisations and theories on Chinese culture-guanxi, in order to reveal five important research gaps in the literature. An integrative framework will be constructed on the basis of organisational justice theories and theories on guanxi, with nine hypotheses developed for the impact of guanxi on performance appraisals on employees’ perceptions of justice, reactions toward appraisal and behavioural outcomes. Moreover, seven more hypotheses will be developed for the comparative study of guanxi’s impact on appraisals and employees’ reactions toward appraisals among three Chinese organisations in the same sectors with different ownership. These hypotheses will be served as the basis for data collection and analysis in the case studies.

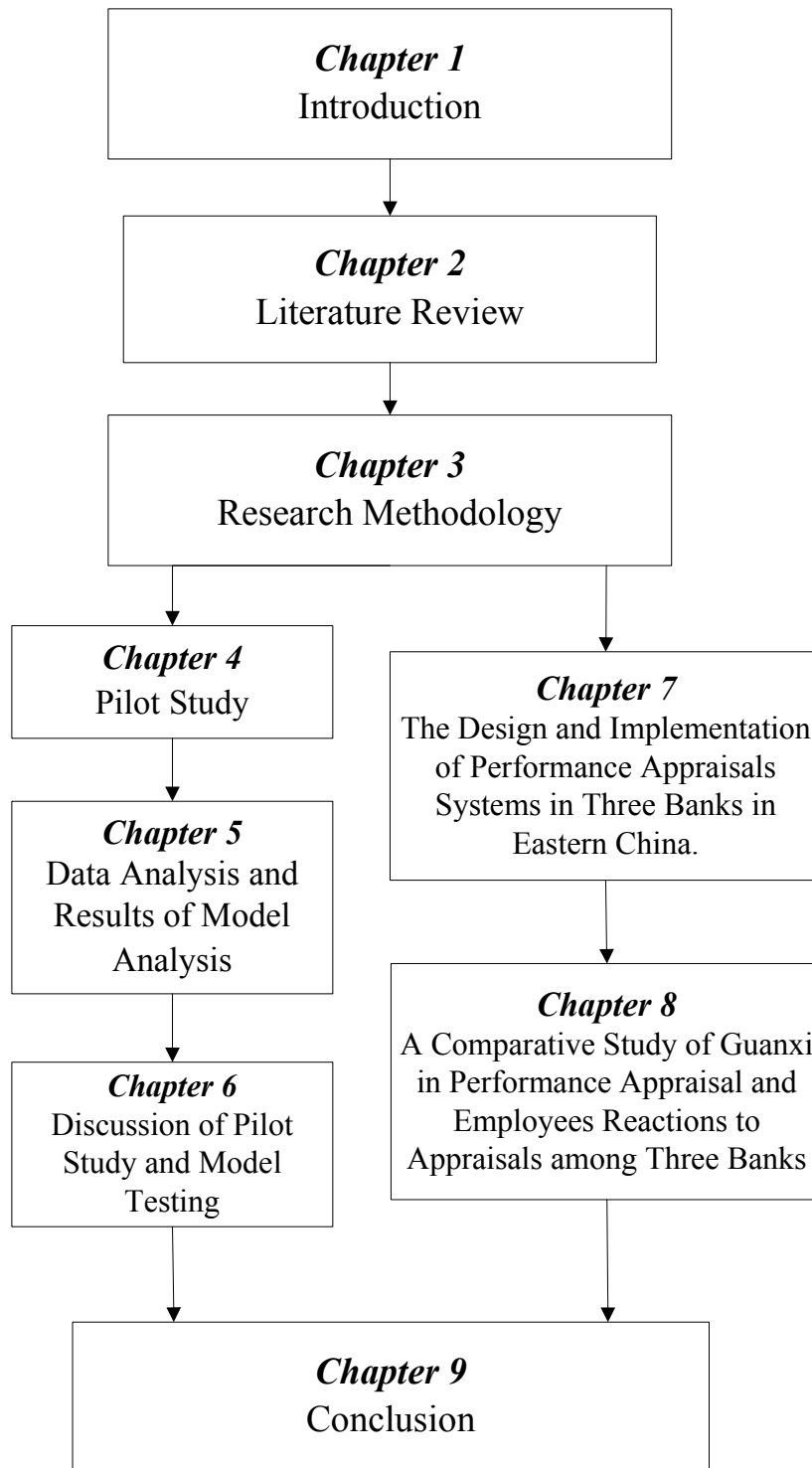


Figure 1-1 thesis structure

Chapter 3 will introduce the research methodology adopted in this study. Beginning with the identification of research gaps and the formulation of research questions, it will be followed by the discussion of several major aspects of research design, which

will lead to the adoption of the case study approach in this research. It will then present the design of this study, including the data collection, procedures of data analysis, assurance of research quality and then provide a brief discussion of the major challenges and my efforts in conducting the empirical studies in practice.

Chapter 4 presents the pilot study on the impact of guanxi on performance appraisals in Chinese organisations, illustrating what kind of guanxi and how employees' guanxi influences performance appraisals. Moreover, a scale, which will be used to measure the impact of guanxi on appraisals, will be developed by using explanatory factor analysis based on the data from 145 part-time MBA students in two Chinese universities.

Chapter 5 will test the theoretical framework with nine hypotheses on the basis of 308 valid questionnaires collected from one state-owned bank A, one foreign bank B and one city bank C in Eastern China, by using the hierarchical multiple regression method. Subsequently, Chapter 6 will provide a discussion of the results of model testing in Chapter 5, and then present the theoretical implications and practical implications for the impact of guanxi on appraisal and its employees' outcomes.

Chapter 7 presents the case study of the current performance appraisal system in one state-owned bank, one foreign bank and one city bank in Eastern China, illustrating the design and format of the appraisal system, the procedures and implementation of appraisals and the supervisors' and employees' responsibilities in each bank respectively. As the state-owned bank in this study had just reformed its performance appraisal system five years ago, a brief description of the whole reform process, which has shifted its performance appraisal system from traditional style to a performance-based Western style, will be also included in Chapter 7.

Based on the information and evidence found in these three cases, a comparative analysis is set forth in Chapter 8, focusing on the differences in guanxi's impact on

appraisals and employees' reactions toward appraisals among these three banks, in order to test the seven hypotheses developed for comparative study in the literature review chapter. Both quantitative (survey) and qualitative (interviews) data will be used in the analysis of this chapter. Beyond the findings related to hypotheses, some other questions observed in the empirical study will be also presented, discussing the impact of two cultural factors, i.e. collectivism versus individualism and power distance, on performance appraisals in these three banks.

Finally, Chapter 9 will present the conclusion, drawing on the major findings in this study and then presenting the contribution, limitations and directions for future research.

Chapter 2: Review of the Literature

The aim of this chapter is to review the literature of performance appraisal systems and Chinese cultural factors: guanxi within the field of human resource management research. It first illuminates the definition and the development of performance appraisal systems research in the literature. In order to examine the effectiveness of performance appraisal systems in organisations, employees' reactions toward the appraisal system, especially employees' perceptions of fairness, were widely discussed and chosen as criteria for the measurement. It then discusses the organisational justice theory and reviews the research, which applied justice theory to the performance appraisal systems in both a Western and non-Western context in the literature. Almost all the studies of fairness of performance appraisal systems have been conducted in the USA and have reflected the American context, and research in non-Western context is thus strongly required. The third section reviews the research of performance appraisal systems in a previously unanalysed context, China. Compared to the extensive discussion of performance appraisal systems in Western countries, there is almost a vacuum of studies of performance appraisal systems in Chinese organisations, leaving a significant research gap in our understanding of guanxi's impact on appraisal and the implementation of performance appraisal systems in Chinese organisations. The fourth section illustrates the definition of guanxi and reviews the positive and negative impacts of guanxi on HRM practices. Due to the lack of research regarding the negative impact of guanxi on HRM, more studies should be conducted to examine the relationship between guanxi's impact on HRM and various employees' outcomes. The final section of this chapter moves on to develop an integrative framework for this study. Seventeen hypotheses are made on the basis of justice theory, performance appraisal systems theories and theories regarding Chinese cultural factor – guanxi.

2.1 Development of performance appraisal systems research in literature

This section briefly introduces the definition of performance appraisal systems and clarifies the two stages of the development of theories regarding performance appraisal systems in the literature. Moreover, the theories and studies regarding employees' fairness perceptions of performance appraisals, which is considered as an important criterion for measurement of performance appraisal effectiveness, will also be discussed.

2.1.1 Definition of performance appraisal

Performance appraisal is a process by which managers judge and evaluate subordinates' performance or contribution over a certain period of time (Welsh, 2003). As Coens and Jenkins (2000) state, performance appraisal is a mandated process, in which a group of employees' work performance and personal traits over a specified period of time are individually judged, rated and described by the rater of the group and the results of the evaluation are kept by the organisations for future reference. Performance appraisal is normally a formal process and an important part of the human resource management practices in organisations.

The components, which should be included in the process of performance appraisal, were widely discussed in the literature. Landy and Farr (1980) created a model of the performance appraisal system, which included the following thirteen factors: "organisation characteristics, position characteristics, the rating purpose, the rating process, the rating instrument, development of scale, characteristics of raters and ratees, the observation and storage of performance data for each individual, the retrieval and judgment of ratees' performance and contribution, analysis of the information regarding performance, performance description and judgment, and finally personnel action (Walsh, p14)". Mohrman, Resnick-West and Lawler (1989) also identify four activities in the performance appraisal process in organisations: 1) defining what performance should be; 2) measuring, judging and evaluating performance of each ratee; 3) providing information regarding performance back to

each ratee; and 4) providing relevant information to those organisational systems that need it. Besides the similar requisite components listed above, Latham and Wexley (1981) also add the following four components: development of appraisal instrument, organisations' selection and training of qualified raters, a review of legal requirements, and reward for performance based on the results of appraisals.

It is reported that a large number of organisations in Western countries adopt either formal or an informal appraisal systems which are used to measure the performance of employees (Carroll & Schneier, 1982). However, performance appraisals in most of the organisations are structured, formal and mandatory. The importance of performance appraisal systems for organisations could be reflected by the sheer number of organisations, especially in U.S., that adopt either formal or informal performance appraisals. For instance, according to a survey of more than 300 organisations, which belong to Personnel and Industrial Relations Association of Southern California, 94 percent of these had their own formal performance appraisal system, as compared to the 89 percent, the result of a similar survey conducted in 1977 (Locker & Teel, 1988). According to another survey, conducted by Roberts in the 1990s, HR professionals in state governments stated that more than 75 percent of the public organisations in the state employment systems utilised an annual formal performance appraisal system. Moreover, the results of the survey of members of the American Society for Public Administration and International Personnel Management Association (IPMA) in 1998 suggested that the importance of performance management system in governmental sectors would increase in the future (Hays and Kearny, 2001). The respondents of the survey indicated that the adoption of performance appraisal systems will continue to be widespread in the U.S. and that the importance of performance appraisals should be ranked first among human resource management practices in future years (Hays and Kearny, 2001).

The figures above show the widespread use of performance appraisal systems in U.S. last century. Consistent with this, in the last three decades, performance appraisals

also attracted a large number of research and studies in Western countries, especially in the U.S. In order to examine the effectiveness of performance appraisal systems in organisations, the research shifted its focus from the psychometric approach to the measurement of employees' reactions toward appraisals. Therefore, in the following section, the development of measurement of performance appraisal system effectiveness in the literature will be briefly reviewed.

2.1.2 Evaluation of the Effectiveness of the Performance Appraisal System

As Murphy and Cleveland (1991) suggest, it is important to evaluate the effectiveness of all human resource management practices, including performance appraisals. Evaluation of whether performance appraisal systems are effective is considered an important aspect of implementation and management. However, in the literature, comprehensive and systematic research on the evaluation of performance appraisal success in an organisational context is scarce. The appraisal system is always very complex, because it involves many employees; the criteria for evaluation of effectiveness of systems is also difficult to select. These problems make it difficult for practitioners to evaluate their appraisal system. Therefore, measurement of performance appraisal systems' effectiveness is also considered a difficult issue in both theory and in practice.

In this section, I will briefly review the development of the criteria for the measurement of performance appraisal effectiveness in the literature. Traditional research has focused on the cognitive processes of the rate, rating accuracy and psychometric measurements of performance appraisal (Walsh, 2003). However, this made few improvements on the effectiveness of performance appraisals (Banks & Murphy, 1985; Napier & Latham, 1986). Therefore, the researchers started to concentrate on the employees' reactions toward the performance appraisal systems and the organisations (Cleveland & Murphy, 1992; Tziner, Murphy & Cleveland, 2001). It is reported that a performance appraisal system could be psychologically

well in design, but could be practically ineffective, if the users (ratees) don't accept it.

2.1.2.1 The Psychometrics Model

In the history of performance appraisal research, there exists a vast amount of literature, regarding different research aspects. Between the 1950s and 1980s, the majority of the research regarding the measurement of performance appraisal system effectiveness, focused on the psychometric approach or test approach. As Feldman (1981) points out, prior to the early 1980s, the authors mainly conducted theoretical and empirical research to improve the psychometric aspects and characteristics of the ratings, in order to reduce the subjectivity in the ratings. The underlying rationale of the psychometric approach is that accuracy is a key factor in performance appraisal. Therefore, the majority of the researchers concentrated on developing a better format of rating scale, which is more reliable and valid (Woehr & Miller, 1997). According to the psychometric approach towards performance appraisal, the ratings free from halo, leniency and range restrictions could be considered accurate (Saal, Downey and Lahey, 1980). Therefore, authors developed rating instruments to reduce the biases, which are called rating format perspectives (Landy and Farr, 1980). The new rating scale formats, which were created and developed during the peak time of the 1960s to 1970s included the Behaviorally Anchored Rating Scale (BARS), the Behavioral Observation Scale (BOS) and the Mixed Standard Scale (Walsh, 2003). Some authors also suggested that training raters could avoid biases and reduce rating errors, which is called the cognitive perspective (Feldman, 1981). The research into rating accuracy was also very common between 1980 and early 1990s. The research in this period mainly focused on decreasing the psychometric biases, which are named as rating errors, such as central tendency, halo and leniency, to increase the accuracy of ratings. In their review, Arvey and Murphy (1998) find that a number of research between 1950 and 1990 focused on various kinds of rating rankings and scales and different ways of make the ratings more objective in the appraisal system.

Landy and Farr (1980) critically evaluate the performance appraisal research and they

suggest stopping the rating format and trying to pay attention to some other important areas, e.g. understanding the process and the rater in the organisational context. Hence, with the influence of Landy and Farr more authors started to redirect their research from the rating scale format to understanding the rater, who is the decision maker in the performance appraisal, and this led to the 'rater process perspective'. The 'rater process perspective' is described by Ilgen, Barnes-Farrell and McKellin (1993) as comprising three important operations, including acquiring relevant information for evaluation, organising and storing the information, and retrieving and integrating the information for evaluation. Moreover, the characteristics of rater and ratee, such as race or gender, were also examined in this period. Therefore, in the 1980s and early 1990s, the research focused not only on the accuracy of ratings and rating trainings, but also on the rater and their characteristics.

Research before the early 1990s made some important contributions to literature and improvement of the performance appraisal. For instance, it was discovered that some factors, such as delayed ratings, which were considered to be the source of rating errors in the literature before 1980, may not have led to inaccuracies in some studies in the 1980s (Smither & Reilly, 1987). That is to say, some of the studies in the 1980s helped to correct several false assumptions about performance appraisals, which were made before 1980. Moreover, two important factors, namely the context in which performance ratings were made and the beliefs regarding the use of those ratings, are reported to have had an impact on the results of performance appraisals (Zedeck & Cascio, 1982).

However, some scholars noticed the limitations of the research in this period. Ilgen, Barnes-Farrell and McKellin (1993) point out that research during 1980s had limited overall impact on the improvement of performance appraisal application and practices. The first primary limitation is that the majority of the research was conducted not in the field but in experimental settings (Karol, 1996). According to Bretz, Mikovich, and Read's review of publication between 1985 and 1990 (1992), most of the research

during the 1980s and early 1990s focused on cognitive process issues, with an emphasis on psychometrics. Arvey and Murphy (1998) point out that there is a substantial gap between research and practice in the literature of performance appraisal, especially in 1989, when a lot of research was in the lab and concentrated on those factors of cognitive processes of the performance appraisal. Therefore, Ilgen, Barnes-Farrell and McKellin (1993, p361) state that: “We feel that it is far more likely that the major problems facing performance appraisals at this time lie *neither* (emphasis added) in the cognitive process domain nor in that of rating scale construction.” They suggest that one valuable direction for performance appraisal research is focusing on the “rating environment” or “social milieu” in which the employees involved in the appraisal process could find themselves. In that situation, they believe that research would help us to better understand and comprehend performance appraisal in theory and especially in practice. Secondly, Murphy and Cleveland (1991) also state in their first book on performance appraisals that the previous psychometrics model did not pay enough attention to the organisational context in which the performance appraisals were conducted. Murphy and Cleveland (1995) also argue that scholars should pay attention to the contextual factors in performance appraisal, before they analyse whether rating systems are effective, because the psychometric model did not include the rating context at all. In the literature, some scholars have noticed this issue and gave their suggestions on tackling it. Bernardin and Beatty (1984) claimed that measurements of attitudinal kinds should be noticed, because they could eventually be better predictors of rating accuracy than those psychometric variables. Robert (1990) points out that the attitudes of both raters and ratees will have a big impact on whether the performance appraisal systems is effective. Hence, even though the system is psychometrically sound in design, it could still fail in practice if the users of the systems do not accept or even resist it. Robert (1990) notices that some of the previous research in the 1980s had already included the measurement of employees’ satisfaction in the performance appraisal process and their attitudes or acceptance toward the appraisal system.

2.1.2.2 Employees' Reactions to the Performance Appraisal System

Having discussed the limitations of the psychometric model for the measurement of performance appraisal systems effectiveness, the studies of employees' reactions to performance appraisal systems in the literature will be reviewed and discussed in this section.

Due to the psychometrics model's two primary limitations, discussed in the previous section, scholars found some new research directions, which could help us to better inform the performance appraisal systems in practice and help the practitioners to better evaluate their current appraisal system. Therefore, at the beginning of the 1990s, more and more scholars started to focus their research on identifying, measuring and defining the organisational context of the performance appraisal system, because they thought this could help in truly understanding and developing the real effective performance appraisal systems and indeed this framework will drive the research of performance appraisal into the 21st century (Levy and Williams, 2004).

Among various topics related to contextual factors, "perhaps no area within the PA literature has seen as dramatic an increase in research attention since 1990 as ratee reactions to PA processes" (Levy and Williams, 2004, p889). This interesting phenomenon signified that the research on performance appraisal was redirected from the psychometrics model, which focused on measurement, to a more qualitative perspective model, which emphasised the social context. "Performance appraisals are no longer just about accuracy, but are about much more including development, ownership, input, perceptions of being valued, and being a part of an organisational team" (Levy and Williams, 2004, p889).

Before the 1990s, some scholars had started to suggest that more attention should be paid to employees' reactions and attitudes toward performance appraisal. Mohrman and Lawler (1983) point out that in order to improve the accuracy of performance appraisal systems, the researchers should focus on the organisational members'

attitudes toward the performance appraisal system.

Cardy and Dobbins state that: “with dissatisfaction and feelings of unfairness in process and inequity in evaluations, any performance appraisal system will be doomed to failure” (1994, p.54). Therefore, they raise three key standards of the effectiveness of performance appraisal: “rating errors” and “rating accuracy”, both of which were researched heavily in the past and the third standard “qualitative criteria”, which was a hot topic in the literature after 1990. Murphy and Cleveland point out that: “reaction criteria are almost always relevant, and an unfavourable reaction may doom the carefully constructed appraisal system” (1995, p314). They also explain that employees’ attitudes and reactions toward the performance appraisal systems could be one of the important criteria used in evaluating appraisal systems’ effectiveness, and it could be a major aspect of qualitative criteria, mentioned by Cardy and Dobbins (1994).

According to Cawley, Keeping and Levy’s meta-analysis review (1998), including 27 field studies, the employees’ participation in the performance appraisal process is one of the important contextual antecedents of employees’ attitudes and reactions. They also evaluated the measurement of five employees’ reaction variables, including perceived accuracy, appraisal system satisfaction, perceived fairness, perceived utility, and motivation to improve.

Based on the studies since 1990, Keeping and Levy (2000) claim that the best criterion for evaluating the effectiveness of performance appraisal is ratees’ reactions, because they thought that if the employees do not consider the appraisal systems fair, valid, useful or accurate, the best psychometrically sound designed appraisal systems will not be effective. Keeping and Levy (2000) also explain two more reasons why employees’ reactions are important. Firstly, practitioners have a great interest in employees’ reactions. Secondly, although employees’ reactions are theoretically one of the determinants of performance appraisal system effectiveness, the topic is

overlooked in the literature. These two issues also led to the substantial gap between practice and research, noticed in the literature (Banks and Murphy, 1985; Ilgen, Barnes-Farrell and McKellin, 1993; and Smither, 1998). Keeping and Levy (2000) conducted the research to examine the measurement of those common employees' reactions and found the following important variables: system satisfaction, session satisfaction, perceived utility, perceived accuracy, procedural justice, and distributive justice. It is important to note that Keeping and Levy (2000) replaced Cawley, Keeping and Levy's 'perceived fairness' (1998), which is perceptions of overall fairness and satisfaction, with 'distributive justice' and 'procedural justice' in employees' reactions, which are specific aspects of appraisal fairness. Here, distributive and procedural justice in performance appraisals could be adaptations of justice variables to reflect the employees' perceptions of the fairness of outcome and fairness of procedures in the process of performance appraisal, respectively (Keeping and Levy, 2000). Another important aspect of fairness, interactional justice, was not included in their research but employees' perceptions of interactional justice were noted in more recent research (Elicker, 2000; Johnson, 2003; Buehler, 2006).

Levy and Williams (2004) conducted a review of the research of performance appraisals from 1995 to 2003, and they summarise and integrate all the work during in the past into a model (see the figure 2-1 below). It is very similar to Cardy and Dobbins's model (1994), but Levy and Williams (2004) replaced 'qualitative criteria' with the 'appraisal reactions' in their new model. They explained that in order to evaluate the effectiveness of the performance appraisal system, there need to be three categories of criteria, widely discussed in the literature. The historical research concentrated on the first two areas, including rater errors and rating accuracy; however, since 1990, the scholars have started to make progress on the third area: appraisal reactions.

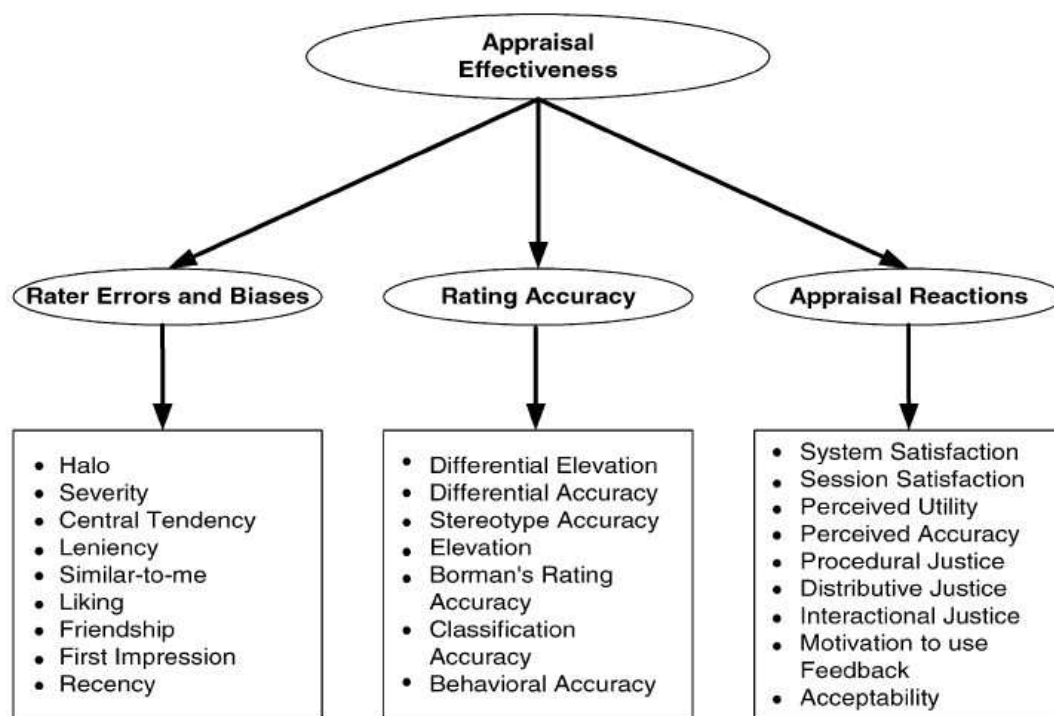


Figure 2-1: Appraisal Effectiveness from Levy and Williams (2004)

While previous research on employees' reactions has increased rapidly during the past twenty years, many scholars found that employees' reactions also had an important impact on those important outcomes, resulting from the performance appraisal (Kinicki et al, 2004). For example, Pettijohn et al.(2001) state that employees' reactions could influence employees' job attitudes, including job satisfaction and organisational commitment. Moreover, Jawahar (2006) claim that employees' attitudes or reactions can even have an impact on their future performance. While scholars consider employees' reactions as important criteria for performance appraisal, they also admit that these reactions are positively related to employees' future job attitudes, performance and behaviour.

However, the limitations of the research and the future research direction should be considered here. Firstly, Cawley et al. (1998) recommend that future research could consider the relationships between performance appraisal context and employees' reactions. Nonetheless, although a number of studies have been conducted after

Cawley et al. (1998), they did not make much of a contribution to theory development, because they did not complement each other and the research lacked cohesion. That is to say, if scholars wish to make some real progress on theory testing and development, they should consider organising various types of antecedents of employees' reactions to form an integrative framework. For example, in order to examine the employees' fairness perceptions of performance appraisal, one could develop a model that integrates all three aspects of justice perceptions, namely distributive justice, procedural justice and interactional justice, into one framework for performance appraisal, instead of just focusing on one or two aspects. In the literature, there is a very limited amount of research looking into all of these three justice perceptions, which requires more research on developing a new model for employees' fairness of performance appraisal. Secondly, in the past ten years, after Cawley and his colleagues' literature review (1998), a number of scholars became very interested in the relationship between employees' reactions and employees' participation, which is a factor in the procedural implementation of performance appraisal (Jawahar, 2006; Kavanagh, Benson and Brown, 2008). However, other aspects, e.g. objective setting, feedback, communication, justification and explanation of the results, etc., were comparatively ignored in the literature. As there are only a few studies focusing on the very important performance appraisal issues: fairness and justice, more research should be conducted to examine the three types of employees' justice perceptions in performance appraisal systems respectively.

2.1.3 Fairness of Performance Appraisal

Among the various aspects of employees' reactions to appraisal, employees' fairness of performance appraisal has attracted most of the attention and research in the literature. In this part, the studies regarding fairness of performance appraisal systems will be briefly reviews.

In order to increase the acceptance of the PA systems and the efficacy of the process, the practitioners and scholars both found a new direction for research. They had

more interest in employees' reactions to the systems of performance appraisal and started to focus on employees' satisfaction and perceptions of the PA system. According to Roberts (1990), the users' reactions and attitudes toward the PA systems determine to a large extent the effectiveness and efficacy of the PA systems.

The employees' perceptions of fairness of the PA systems are very important criteria, and have a great impact on employees' satisfaction with the PA systems and judgment of the effectiveness and usefulness of PA systems for managers and organisations. The topic of fairness of the PA systems has been studied by many scholars and practitioners. Jacobs, Kafry and Zedeck (1980) state that employees' fairness is one of the most important attitudes toward appraisal, which could be used as a criterion to measure the effectiveness of the PA system. Bretz, Mikovich and Read (1992) even indicate that employees' perception of fairness is the most important issue in performance appraisal systems that the organisations should take note of, because their research found that the majority of the employees considered the PA system neither accurate nor fair. Latham and Wexley (1981) also found that employees perceived the process of performance evaluation not fair in their research and they thought this issue was a major problem for managers and leaders in the organisations. Skarlicki and Folger (1997) emphasise that employees would show extreme dissatisfaction with the PA process if they considered the systems biased, irrelevant and political. In Thomas and Bretz's (1994) survey of Fortune 100 companies, they found that practitioners thought the employees' perceptions of fairness of PA systems are very important.

Landy, Barnes and Murphy (1978) conducted a study about the employees' perceived fairness and the accuracy of a performance appraisal system. They found several important factors, which were linked to employees' perceptions of fairness and the accuracy of the PA system, including the frequency of the performance evaluation, identification of the goals to reduce the weakness and supervisors' knowledge and awareness of the ratees' performance level and their work duties. Their findings

indicated that in order to increase the fairness of employees' appraisals, it is important for managers to do the appraisal frequently, work with their subordinates to achieve an agreement on their goals, duties and responsibilities and pay attention to observation and understanding the level of employees' performances.

In his case study, Greenberg (1986) used an open-ended questionnaire to ask 217 middle managers in the private sector about the factors that have an important impact on the fairness of the performance appraisal system. He found three important factors in the research, including soliciting the employees' input, using the two-way interview to enable good communication, and the employees' opportunity to rebut the performance ratings or challenge the results of the appraisal.

Flint (1999) conducted research about employees' reactions to the outcomes of multi-resource appraisals and their changes in performance. His research indicated that employees, when they find that performance ratings are low, will use procedural justice evaluation, including perceptions of group value and perceptions of voice mechanism, to determine whether the ratings are fair,. If they think the low ratings are fair, they intend to improve their performance and ratings, while if they consider the ratings unfair, their performance will decrease.

2.1.4 Conclusion

The measurement of effectiveness of performance appraisal systems has been a very hot topic in the literature in last two decades. The research had shifted from psychometric models to employees' reactions toward performance appraisal. It is reported that the performance appraisal system works effectively only when the users e.g. employees and supervisors accept it. Therefore, in order to examine the success of the performance appraisal system in organisations, it is necessary to pay attention to employees' reactions toward it. Fairness of the performance appraisal system, which has attracted most of the research in the literature, is considered one of the most important criteria for measurement of appraisal effectiveness. Thus, I decided to

focus this study on employees' reactions toward appraisals, especially the perceptions of justice. The next section will briefly review the organisational justice theory and the research which applied justice theory to performance appraisal practices in literature.

2.2 Applying Organisational Justice Theory to Performance Appraisal Practices

Employees' reactions toward performance appraisal systems are widely regarded in the literature as a better measurement of the effectiveness of performance appraisals than psychometric models. The fairness of the performance appraisal system, which has attracted great attention in the last two decades, is a very important criterion for this measurement among various employees' reactions. A number of studies in literature have adopted the organisational justice theories to examine the employees' fairness perceptions of the performance appraisal system. In this section, first of all, a brief review of organisational justice theory will be presented, including a respective review of distributive justice, procedural justice and interactional justice,. Second, the research which applied organisational justice theory to performance appraisal practices in Western countries will be reviewed. Third, a review of the studies on justice of performance appraisal systems in non-Western countries will also be presented. Fourth, based on the review above, two research gaps will be identified.

2.2.1 Organisational justice theory

Byrne and Cropanzano (2001) define organisational justice as the study of justice at work. In the literature, the scholars have generally divided the fairness into two clearly defined major types, which the majority of research has focused on in the last twenty years, and one more less clearly defined type. The first primary type of fairness, accepted by scholars, is distributive justice, which refers to the content, such as whether the outcomes of the decisions are fair. The second primary type of justice is procedural justice, which considers the process by which the decisions are made (Greenberg, 1990). And the third type of fairness is interactional justice, defined as the interpersonal treatment one receives from an authority figure in the organisations (Bies and Moag , 1986).

2.2.1.1 Distributive justice

Distributive justice theory, originating from the original social justice theory, was raised by Adams (1963) and Homans (1960). It proposes that people accept the

decisions and consider the social exchange as fair, if they think their contributions to the organisations are in balance with the rewards. The distributive justice theory was derived from Adams' equity theory (1963), because it included the decisions not only about the reward, but also the distribution and allocation of various resources in the organisations. Therefore, if we apply the equity theory to the workplace, the theory indicates that the employee will compare his ratio of input (performance) and output (reward) to other employees and they will then determine the level of fairness based on the results. Subsequently, the employee will start to modify his future efforts, performance and behavior, if the ratio is different. When the employee finds that he is inequitably overpaid (underpaid), he will increase (reduce) his input, performance, behaviour or cognitions in the future.

Greenberg (1986) found two factors in his research, which have an impact on an individual's perceptions of distributive justice. One factor is the employee's perceptions of fairness of performance ratings in relation to performance, while the other factor is the employee's perceptions of fairness of any appraisal rating-related pay increase, promotion or other organisational administrative actions in relation to his performance appraisal ratings. According to distributive justice theory, the employee's input is his or her own performance at work, that is, how well and hard this employee has worked. In terms of the first factor, the outcome is the employee's attitudes or perceptions of the rating itself and how it makes the individual think and feel about his self-worth (Narcisse and Harcourt, 2008). In terms of the second factor, the outcome is the individual's perceptions of the appraisal-related consequence from the administration, such as the pay increase (decrease), the promotion and so on.

Greenberg's (1986) two factors for distributive justice are supported by some empirical studies. For example, in their case study of 200 employees in a medical centre in USA, Tang and Sarsfield-Baldwin (1996) have found that the employees, who had high levels of satisfaction with their rewards and promotion, also had

positive and favourable perceived distributive justice. Narcisse and Harcourt (2008) also had consistent findings in their Saint Lucian case study. Moreover, they also found one additional factor related to distributive justice, that is, the consistency in reward distribution. How consistently bonus and promotions reflect performance ratings across all employees will influence employees' perceptions of distributive justice. Narcisse and Harcourt (2008) explained that this factor could be understood easily, because equity theory states that employees form their fairness perceptions by comparing their own input-outcome rating to those equivalent employees in the organisation.

2.2.1.2 Procedural justice

Procedural justice theory has the greatest presence in and influence on the literature of fairness of performance appraisal systems (Folger et al, 1992). It is reported in many studies that individuals can accept the distributive unfairness to a certain extent, if they think that the process that was used to make the decisions for allocation and distribution is fair and just (Cropanzano & Folger, 1991). Therefore, the term of procedural justice was created to describe and explain this phenomenon (Leventhal, 1980, Greenberg, 1990). Procedural justice is defined as the perceived fairness of process and procedure, which the organisations used to evaluate the employees' performance and hence determine the performance appraisal outcomes (Greenberg, 1986).

There are two important theories which explain the conceptualisation and importance of justice theory. The first theory is Thibaut and Walker's control theory (1975), which states that people have a desire to control what happens to them. They carried out a series of studies that investigated peoples' desire to control in a dispute-resolution context. Individuals have two control desires, including decision control, which is control over the outcome, and process control, which is control over the process and procedures. The opportunity for individuals to control the outcome and process and to present relevant information for a decision will improve and

increase the perceptions and judgment of fairness in the process. Folger (1987) names this the 'voice effect', after Thibaut and Walker (1975) use 'process control effect' to describe it. Although Thibaut and Walker's research (1975) mainly focuses on legal context, the theory could be applied to various HRM practices, especially performance appraisal systems. As Cawley et al. (1998) states, the opportunity to express one's opinions in the process of appraisal has a big impact on the individual's reaction to the appraisal. The second theory is Lind and Tyler's group-value (value expressive) model (1988), which states that individuals want to be valuable group members in their own groups and desire fair procedures that make individuals believe they are valued by the groups and organisation. Therefore, as the opportunity to express one's views enhances the sense of justice and shows one's group status, individuals value the opportunity to participate and present their voice in decision-making processes related to them, which reflects their long term social exchange with the authorities and organisations and their input and performance valued (Tyler, 1989).

Based on Thibaut and Walker's (1975) work, Leventhal (1980) raises six specific criteria to direct performance appraisals in order to promote and increase the employees' perception of fairness. These six important 'rules' include consistency, accuracy, correctability, bias suppression, ethicality and representativeness. Applying this theory to performance appraisal, it requires the organisations to make sure their procedures of performance appraisal are applied consistently, rely on accurate information, are representative of the concerns of each group, party and individual, suppress bias, make the distribution decisions on fundamental ethical and moral standards, and give the individuals the opportunity to modify and reverse the evaluation decisions.

2.2.1.3 Interactional justice.

Interactional justice refers to the relationship between those authorities in the organisations and those individuals subject to their decisions and actions. Bies and

Moag state that: “people are sensitive to the quality of interpersonal treatment they receive during the enactment of organisational procedures” (1986, p44). In the literature, interactional justice is divided into two aspects (Bies and Moag, 1986; Bies, 1987); one aspect is interpersonal justice, which refers to the fairness of the interpersonal treatment the individuals get from those formal agents in the organisations. This aspect is about the individual’s dignity and respect. The other aspect is informational justice, which means adequate explanations and justifications for the actions and decisions and social accounts that the individuals get from those formal agents in the organisations (Bies and Moag, 1986; Bies, 1987). According to Tyler and Bies, interactional justice has four essential rules including truthfulness (openness and honesty), justification (adequate explanations), respect (sincerity and dignity) and propriety (avoidance of improper questions/statements, i.e. race, gender, age) (1990). Bies (2001) pointed out that in terms of performance appraisal, interactional justice refers to the quality of the interpersonal treatment that individuals receive from the authorities during the whole process of appraisal.

In the literature, there is a continuous argument about the relationship between interactional justice and procedural justice. Rahim, Magner and Shapiro (2000) state that interactional justice is just an interpersonal subset of procedural justice. However, more scholars think interactional and procedural justice are two different concepts and should be considered separately (Moorman, 1991, Masterson, Lewis, Goldman and Taylor, 2000). For example, Cropanzano, Prehar and Chen’s study of employees and their supervisors in a university (2002) indicated that procedural justice is related to employee satisfaction with both the performance evaluation system itself and employees’ trust in top management, while interactional justice is related to the quality of interpersonal treatment the individuals receive from their managers, supervisors or authorities. Some empirical studies also supported this statement distinguishing interactional justice from procedural justice (Colquitt et al., 2001; Colquitt, 2001). Therefore, Bies (2001) suggests that it is theoretically and analytically necessary and important to notice the difference and maintain the

distinction between interactional and procedural justice.

2.3.2 Limited research and evidence in Western countries: Research Gap 1

There is very limited research focusing on the fairness or justice of performance appraisal systems in Western literature (Holbrook, 2002). Early research indicates that concern for justice has an impact on reactions of both supervisors and subordinates in performance appraisal. Two important studies (Landy, et al., 1980; Landy, Barnes, and Murphy, 1978) show that employees were likely to believe that the performance appraisal was fair and accurate under certain conditions. The employees' perceptions of fairness would be positive when employees perceived that the raters were familiar with their work, when they had frequent performance evaluations, if they had opportunities to express their own opinions in interviews and if their new performance objectives were set clearly in the interview.

After the fairness issue was raised by these two studies, it is surprising that very few studies during 1980s focused on the justice issue in the performance appraisal system. According to a comprehensive review of performance appraisal research between 1985 and 1990 (Bretz et al., 1992), only one empirical study concentrated on the fairness issue. Greenberg (1986a) was the first scholar to apply the organisational justice theory to the research of performance appraisal. His fundamental research question was 'what could make the appraisal system be perceived as just?' In terms of the two distinct justice facets: distributive justice and procedural justice, Greenberg (1986a) proposes seven categories of factors, which will lead to employees' perceptions of justice. The distributive justice category includes two factors: ratings based on the employee performance achieved and promotion or pay on the basis of the employee performance ratings. The five procedural justice categories include supervisors soliciting input prior to evaluation and use of the input during appraisal, two-way communication between rater and ratee during the appraisal interview, the ability of and opportunity for an employee to dispute or challenge the result of the appraisals, supervisor's consistency in the application of performance standards, and

supervisors' familiarity with the contribution and performance of ratee (Walsh, 2003).

Since 1990, more studies have begun to concentrate on organisational justice in the process of performance appraisals. Some important theoretical models and empirical studies emerged in the literature. The majority of these studies have focused on the procedures of performance appraisal and procedural justice. Folger, Konovsky and Cropanzano (1992) have created a model which originated from the 'due process of law', for the procedural justice in performance appraisal. Their 'due process' metaphor has three essential and basic factors, which are adopted to explain nine elements in the procedurally fair performance appraisal system. These three factors consisted of adequate notice, a fair hearing and judgment based on evidence. Adequate notice means that the organisations should let the employees have full knowledge of performance appraisal systems and how the systems works and affects them before any evaluation is conducted. The organisations should, first of all, set and develop clear performance standards and criteria and then distribute, allocate and explain them clearly to the subordinates before appraisal. Secondly, the organisation should encourage employees' participation in developing the performance objectives and standards and allow employees to question why and how objectives should be achieved. Finally, the organisations should provide regular feedback to employees throughout the evaluation period. The second factor, fair hearing, should provide rates with face-to-face interviews or meetings and ensure that ratees have the opportunity to access the evaluation process, provide self-assessment and challenge the ratings and evaluation decisions. In the meetings, raters should provide a performance assessment based on employees' behavior, performance and the work product. The fair hearing ensures the opportunity for two-way communication and that employees have an input into or a 'voice' in any aspect of performance appraisal process. The third factor, judgment based on evidence, means that supervisors apply the performance criteria consistently across all subordinates and make evaluation decisions with no personal favouritism, external pressure and dishonesty. The performance ratings should withstand employee scrutiny and the employees should

have the opportunity to question, appeal and discuss their ratings with the relevant persons (Folger et al, 1992).

Folger, Konovsky and Cropanzano's (1992) due process model was tested by a number of studies in the literature. Taylor, Tracy, Renard, Harrison, and Carroll (1995) conducted a quasi-experimental design in a governmental organisation. They introduced a new appraisal form based on the due process model to supervisors and subordinates. They found that the employees who were involved in the due process appraisal system would have more positive and favourable perceptions of fairness and greater satisfaction with the PA systems and their supervisors than participants who remain in the former appraisal system. Meanwhile, the supervisors involved in the due process systems had more positive responses to and greater satisfaction with the appraisal systems than the comparison group. And supervisors also reported that they could solve the problems at work more easily and have less distortion of the appraisal outcomes to further their own interests.

Subordinates' voice (allowing employees affected by decisions and involved in appraisal systems to provide information relevant to decisions for organisations), an important factor in the fair hearing of due process model, was examined by Korsgaard and Roberson (1995). 'Voice' could lead to employees' positive reactions and attitudes towards the perceived fairness in the performance appraisal system. The voice included two aspects: instrumental voice and non-instrumental voice. According to Thibaut & Walker (1975), the instrumental voice is the indirect control over decision, while direct control is not possible. The non-instrumental voice is "voice is valued intrinsically regardless of whether the impact influences the decision" (Korsgaard and Roberson, 1995, p659). Korsgaard and Roberson's (1995) findings state that both instrumental voice and non-instrumental voice were independently and comparably related to employees' satisfaction in appraisals. However, only the non-instrumental voice had an impact on employees' attitude to their managers. Therefore, they indicate that trust in the supervisor was only linked

to non-instrumental voice.

Erdogan, Kraimer and Liden (2001) state that procedural justice should be divided into two independent aspects: rater procedural justice and systems procedural justice, in terms of performance appraisal context. Some scholars argue that procedural justice is the fairness of organisations, while the interactional justice is the fairness of the supervisor (Moorman, 1991, Masterson, Lewis, Goldman and Taylor, 2000). However, Erdogan, Kraimer and Liden (2001) claim that raters directly participate in the process of performance appraisal and could influence the procedures to a large extent. The organisations set the performance standards and fair criteria to direct the operation of the evaluation, but if the raters do not apply those criteria and regulations accurately and honestly, the procedures will not be fair. Consequently, Erdogan (2001, p557) differentiate between these two constructs: rater procedural justice, which is “perceived fairness of procedures raters use during performance appraisals” and systems procedural justice, which is “the perceived fairness of the performance appraisal procedures adopted by the organisation”. Different parts of due process are linked to different aspects of procedural justice. For instance, knowledge of appraisal is linked to system procedural justice; while providing feedback and fair hearing are linked to rater procedural justice (Walsh, 2003). Erdogan et al. (2001) state that understanding the difference between these two constructs can help the organisations find the source of injustice and make improvement efforts correctly.

Besides the studies on procedural justice in performance appraisal, some scholars have investigated the relationship between employees’ fairness perceptions and employees’ attitudes to appraisal system. Tang and Sarsfield-Baldwin (1996) stated that employees’ distributive justice perceptions were related to personal level job satisfaction (e.g. pay satisfaction); while employees’ procedural justice perceptions influenced employees’ organisational commitment. They developed scales for the measurement of distributive justice and procedural justice in PA and adopted them to examine some outcomes, including satisfaction with promotion, pay, supervisors and

appraisal system. The scale for procedural justice includes 22 items, which could be categorised into five categories: two-way communication; fairness; trust in supervisor; understanding the performance appraisal process and clarity of performance appraisal process.

In the last decade, very few studies of organisational justice have concentrated on the performance appraisal system. The majority of them have focused on the impact of either distributive or procedural justice perceptions, but rarely both of them (Folger, Konovsky & Cropanzano, 1992; Colquitt, Conlon, Wesson, Porter and Ng 2001; Flint 1999; Cook and Crossman 2004; Erdogan et al. 2001). Some studies have only focused on one or two factors of procedures in the performance appraisal system (e.g. Korsgaard and Roberson 1995 for employees' voice; Leung, Su and Morris 2001 for supervisory feedback; Barclay and Harland 1995 for location, rater competence, and ability to challenge the result). Therefore, the previous studies of justice in performance appraisal have focused mainly on the fairness of outcomes and procedures. It is obvious that the social aspects of performance appraisal systems, which should not be underestimated, had been ignored. As Walsh says, the social aspect of performance appraisal is very important, because: "the interpersonal relationships and perceptions of raters and ratees are significant to the results of the process" (2003, p43-44). Actually, some previous studies have noticed the social aspects, but have not made a clear distinction between social aspects and distributive and procedural aspects (Roberts and Reed, 1996; Landy, Barnes and Murphy, 1978; and Greenberg, 1986).

It is worth mentioning that Greenberg (1993) has created an integrative model of justice of the performance appraisal system, which consists of four aspects of justice and Thurston (2001) has developed ten scales for the measurement of these four aspects of justice.

The justice model Greenberg developed (1993) integrates the different

conceptualisations of organisational justice theories and differentiates between the justice types and the determinants of each type of justice. Greenberg (1993) crosses two justice types (distributive and procedural) with two determinants of justice (structural and social) in order to form a model which includes four categories of justice perceptions. Greenberg's model consists of four categories of justice: informational justice (social-procedural); systemic justice (structural-procedural); interpersonal justice (social-distributive) and configural justice (structural-distributive) (Shown in Figure 2-2).

	Justice	Justice
	Systemic	Configural
Structurally Determined	Procedural justice accomplished via structural means (e.g., Thibaut and Walker's 1975 notion of process control combined with Leventhal's 1980, justice criteria)	Distributive justice accomplished by structural means - decisions structured to conform to a social norm (e.g. equity, equality, or need) or to achieve an instrumental goal (e.g., motivate, develop)
Socially Determined	Informational Procedural justice accomplished via social means (e.g., Bies', 1987 position that people desire adequate social accounts of the procedures used to determine desired outcomes).	Interpersonal Distributive justice accomplished by social means - who of concern for individuals regarding the outcome they receive (e.g., Greenberg, 1993, remorse for low ratings, Tyler, 1988, sensitivity in legal system)

Figure 2-2: Greenberg's categories of Justice Perceptions.

Greenberg's (1993) taxonomy of justice could explain different categories of

organisational justice literature clearly. It could also provide the opportunity to study comprehensively the employees' justice perceptions of the performance appraisal systems in their organisations. Figure 2-3 presented Greenberg's model of justice of performance appraisal. In Greenberg's model (1993), distributive justice concerns the outcome allocation; while procedural justice concerns how the distribution of decisions is made. The structural components could determine the 'decision making context', for outcomes and processes; on the other hand, the social components determine supervisor's treatment quality in the interactions and communication of outcomes and processes (Greenberg, 1993).

	Procedural Justice	Distributive Justice
Structurally Determined	<i>Systemic</i> Concerns about procedures to assign raters, set criteria, gather information and seek appeals	<i>Configural</i> Concerns about the norms that lead to ratings and the .
Socially Determined	<i>Informational</i> Concerns about the way raters communicate with their ratees.	<i>Interpersonal</i> Concerns about the treatment that ratees receive from their raters.

Figure 2-3: Greenberg's justice model applied to performance appraisal (Thurston, 2001).

Each of the four categories in Greenberg's (1993) model can be adopted to examine a unique aspect of practices of performance appraisal in the organisations. Configural and systemic justice could be related to the structural dimensions of performance appraisal practices. Configural justice (structural-distributive) could be related to

those decision norms that are linked to performance appraisal practices, such as equity or equality principle, political pressure or the relationships between performance appraisal outcomes and the subsequent administrative decisions (Walsh, 2003). System justice (structure-procedural) is on the basis of Leventhal's (1980) justice model and concerns the employees' perceptions of the procedures of performance appraisal systems (e.g. assigning rater, setting criteria, gathering information or seeking appealing). Whether or not the procedures are fair could be examined based on whether they lead to accuracy, suppress the bias, represent employees' concerns, and if they are applied consistently and they are correctable. Informational and interpersonal justice refer to the social dimensions of appraisal practices. Informational justice (social-procedural) represents employees' justice perceptions, which are on the basis of the clarification of standards and expectations, supervisors' explanation and justification of the decisions to employees and feedback obtained from their supervisors. Interpersonal justice (social-distributive) reflects the way that the supervisor treats the subordinate being evaluated in the appraisal process (e.g. with respect or sensitivity).

Based on Greenberg's justice model, Thurston (2001) created ten scales for justice in performance appraisal systems to reflect the four aspect of taxonomy of justice. Thurston (2001) allocates these ten scales to each justice factor according to the principle of each justice factor. Greenberg's justice model (1993) and Thurston's ten scales (2001) will be discussed specifically in next part.

Configural justice (Structural-Distributive)

Configural justice reflects the structurally determined perceptions of performance appraisal outcomes (Greenberg, 1993). Configural justice is based on the research of the equity theorists (Homans, 1961; Adams, 1963). Adams (1965) proposes the equity theory, which claims that individuals will cognitively evaluate the difference between their performance and the outcomes they receive (economics and social compensation). The comparison result could be that one will feel over-compensated,

fair or just. It is reported that in appraisal system, the rating could be regarded as a result, or an input which is related to some other human resource management decisions, such as promotion, reward, training or development opportunity (Greenberg, 1986).

Thurston (2001) categorises two kinds of structural forces, related to configural justice in performance appraisal: raters' personal aims and norms for decisions. Firstly, the employees will believe that the distributions of performance ratings are fair if distribution is based on an existing social norm, such as equity. Thus, the outcome of the performance appraisal could be commensurate with their real performance and contribution subordinates are believed to have made. Nonetheless, if the raters are perceived to make decisions conforming to those decision norms, such as social status, need, networks or equality, the results will be incongruent with the equity norm and will be considered as unfair by employees (Leventhal, 1980). Secondly, the personal goals of the rater will also have an impact on employees' justice perceptions of the outcome of the performance appraisal. Employees will regard the performance ratings as unfair if they perceive that the raters are attempting to distort the performance ratings forced by the political pressure, to play favourites or to avoid the conflict by inflating the performance ratings (McCarthy 1995, Longnecker, et al., 1987).

Configural justice has been presented by the following scales adopted in previous studies, the absence of politics and equity norm. For example, Tang and Sarsfield-Baldwin (1996) and Moorman (1991) adopt the Distributive Justice Index as the indicator for the equity norm, which was created by Price and Mueller (1986). Tziner and his colleagues (1997) uses a scale including 25 items to examine the rater's aims, which are linked to politics in order to explore the political influence in the organisations. Thurston (2001) also proposes two scales to reflect these two structural forces, the accuracy of ratings, the measurement of whether raters' decisions in appraisal is based on equity norm and concern over ratings, for

measurement of whether the politics has impact on performance ratings.

Systemic justice (Structural-Procedural)

Systemic justice represents the structurally determined justice perceptions of procedures which could lead to outcomes (Greenberg, 1993). This justice type has been studied primarily by procedural justice theorists (e.g. Leventhal, 1980; Thibaut & Walker, 1975). Procedural justice focuses on the “individual’s cognitive map of the structurally determined events that precede the distribution of reward, and the evaluation of those events” (Thurston, p24). Therefore, as Thurston (2001) states, the justice perceptions of each of the structural components of the procedures of performance appraisal systems will influence the employees’ judgments of systemic justice.

Thurston created three scales to reflect this aspect of appraisal system, including seeking appeals, setting criteria and assigning rater. These three scales could represent the criteria for justice which were proposed by Leventhal (1980) and some additional criteria stated by some other scholars of performance appraisal (Wexley & Latham, 1981; Murphy & Cleveland, 1991; Mohrman, Resnick- West & Lawler, 1989). As Leventhal (1980) stated, there are six principles for procedural justice, including consistency, accuracy, correctability, bias suppression, ethicality and representativeness.

Firstly, it was reported in several studies that the organisations’ assignment of qualified supervisors, who had adequate knowledge of ratees’ jobs, ratees’ performance and knowledge of the performance appraisal systems, impact on employees’ justice perceptions (Tang and Sarsfield-Baldwin, 1996; Landy, et al. 1978; and Klasson and Sorbom, 1980). Secondly, setting objectives and gathering information have been found to influence the employees’ perceptions of justice and satisfaction with performance appraisal systems (Folger and Cropanzano, 1998; Taylor, et al., 1995). The appeal systems for employees were confirmed to be a

necessary factor for a successful and acceptable performance appraisal system determined by several studies in the literature. The employees' perceptions of the appeal systems were reported to have a positive impact on trust in management, job satisfaction and evaluations of supervisors, and have negative impact on conflict and turnover. The employees' opportunity to express their feelings about the performance appraisal system, appeal their performance ratings and correct the ratings have been noted as important aspects of procedurally fair systems by a number of studies (Greenberg and Tyler 1986, Murphy and Cleveland, 1991, Leventhal, 1976, and Cascio and Bernardin, 1981,).

Interpersonal Justice (Social-Distributive)

Interpersonal justice reflects the social aspects of the outcomes of a performance appraisal system (Greenberg, 1993). It refers to ratees' knowledge of the way their raters treat them in evaluation. Interpersonal justice is normally regarded as an important aspect of interactional justice, suggested by Bies and Shapiro (1987). Informational justice is another component of interactional justice (Bies and Moag, 1986). Both interpersonal and informational justice are on the basis of the procedures or outcomes of the individuals experience, as well as from the supervisors' treatment the individual receives (Bies, Shapiro, & Cummings, 1988). Interpersonal justice could be any type of reward, which supervisor offers to employees. It could also contain the unfairness including the insult, regarded as a result or a treatment (Mikula, et al., 1990). Thurston (2001) also created two scales to reflect the interpersonal justice in performance appraisal system: Sensitivity in Supervision and Respect in Supervision.

Greenberg (1991) shows that employees can be strongly affected by the respect given from their raters or higher level authorities in the organisation. It is true, especially when supervisors have sensitivity and respect to subordinates and the results the ratees obtain. Greenberg (1991) reports that raters' apologies and other forms of remorseful expression could reduce employees' injustice perceptions.

Informational Justice (Social-Procedural)

Informational justice reflects the socially determined perceptions of procedures of performance appraisal (Greenberg, 1993). Similar to systemic justice, informational justice also concentrates on the events which precede the determination of the outcomes. However, informational justice emphasises the social aspect of the event, compared to systemic justice, reflecting the structural aspects of the procedures. It is reported that informational justice contains the overlapping areas of both procedural (Leventhal, 1980; Thibaut & Walker, 1975) and interactional (Bies & Moag, 1986; Bies & Shapiro, 1987) justice. Erdogan, Kraimer & Liden (2001) point out that the procedural justice of the performance appraisal can be conceptualised as two distinct dimensions: systems procedural justice and rater procedural justice as well. Here, procedural justice is similar to systemic justice in Greenberg's model (1993). Also, rater procedural justice is similar to informational justice, because Erdogan, Kraimer and Liden (2001) stated that rater implemented performance appraisal procedures and thus their behaviors in the process will also have great impact on employees' attitudes.

Thurston (2001) claimed that the most common interactions between supervisors and subordinates in performance appraisal include setting the annual goals for achievement, providing frequent feedback, and providing justification regarding ratings in formal interview in appraisal. Informational justice focuses on interaction quality between rater and ratee when raters execute procedures and communicate with ratees in performance appraisal process. Therefore, Thurston created three scales, including explaining and justifying decisions, providing feedback, and clarifying performance expectations and standards to reflect informational justice in the process of evaluation.

Greenberg's (1993) hypothesised model with four factors is a more cohesive and integrated model that could be used to have a clear understanding of the complicated

appraisal system as well as the practices. Thurston (2001) has developed ten scales to reflect each justice factor in Greenberg's (1993) model. It is convenient for researchers and practitioners to use these scales to test the fairness of performance appraisal systems in organisations and find out which factors lead to problems.

Research Gap 1:

In the last two decades, very few studies in the literature have focused on the justice of the performance appraisal system. Excepting Greenberg's (1993) integrative model of justice in appraisal and Thurston's (2001) development of ten scales, the majority of the research has only focused on either distributive justice or procedural justice or even one or two factors of the procedures of the performance appraisal system, leaving a significant gap in our understanding of the justice in performance appraisal system. Therefore, the first research gap identified in Western literature on the justice of performance appraisal systems is as follows:

Research Gap 1: There is a significant lack of research focusing on all three aspects of justice in performance appraisal systems.

2.2.3 Limited researches in other countries: Research Gap 2

Almost all the studies of justice of performance appraisal systems have been conducted in America and have reflected the American setting. However, we know less about the employees' perceptions of justice in other countries with different types of culture. Therefore, Skarlicki claims that: "by assuming that our current understanding of workplace fairness is universal, we overlook the deep cultural differences that can exist between people of different nations" (2001, p292). There are several reasons for us to pay attention to cross-cultural perspectives on organisational justice. Firstly: "at a theoretical level, culture can influence how individuals interpret events and define appropriate behaviors" (Skarlicki, 2001, p 292). Secondly, understanding the perceptions of justice in different cultures could contribute to our understanding of the culture itself (Greenberg, 1996). Thirdly, from a practical

perspective, cross-cultural research on organisational justice could help the managers of multinational organisations discover the antecedents and consequences of employees' perceptions of justice (Skarlicki, 2001). Therefore, it is necessary to conduct more studies in different countries with different cultures and determine the following two questions: Firstly, do current distributive, procedural and interactional justice factors in the literature work in different cultures? Secondly, are there some other additional factors, such as cultural factors, not recognised in the current literature, which may have an impact on employees' perceptions of justice?

However, there are very few studies which focus on the justice of performance appraisal systems outside of America. Narcisse and Harcourt (2008) conducted a qualitative case study to examine the essential factors which will impact on employees' justice perceptions of performance appraisal systems in a Saint Lucian public service organisation. They both completed appraisal forms and interviews with 20 employees in this public organisation and obtained two findings. Firstly, the current existing distributive, procedural and interactional justice factors, which have been identified in the literature, also have an impact on employees' perceptions of justice of performance appraisal in this organisation. Secondly, besides this they also found four additional justice factors, which have not recognised in the literature: "one distributive – the consistency in reward distribution – and three procedural – appraisal frequency, job relevant criteria, and rater and ratee training" (Narcisse and Harcourt, 2008, p1152). Shrivastava and Purang (2011) conducted a comparative study of employees' justice perceptions of performance appraisal systems between Indian public banks and private banks. The employees' justice perceptions of performance appraisal were examined by nine scales, which were created by Thurston (2001). They found that the employees in Indian private banks perceived greater justice in and satisfaction with their current performance appraisal systems than the employees in public banks.

The above studies indicate that it is necessary for us to conduct research in different

countries with different cultures, in order to explore additional evidence of factors which will influence employees' justice perceptions of the PA system. However, there is no study of employees' justice perceptions of performance appraisal in Chinese organisations. Therefore, in the next section I will briefly review the development of performance appraisal systems in Chinese organisations and the studies of performance appraisal in a Chinese context.

Research Gap 2

Based on the above review, due to the shortage of studies of performance appraisal justice in a non-Western countries context, a contribution to the literature, using a sample from a non-Western country, will address the second research gap in the literature:

Research Gap 2: There is a great shortage of research on performance appraisal justice in a non-Western country context.

2.2.4 Conclusion

This section has first provided a review of organisational justice theories, including distributive justice, procedural justice and interactional justice. Second, it has reviewed the research regarding justice of performance appraisals in both Western and non-Western countries and has revealed two gaps, which calls for more studies on the justice of performance appraisal systems, especially in a non-Western culture context. The next section will present a brief review of the development of performance appraisals in Chinese organisations as well as the studies on performance appraisal systems in China.

2.3 Performance Appraisal in Chinese Organisations

Performance appraisal systems in China have experienced two main stages: the pre-reform stage before 1978 when China adopted the ‘reform and open door policy’ and ‘Socialism with Chinese characteristics’, and the reform stage after 1987, during which more and more Chinese organisations started to reform their traditional performance appraisals, by adopting Western-style modern system. The changes in performance appraisals in China have demonstrated several unique characteristics, which is unlike the situation in other countries. It is reported that Chinese cultural factors, such as employees’ *guanxi* and seniority, have an impact on the implementation of performance appraisal systems (e.g. Bai and Bennington, 2005 for *guanxi*; Cooke, 2004 for seniority). In this section, firstly, a historical review of development and reform of human resource management and performance appraisal systems in People’s Republic of China (PRC) will provide a background for this study. Secondly, a review of the existing research on performance appraisal systems will be presented and the possible problems of PA in Chinese organisations will be discussed. Meanwhile, two more research gaps will be identified.

2.3.1 Human resource management development in China

In 2009, the socialist People’s Republic of China, which was founded in 1949, commemorated and celebrated her 60th anniversary. From 1949 to 1976, the year of the end of the Cultural Revolution (1966-1976), China had a highly-centralised stated-planned economy regime. During this period, the performance appraisal system of Chinese organisations was also centralised and had the following two primary features (Cooke, 2008): the first feature was that the state’s regional personnel and labour governmental departments strictly controlled the personnel policy and practices of various organisations (Cooke, 2008). The two state governmental departments, Ministry of Personnel (for those professional staff and managerial employees) and Ministry of Labor (for those ordinary employees) were responsible for centralising, formalising and standardising personnel policies and practices (Cooke, 2008). Therefore, the practices of personnel functions of

organisations, including the performance appraisal system, were influenced by this state intervention. It was reported that, during this period, the managers in the organisations could only implement the policies which were strictly and rigidly formed, distributed and guided by the state (Child, 1994; Cooke, 2004). The second feature of this period was that the majority of employees in urban areas were working for a living (Warner, 1996). At that time, monetary incentives and personal advancement were ignored, because of the egalitarian redistribution and socialist ideology.

In the late 1970s, the situation changed, because the state started to adopt an ‘open door and reforms policy’, in order to attract foreign investment and domestic private funding to revitalise the state’s economy. This resulted in the economic and enterprise reforms, which lead to rapid and radical changes in the state sector’s personnel policy and practices (Child, 1994). The primary change was that direct state control was reduced and enterprises’ autonomy and responsibilities increased in many aspects of HRM practices, including performance appraisal (Cooke, 2008).

In the 1990s, the state owned enterprises, such as the public sector and the government, conducted several rounds of downsizing, which lead to a radical reduction of the state-owned organisations and a significant increase in various forms of business ownership (Cooke, 2008). Therefore, in the past two decades, the state owned sector has experienced a contraction while the private enterprises and foreign funded enterprises have expanded rapidly, which has significantly changed China’s economic structure (Cooke, 2008).

2.3.2 Historical development of performance appraisal in Chinese organisations

As the ‘open door and reform policy’ in late 1970s had a huge impact on the history of China, the development of performance management and appraisals in Chinese organisations could be viewed as having two stages in the past 60 years. In the first period, the performance management in the state-planned economy concentrated

mainly on monitoring the employee's attendance, which was related to wage reduction, and testing the employees' skill grades, which was used to decide pay rises (Cooke, 2008). However, during the Cultural Revolution period, wages were not permitted to increase and testing skill grades was not adopted. However, personal character traits were evaluated during the employees' performance appraisal process. According to Zhu and Dowling (1998), performance appraisals were adopted to select and develop cadres and decide an individual's promotion, in terms of those professional and managerial employees, named 'state cadres' in China. According to Cooke (2008), in the early days after the foundation of P.R.China, ideological and technical elites had the opportunity to be promoted; nonetheless, during the Cultural Revolution, political performance (i.e. whether loyal to the Communist Party and the state) and moral and ethical integrity were the key indicators of performance evaluation and the technical competence and skills became less important. In that situation, the leaders and managers in state-owned organisations did not pay attention to performance appraisals, because firstly they did not have enough specifications and performance criterion and secondly they thought it was waste of time (Chou, 2005).

The second period is the market economic development period, starting from the early 1980s. In 1980s, Chinese organisations started to use performance appraisal systems and since the 1990s, more and more organisations have adopted systematical appraisal systems. Several scholars have studied the 1990s performance appraisal system in China. Chow (1994) stated that Chinese managerial employees considered performance appraisal systems as a necessary and important tool for 'proper' management of personnel. Ding, Field and Akhtar's (1997) study in 158 foreign-funded companies in Southern China indicated that the organisations came to use regular evaluations of employees' performance and also used the outcome of appraisals to determine the individuals' pay levels. They also noticed that Chinese employees could fully accept the western individual-oriented performance appraisal and reward system, because they wanted to maximise their own incomes. Bjorkman and Lu (1999) also finds that half of the 72 foreign-funded companies in their study

borrowed their western performance appraisal systems to suit the Chinese culture. Lindholm (1999) shows that in his study of 604 Chinese managerial employees in multinational companies in China, the western performance appraisal system was accepted by them. They liked its developmental approach, the participation in setting the performance objectives and obtaining the formal feedback. Zhu and Dowling (2002) indicated that various traditional HRM practices, including performance appraisal are changing and a complex and hybrid HRM model was forming, after the increase in enterprise autonomy and marketisation. Bai and Bennington (2005) finds that in their study of state-owned enterprises in the coal mining industry in China, those enterprises adopted new systematic performance appraisal systems to enhance the effectiveness, efficiency and productivity of management, in order to compete in the market. However, their study indicated that those appraisal systems are quite different from the western pattern and traditional form, because huge changes were made to the appraisal system in China. Deng, Menguc and Benson (2003) had the consistent findings that even if the majority of HRM practices in China, including performance appraisal system, were adaptations of western models, they were quite different from the traditional and typical practices in the West.

Besides the changes in Chinese enterprises, changes also took place in the government and civil service organisations after the implementation of “Provisional Regulations for State Civil Servants” in 1993 (Cooke, 2003). The regulations had significant emphasis on performance appraisal and assessment, because it could be used to improve the efficiency, effectiveness and transparency of administration of personnel. On 1st of January 2006, the first Civil Servant Law was promulgated. Cooke (2008) stated that the municipal governments have used a ‘management by objective’ scheme for performance appraisals, in which performance objectives were cascaded down from top to lower levels and the targets were reviewed annually, in her interviews with several government officials and civil servants.

2.3.3 Research on performance appraisal in China: Research Gap 3

In the literature, few studies focus on the performance appraisal system in China. According to Zheng and Lamond's (2010) critical review of HRM studies in PRC, published in 26 leading international journals from 1978-2007, there are only three papers which focus on performance appraisal in China. Bailey, Chen and Dou (1997) argue that some Chinese cultural factors, such as cultural forces of individualism versus collectivism, have a significant impact on self-conception, individual performance evaluation and feedback seeking. Their results showed respondents desire success feedback, whereas the Japanese desire failure feedback. However, Chinese were found to be highly concerned about both types of feedback. Brutus et al. (2006) conducted an international survey in six countries on multi-source feedback systems and found the main challenges for multi-source feedback systems in Chinese companies are managerial support and the politics of evaluations. Zeira et al. (2004, p670) explored "whether JV CEOs and representatives of their foreign parents' regional headquarters differ in their evaluations of JV effectiveness" and they conducted a survey in China. Their results indicate that "isomorphic forces may exist between managers of JVs and managers of their foreign parents in the JV system" (Zeira et al., 2004, p670).

There are also some papers or books which include performance management as a small part and just briefly mention or introduce performance management in Chinese organisations (Chow, 1994, Ding et al, 1997, Bjorkman and Lu, 1999, Cooke, 2008). Overall, in the existing literature, the majority of the studies on performance appraisal in China concentrate on the periods of command economy (1949-1984) and transitional economy (1985-1997). However, there is a lack of the research on the contemporary scene in a market economy context. Moreover, in the past ten years, performance appraisal was mainly studied as an element of 'HR bundles' in the Strategic HRM research (Ngo et al., 2008; Björkman and Fan, 2002). No study could be found to explore the performance management practice in different types of Chinese companies in a market context. Therefore, this thesis fills a research gap,

by concentrating on performance appraisal in Chinese organisations.

Research Gap 3: There is a significant lack of empirical studies of the performance appraisal systems in Chinese organisations with different ownerships in a market context.

2.3.4 The problems of performance appraisal systems in Chinese organisations.

It has been remarked that the primary issue in Chinese HRM was motivation and labour discipline (Lockett, 1988). More and more state sector organisations and private sector enterprises started to link employees' performance to their reward and promotion, through performance appraisal systems and other forms of assessments (Zhao & Wu, 2003; Cooke, 2004). However, it was widely noted by academics and practitioners that the implementation of proper performance appraisal systems could be a major challenge for HRM. For instance, in the literature, it has been reported that the organisations, such as joint ventures, had difficulties in adopting performance appraisal as an integral part of the companies' HR strategy (Child, 1994; Ding et al., 1997; Bjorkman and Lu, 1999; Lindholm, 2000; Braun and Warner, 2002). Cooke (2004) conducted interviews with 20 Chinese company directors in the Chinese construction industry in 2003 and found that the majority of Chinese-owned companies had adopted some form of performance appraisal system. However, these directors thought that "the performance appraisal was more easily conducted at the shop floor level but not for professional and managerial staff" (Cooke, 2004). Moreover, an HR consulting firm, DDI (Development Dimensions International) conducted a survey of the development of performance appraisal practices in China (China Staff, May 2003). The study found that the participating companies (all of them were MNCs) have been aware of using performance appraisal systems as a HR strategy. And generally, in these multinational companies, a significant proportion of employees were satisfied with their performance appraisal system. However, the study also pointed out some problems that need to be improved in the future, such as improving the fairness of performance evaluation and avoiding cronyism, favouritism

and bias. Due to these problems, the employees may feel demotivated after the appraisal.

Moreover, Chinese culture has been reported as a potential barrier for Chinese organisations in adopting Western style HRM techniques, such as an performance appraisal system (Lockett, 1988). The Chinese culture restricts the transferability of the Western HRM practices to Chinese organisations (Warner, 1993; Child, 1994). For example, the important Chinese cultural factor “guanxi”, which is defined as the interpersonal relationship between two individuals, has a great impact on performance appraisal systems in Chinese organisations (Bjorkman and Lu, 1999). In their study of Chinese state-owned coal-mining industry companies, Bai and Bennington (2005, p. 280) point out that guanxi is the most important cultural factor, which will significantly influence the performance appraisal. Chen and his colleagues (2004) conducted interviews with some MBA students in a Chinese university and they found that guanxi will often influence performance appraisal in companies of those MBA students. Bozionelos and Wang (2007) also report that the impact of guanxi on performance appraisal systems will have a negative impact on employees’ attitudes toward individual performance-related pay in Chinese state-owned companies. Therefore, “guanxi” is considered the most important Chinese cultural factor in the literature. However, although scholars note the impact of guanxi on the performance appraisal system, no study had explicitly explained *what* kind of guanxi and *how* guanxi will influence the performance appraisal system. From the discussion above, the fourth research gap observed in the literature of current performance appraisal systems in contemporary China is as follows:

Research Gap 4: There is a shortage of in-depth research on guanxi’s impact on appraisals, which could explicitly explain how guanxi influences the implementation of performance appraisals in Chinese organisations.

2.3.5 Conclusion

This section has revealed two research gaps, which call for deeper studies on the current performance appraisal systems after reform in Chinese organisations. The majority of the studies of performance appraisal in Chinese organisations have concentrated on the periods of command economy (1949-1984) and transitional economy (1985-1997). We lack studies on the implementation of performance appraisal systems in contemporary Chinese organisations in a market economy context. Secondly, nowadays, more and more Chinese state-owned companies and private companies have started to adopt the Western-style performance appraisal system. However, no study has focused on the reform of performance appraisal systems in these companies. Therefore, it raises a key question as to how the new performance appraisal systems work in those companies with different ownerships after the reform. Thirdly, the Chinese cultural factor *guanxi* has been reported as the most important cultural factor in influencing the performance appraisal systems in Chinese organisations. Nonetheless, no study had clearly explored how *guanxi* influence the performance appraisal system. Hence, it is also necessary to explore the impact of *guanxi* on appraisals in Chinese organisations. The next section will provide a brief review of the literature related to the Chinese cultural factor – *guanxi*-its definition, typologies, positive impact and negative impact.

2.4 Guanxi

Guanxi, which refers to an interpersonal relationship, has been widely studied in Western literature of sociology, anthropology, psychology, politics and management. In this section, first of all, a brief review will be presented of the definition and typologies of guanxi, including including categorical-dimension of guanxi and dynamic approach to guanxi. Secondly, the concept of “guanxi practice”, which refers to supervisors’ use of guanxi, will be briefly defined, in order to be distinct from “guanxi”. Thirdly, both the positive and negative impacts of guanxi on human resource management practices will be discussed, in order to reveal the research gap, which calls for in-depth studies on guanxi’s negative impact on HRM practices. Fourthly, the relationship between supervisor and employee in Western literature of management will also be defined and discussed, and will be compared with Chinese guanxi to find similarities and differences.

2.4.1 Definition and typologies of Guanxi

2.4.1.1 Definition of Guanxi

Guanxi is a very important and special concept for understanding social relationships and exchange in China. It has recently been widely accepted and used as a socio-cultural construct and general analytic notion in Western literature of many disciplines, including sociology, psychology, anthropology, business studies, management, philosophy and political science. Although there are some similar theories in Western countries, such as relational demography, interpersonal relationships, or social networks, they are only able to explain some general aspects of guanxi, but could not capture the unique and specific characteristics of guanxi (Chen & Chen, 2004).

In the literature, there have been various definitions for the concept of “guanxi”. For example, King (1989) states that guanxi is a kind of interpersonal relationship. King (1989) points out that guanxi in Chinese society is built by the social interaction between individuals, and established based on common shared attributes, such as

kinship, locality, workplace, sworn brotherhood, being classmates, a common surname, and teacher-student relationships. Moreover, in terms of management studies, Chen and Chen (2004) also define guanxi as “an informal, particularistic personal connection between two individuals who are bounded by an implicit psychological contract to follow the social norm of guanxi such as maintaining a long-term relationship, mutual commitment, loyalty and obligations” (p306). These two definitions only introduce the general meaning of guanxi so I will then introduce two approaches to guanxi in the literature of management in order to clearly and thoroughly explain guanxi.

2.4.1.2 Two approaches to Guanxi

Generally speaking, the minimum requirement for two people in China to have guanxi is that they should be acquainted with each other through past interactions (Bian, 1997). This kind of guanxi resembles a weak tie in the western literature of networks. However, the special or strong guanxi in China is much more than being a mere acquaintance. As Yang (1994) states, strong guanxi is characterised by sentiment (*qing*) and obligation (*yi*), which is very similar to strong or semi-strong ties in the Western literature on networks (Granovetter, 1985). In China, it is common to use ‘strong,’ ‘close’ or ‘deep’ to describe a very special guanxi between two persons. Therefore, Chen and Chen (2004) explain that guanxi could be different in terms of relational closeness, which is similar to ‘tie strength’ in Western literature on networks. In the following section, it is important to review the two approaches to guanxi and different types of guanxi in the literature, in terms of the relational closeness.

Categorical-dimension of Guanxi: different types of Guanxi.

In the literature, as Chen and Chen (2004) categorise, there are basically two approaches to Guanxi. One approach is categorical-dimension conceptions of guanxi, which means that guanxi is ‘a particular type of personal relationship’, and will be always divided into several subtypes (Chen & Chen, 2004). One important

feature of Chinese guanxi is that “it tends to be built on the basis of shared institutions such as kinships, birthplaces, alma maters, and work units, rather than on personal or demographic similarities” (Chen & Chen, 2004, pp201). Moreover, the different types of guanxi and its bases represent different relational closeness to those outsiders of guanxi. For example, Jacobs (1982) categorises guanxi into three types: family ties (kinship), familiar persons (e.g. former classmates or colleagues) and strangers (with or without common demographic attributes), according to the different guanxi base which guanxi is built on. Tsui and Farh also state that guanxi is “the existence of direct particularistic ties between two or more individuals” (1997, p 56) and they also differentiate guanxi into three subtypes: family ties, familiar persons and strangers, according to the base. Tsui and Farh (1997) assume that there is a hierarchical order in the quality of the relationship between these three types of guanxi. The family tie is the strongest and closest guanxi, the sentiment and obligation between family members being unconditional and moral. Familiar ties constitute a semiclose guanxi and require a moderate degree of sentiment and obligation, developed through previous expressive and instrumental interactions. The ties between strangers are distant or even non-existent, with little sentiment and obligation.

Dynamic approach to guanxi

On the other hand, the second approach to guanxi is the dynamic approach, which views guanxi as the general quality of the personal relationship (Wong, Tinsley, Law, & Mobley, 2003). The quality of the relationship means that the parties in guanxi will have subjective assessments towards the state of the personal relationship, (Chen & Chen, 2004) and this concept is similar to ‘tie strength’ in the network literature (Chen, Chen & Xin, 2004). As Tsui and Farh (1997) point out, the personal guanxi should not be static, but should be considered as an elastic concept, which has different development periods and will change over time. Therefore, Chen and Chen (2004) consider this limitation of the previous models of guanxi and propose a process model of guanxi development, including three stages: initiating stage (setting up bases),

building stage (enhancing quality) and using stage (getting benefits and re-evaluating guanxi quality). Chen and her colleagues (2009) also claim that it is better to treat guanxi as a continuous variable and focus on the quality of guanxi relationship, instead of taking the categorical views of guanxi. Some empirical studies confirm that guanxi is more complicated than the categorical approach suggests. Family ties, which are considered as the highest quality guanxi in China (Tsui and Farh, 1997), had been proven to be decreasing in Chinese society (Chow & Ng, 2004). Yang (2001) also found in her fieldwork that familiar ties could be more important than family bonds in some circumstances, which echoes the traditional Chinese common saying “Yuan Qin Bu Ru Jin Ling (A near neighbour is better than a distant cousin)”. According to these findings, it is not correct to assume that any type of family tie should be of higher quality than a familiar tie. Hence, a number of scholars view the guanxi relationship in China as a continuous concept and have started to notice how it is built and developed. In terms of the method of building and developing guanxi, there are two major types of interactions: expressive interaction and instrumental interaction (Chen & Chen, 2004). These personal interactions are considered key for initiating and developing guanxi in China (Jacobs, 1982; Yang, 1994; Law et al. 2000). As Chen and Chen (2004) defines: “Instrumental interactions refer to pragmatic transactions and exchanges related to work or business, such as mutual help in finding employment, job assignment, information exchange, work place cooperation and business transactions” and “expressive interactions are more social-oriented activities such as celebration parties of marriages, births, birthdays, and promotions” (p 316).

Based on the categorical dimension of guanxi, the guanxi of a Chinese individual can be divided into two types: ascribed guanxi (e.g. relatives or hometown fellows) and achieved guanxi (close friends or supervisor-subordinate guanxi). Based on the dynamic approach to guanxi, guanxi is not static and could be developed through various interactions between two individuals. For instance, the employees in the companies could strive to build and develop a good guanxi with their supervisor or an

important person in the company (e.g. high level manager or boss of the company). Therefore, as an employee in the Chinese company, a person has different types of guanxi, not only his guanxi with his supervisor, but also with important people within the company or even out of the company (e.g. the employee has a family tie with an important person within or out of the company). The guanxi of employees in Chinese companies is very complicated, as is the impact of guanxi of employees on supervisors in performance appraisal systems. I will discuss this question after I review the impacts of guanxi in Chinese society. I will introduce the concept of 'guanxi practice' in the next section and explain the positive and negative consequences of 'guanxi practice' in China.

2.4.2 Guanxi: cultural perspective vs. institutional perspective

The concept guanxi originated from Chinese culture; however, China is not the only society where interpersonal relations or social networks can play a special role in social life. There is a debate regarding the extent to which guanxi is considered a unique phenomenon in China in the literature. Some scholars claim that guanxi was an important and special element of traditional Chinese culture, which has been handed down generally unchanged through the generations (e.g. King, 1985; Huang, 1987; Yang, 1994). On the other hand, some scholars recognise guanxi as a general phenomenon, which is more than a Chinese concept and could also be found in other types of societies with different cultures. They also thought that the complex phenomenon of guanxi is due to special structural arrangements which exist in Chinese society (e.g. Walder, 1986; Oi, 1989; Guthrie, 1998). Over the past two decades, a large number of scholars have participated in this debate; and they are mainly categorised into two perspectives. Here, guanxi will be reviewed from the following two crucial aspects in the literature: cultural perspective and institutional perspective.

2.4.2.1 Cultural perspective

Scholars who regarded guanxi as a crucial and uniquely Chinese phenomenon noticed

its important significance in Chinese philosophy. In Western countries, the direct spiritual relation to God enables believers in Judeo-Christian traditions to develop their own sense of identity and fulfilment. In contrast, Chinese people would realise a sense of self in the social sphere and derive their fulfilment from social interactions with other people (King, 1985). As Mei (1967) points out, the core element in Chinese Confucianism is human heartedness; and individuals' self-education is an important aspect, especially learning how to treat others.

It is crucial for Chinese people to understand, develop and manage interpersonal relationships. The Chinese society, which is relation-based, focuses more on the nature of relationships and interactions between individuals than on the individual themselves (King, 1985). Tu (1981) claims that a person, whose self should be a dynamic process rather than a static structure, is the centre of complicated relationships rather than a world of private feelings and mind; therefore, the person should endeavour to relate to and communicate with other individuals through social networks. Huang (1987, p959) considered the centrality of guanxi in China as a key element of "China's national character."

Due to the importance and significance of guanxi in Chinese society, those scholars with cultural perspective thought that guanxi is deeply rooted in Chinese society and psyche. "That the Chinese are preoccupied with Kuan-Hsi (guanxi) building has indeed a built-in cultural imperative behind it (King, 1985, p 68)." King (1985) also states that managing and developing guanxi is actually the important "stock knowledge" for Chinese people in their daily life. Therefore, King (1985) suggests that it is not necessary to find one explanation for the prevalence of guanxi in terms of particular institutional arrangements, because Chinese people are born to behave in that way.

The importance of guanxi to Chinese people was recognised by increasing numbers of scholars and business consultants, who explained the essential role of guanxi in

business in Chinese society. A number of studies had identified the important impacts of guanxi on business in Taiwan (e.g. Kao, 1991; Numazaki, 1992; Luo, 1997) and Southeast Asia (e.g. Simons and Zielenziger, 1994; WeidanBaum, 1996), where guanxi is regarded as a fundamental principle in the majority of business activities. Some business consultants provided advice on the use of guanxi for those who do business in China. They also highlight the necessity for foreign investors to learn how to build, develop and utilise guanxi when doing business in China (e.g. Tung and Worm, 1997; Luo and Chen, 1997; Gomez and Arias, 1998). The manipulation of guanxi becomes a key skill for foreign people to master in China. As Pye (1968, p173) said, “the Chinese tend to see the manipulation of human relationships as the natural and normal approach for accomplishing most things in life,” therefore, foreign people should understand that Chinese culture leads to a psychological preference for development and use of guanxi for instrumental aims, and learn the tactics and strategies to deal with it.

In her book *Gifts, Favors and Banquets: The Art of Social Relationships in China*, Yang (1994) expresses the view that guanxi is a special and unique cultural element and phenomenon in China. Although she traces the contemporary gift economy to institutional conditions in the Cultural Revolution period in China, she still emphasises the Chineseness of guanxi and linked the prevalent gift economy (i.e. the art of guanxi and the use of guanxi) in modern China to the “ancestral forms of guanxixue gift and etiquette.” Yang (1994) discusses talks about the conflict *Rujia* (Confucian) and *Fajia* (Legalist). *Rujia* discourse promotes the ritualised society which prioritises social relations, compared to *Fajia* discourse which emphasizes the objective legal system. Thus, Yang (1994, p229) points out that “the implications of *Rujia* discourse on government on ritual is a society of social relations”, which also helped to shape the current gift economy in modern China.

Although he did a great job explaining the role of guanxi in the job market in China from an institutional perspective, Bian (1994) still maintains that Chinese people

fundamentally develop and use guanxi as a cultural tradition. Bian (1994) assumes that Chinese people's reliance on social relations is a fundamental phenomenon in Chinese society. All Chinese people have a complex web of social relations; therefore, individuals build, develop and use their guanxi to achieve their aims and satisfy their interests. In exchange, they are obliged to help other individuals with whom they have connections. Bian (1994) does not refer to Confucian or Chinese traditional philosophy roots for guanxi; however, he admits that Chinese people are naturally inclined to manufacture reciprocity amongst the people who are connected to them. This is a crucial underlying assumption for his further studies.

Categories of culture

The scholars with cultural perspective discussed above mainly focus on the culture of the state, that is, the culture of China or the culture of Chinese people. It indicates that guanxi and guanxi practices are deeply rooted in the psyche of Chinese people, compared to other cultures. Chinese society is relation based rather than individual based or society based; therefore the establishment, cultivation or utilisation of guanxi is a kind of inherent knowledge of all Chinese people.

Besides the culture of the state, there are two more important types of guanxi, which should be mentioned here: organisational culture and personal culture value. Organisational culture refers to a set of shared mental assumptions, including values, norms, beliefs, symbols and habits, which guide the pattern of individuals' thoughts, feelings, behaviours and actions (Ravasi and Schultz, 2006). Normally, an organisation has its own distinct culture; however, in some larger organisations, a number of diverse or even conflicting cultures could co-exist, because of different features or leadership style of managers. In a survey of 181 foreign invested enterprises in China, Li (2005) found that Chinese conventional wisdom, i.e. managerial networking and modern management philosophy, i.e. strategic orientation could coexist in China's transition economy. It is observed that even the managers in foreign companies with different types of strategic orientation actively establish

and develop guanxi with managers in other companies or governmental officials.

Another type of culture worth mentioning is personal cultural value, which refers to the cultural value of an individual or honour. Hofstede (1991) states that individuals in a society tend to derive their own cultural values from multiple subcultures in a society. [It is therefore possible that individuals endorse a personal cultural value which is actually different to or even opposite to a shared and popular culture within a society. For example, although guanxi is regarded as a unique phenomenon in China and the understanding and use of guanxi is considered fundamental knowledge for Chinese people, some Chinese people do not really like guanxi and are unable to establish and cultivate guanxi. Therefore, it indicated that these individuals hold their own personal cultural values toward guanxi (e.g. universalism or lower relationalism), which are different from those individuals who endorse the cultural values endorsing guanxi (e.g. particularism or higher relationalism).

In conclusion, the culture of the state, organisational culture and personal cultural value which I have briefly discussed above will form the basis of the following argument and discussion in finding part in this thesis.

2.4.2.2 Institutional perspective

A number of scholars hold opposing views that guanxi is produced by a special series of social institutions, which exist in China and also in some other societies. Moreover, they do not believe that guanxi is a uniquely Chinese phenomenon. The main reason for prevalence of guanxi is the institutional structure in China, which encourages people to rely on guanxi to achieve their aims. Institutionalists claim that social networks had a great impact on economic transactions because of the shortage economy and weak legal system. They also argue that individuals' reliance on social? networks will change as the institutional configuration of China changes.

Walder (1986) states that the use of guanxi in workplaces in China is a result of the

situation where resources such as benefits, housing and promotions are controlled by high-level authorities, which could be also found in other shortage economies. In her study of rural politics, Oi (1989) notes that the importance of guanxi in clientelist politics in rural China is neither traditional nor inherently Chinese, because it is similar to the situation in a number of other countries such as?.

Guthrie (1998) also explores the institutional causes and structural reasons underlying the use of guanxi in China and traced the prevalent guanxi practices to the imperfect legal system in shortage economy. According to 155 in-depth interviews with managers and officials in China in 1995, Guthrie (1998) found that the Chinese authorities were paying more attention to regulations, policies and laws, which is being built by Chinese government rather than guanxi and guanxi practices, which are considered corrupt practices. Guthrie (1998) reported that Chinese managers consider guanxi practices more dangerous and useless because they break laws and regulations which prohibit doing business through guanxi with officials.

Guthrie (1998) does not question the centrality of guanxi in individuals' daily lives in China; however, his findings do not fit with the view that the role and importance of guanxi and guanxi practices is increasing in China (e.g. Yang, 1994). Although Guthrie admits that social connections are still important in China, those managers considered guanxi to be less important than their own competitive advantages in price and quality; and started to distance themselves from guanxi practices in business. He also points out that the Chinese government is currently establishing a national legal system to regulate and direct economic practices, particularly for large-scale organisations. Moreover, with increasing economic responsibilities organisations are forced to consider how to make their operations more profitable. It is obvious that guanxi and guanxi practices conflict with this trend. Therefore, Guthrie (1998, p282) questions whether guanxi and guanxi practice are still relevant for all kinds of business and "whether their importance has increased at an accelerated rate." Guthrie (1998, p282) concludes that guanxi practice may "occupy a diminishing role

in China's urban industrial economy as the economic transition progresses.”

In order to deal with the institutionally uncertain environment in China, it is important for both Chinese people and foreign people who want to do business or invest in China to accumulate and utilise *guanxi*. Lin's study of a Chinese village (1995, p312) highlights the importance of kin networks, as a result of “the inequality of opportunities and rewards structures.” Lin and some other scholars regarded *guanxi* as a type of resource, namely “*guanxi capital*,” which could be interpreted as an investment for the future. Riley (1994) also points out that some issues in China, such as housing and finding jobs through *guanxi*, had increased the necessity and importance of maintaining kin networks. Gold (1985) claimed that the economic, social and political environment in China requires and even encourages individuals to develop and accumulate *guanxi* to get things done.

According to his study of symbiotic clientelism in Xiamen, Wank (1995) found that the businessman who did not have a solid social standing needs to turn to officials for access to the majority of the things he needs, such as resources, protection and licenses. Even more developed regions still demonstrate this type of clientelism, which is more easily obtained through businessman's personal *guanxi*. Some other scholars (e.g. Hsing, 1998; Smart and Smart, 1998) explained the impact of *guanxi* on foreign investment, by using the example of investors in China, who are originally from Hong Kong and Taiwan. When local officials were looking for foreign investment, they turned first to overseas Chinese whose ancestors were originally from their own jurisdiction (e.g. officials in Guangdong turned to investors from Hong Kong and officials in Fujian to Taiwanese). Obviously, this could also lead to a kind of symbiotic relationship between officials and foreign investors.

All of the studies discussed above mainly focus on the structural and institutional configurations, which resulted in the importance of *guanxi* in different economic environment. All in all, these scholars share the view that, particularly in the early

1980s, institutions in China created a situation where Chinese people tried their best to develop and accumulate guanxi and learn the art of *guanxixue* and use of guanxi as a fundamental skill for survival and development (Zhai, 1996; Chen, 1997).

Institution

Based on the discussion above, we can see that the institution the scholars talked about mainly referred to the legal system in China e.g. regulation, laws and policies. Institutional theory “attends to the deeper and more resilient aspects of social structure” (Scott, 2004, p142). It refers to “the process by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behaviors (Scott, 2004, p142).” Although culture is regarded as a type of institution in some situations, the institution for guanxi here mainly refers to those formal structural forces and configurations, such as laws, regulations, economic environment or special institutional conditions which happen to exist in China. When considering guanxi and guanxi practices in performance appraisal in an organisation in terms of institutional perspective, it is more proper to examine the organisational institution rather than national institution, such as the organisational regulation or policy for performance appraisal system. Therefore, in the finding part of this thesis, the organisational regulation and policies for appraisal system will be discussed to explore the formation of guanxi practices in sampling organisations.

Conclusion

In conclusion, the debate regarding whether guanxi is unique in China or whether it is a general phenomenon which is produced by special institutional conditions that exist in China in the literature, had been established as an either – or question. However, Gold, Guthrie and Wank (2002) reported that both institutional and cultural factors impact on the functioning of guanxi in Chinese society. However, some scholars (e.g. Bian, 1994) are subtler in their positions on this question. They state that both culture and institution contribute to the formation of guanxi and guanxi practices in current practices in China. Therefore, in this thesis, both culture, including culture

of state, organisational culture and personal cultural value and institution, i.e. organisational regulations and policies for performance appraisal will be taken into consideration, when studying guanxi and guanxi practices in performance appraisal in sampling organisations.

2.4.3 Guanxi Practice

It is important to note whether guanxi exists and its practice in Chinese society. Yang (1997) adopts ‘guanxi use’ and ‘the art of guanxi’ to present the practices of guanxi. Guthrie (1998) differentiates guanxi practice from guanxi and regards them as two separate institutions: “while the institution of guanxi is grounded in the personal relations and ‘human sentiments’ that arise from the concept of *renqing*”(human sentiment) (p. 257). On the other hand, guanxi practice is “the use of these social relationships to make exchanges, manufacture indebtedness, or accomplish tasks” (Guthrie, p. 266). Consistent with Guthrie’s (1998) guanxi practice, some other scholars used guanxi building as a separate and distinct notion, compared to the concept of guanxi (Kipnis 1997, Tsui and Farh 1997, Bell 2000). Guanxi practice is considered a special, prevalent and important Chinese cultural phenomenon in Chinese society (Huang, 1987; Xin & Pearce, 1996; Yeung & Tung, 1996).

2.4.4 The impact of guanxi practice in China

In the literature, the importance of the personal relationship in China has been well studied and the positive association between personal relationship and individual and organisational outcomes are well documented (Xin and Pearce, 1996; Tsui and Farh 1997; Luo, 2000; Chen, Chen & Xin, 2004). For example, from an economic perspective, people could utilise their own social capital, such as guanxi, to gain competitive advantage in the imperfect competitive markets (Luo, 2000). However, previous research in management has concentrated too much on the positive impact of social network and guanxi practices and the serious negative consequences of the guanxi practices has been comparatively ignored (Podolny and Page, 1998; Chen,

Chen & Xin 2004). Burt (1997) has tried to find some factors that might limit the positive impact of certain network and guanxi practice. Meanwhile, Granovetter (1985) states: “the potential problems of being trapped in deeply embedded social relationships.” Since 2000, scholars have started to notice the negative impact of guanxi and found guanxi practice negatively influences some employee outcomes, such as procedural justice and trust in management (Dunfee and Warren 2001, Tsui et al. 2001, Law et al., 2000; Goerzen and Beamish 2002, Chen, Chen & Xin, 2004, Chen et al., 2009).

2.4.4.1 The positive impact of guanxi practice in China.

The majority of previous academic studies on guanxi practices in management have focused on the benefits that individual guanxi users could gain from the guanxi practices (Xin & Pearce, 1996, Bian, 1997; Tsui & Farh, 1997, Tsang, 1998, Luo, 2000). In the management and organisation literature, a number of studies have confirmed that managers in Chinese companies made the HR decision based on their quality of relationships with subordinates. For instance, Zhang and Yang (1998) found that Chinese managers allocate rewards not only on employees’ performance and contribution, but also on the recipients’ guanxi with them. Law and his colleagues (2000) report that Chinese managers provide more promotion opportunities and allocate big bonuses based on the quality of their relationships with employees. Zhou and Martocchio (2001) also found that the Chinese employees who have good relationship with supervisors get more non-monetary reward from their supervisors than those who have poor relationships with supervisors. All of these empirical studies indicate that employees who have better relationships with supervisors will get more benefits from their supervisors.

2.4.4.2 The negative impact of guanxi practice in China: Research Gap 5

Besides the positive impact of guanxi practice in China, many scholars have noticed its negative consequences as well (Gold, 1985, Chu & Ju, 1990, Pye, 1995, Bian, 1997; Leana & Rousseau, 2000, Chen, Chen, & Xin, 2004; Khatri, Tsang, & Begley,

2006; Chen & Chen, 2009, Chen, Friedman, Yu & Sun, 2011). These studies have already identified several negative consequences of guanxi practices, such as cronyism, corruption, harm to employees' perceptions of justice and trust in management in organisations. In terms of the positive impact of guanxi practice, the parties involved in the guanxi practice will get the benefits. However, in terms of the negative impact, guanxi practice could be detrimental to the interest of group, organisation, company or society (Dunfee, Warren, & Li, 2004; Fan, 2002). For example, Hsu & Wang (2007) state that group guanxi practice: "the general pattern within a management group of making human resource (HR) decisions on the basis of personal relationships", will have a negative impact on employees' in-role performance and extra-role performance. Heimer (1992) also explains that guanxi practice and its particularistic norms could benefit the individuals involved, but the particularistic rules could clash with the universalistic rules in organisational settings. The conflict between particularistic rules and universalistic rules will lead to several problems, such as justice concerns.

In the literature, there are two important studies that focus on the negative impact of guanxi practices in Chinese organisations. Chen, Chen and Xin (2004) raised two conditions for guanxi practices' negative impact on employees' reactions. Firstly, if the favour exchange between supervisor and subordinates involves the use of formal organisational collective resources, these kinds of guanxi practices will lead to a negative result. Some scholars stated that reciprocating favours is a normative and virtuous method of building personal relationships in private domains of life (Blau 1964, Foa and Foa 1980). Nonetheless, that the managers make the decisions, e.g. reward, promotion etc, to benefit their own interests and those of the subordinates, with whom they have close guanxi by using their position or collective resources, will make other employees concerned about conflicts of interest, because this action is at the expense of third parties or the organisation as a whole (Van Buren and Leana 2000).

Secondly, “when reacting to guanxi HRM practices, employees are more likely to be “fairminded” than merely economically rational” (Chen, Chen and Xin, 2004, p201). In terms of the economic perspective, people could utilise their social capital, e.g.guanxi, to gain competitive advantage in the market. However, from the justice perspective, guanxi practices become more problematic, because employees are serious about the justice issue. Chen, Chen and Xin (2004) point out that the guanxi practice beneficiaries will take the economic perspectives to guanxi practice, but those employees outside of the guanxi practices and guanxi network (i.e., third-party observers or victims of such practices) will take the justice perspective and pay great attention to injustice issue a lot.

Chen, Chen and Xin (2004) argue that guanxi practice leads to problems when it happens in public domains of life (such as in organisational settings), because of the conflict of interest between guanxi practice beneficiaries and those outside the guanxi network and those employees outside of the guanxi practice who have justice concerns. According to Chen et al.’s (2004) study, the guanxi practice in Chinese organisations has a negative impact on employees’ trust in management. This relationship is mediated by employees’ perceptions of procedural justice. They also found that “the negative effect of guanxi practices varied as a function of guanxi bases: favouring a familiar tie will reduce trust to a greater degree than favouring a neutral party, and favouring a family tie will reduce trust to a greater degree than favouring a familiar tie” (p203). It is important to point out that the guanxi practice mentioned by Chen, Chen & Xin (2004) in this study is the guanxi practice at organisational level. That is to say, they view guanxi practices from the perspective of the whole organisation, not from the perspective of those individuals who could benefit from guanxi practices. If the phenomenon that managers’ HR decisions based on guanxi is prevalent in the companies, it can be harmful to employees’ trust in management and perceptions of procedural justice.

In order to explain both the positive impact and negative impact of guanxi practice in

China, Chen, Friedman, Yu & Sun (2011) categorise guanxi practice into two types: interpersonal level guanxi practices and group level guanxi practices. Interpersonal level guanxi practices could be defined as “managers making favourable HR decisions for subordinates with whom he or she has a good personal relationship,” while group level guanxi practices refer to “the general pattern within an organisation or department of making HR decisions on the basis of personal relationships” (Chen, et al., 2011, p 716). Chen et al. (2011) claim that these two notions are distinct empirically and conceptually: interpersonal level guanxi practice is experienced by the parties who stay in the guanxi and can benefit from guanxi; while group level guanxi practice is experienced by a wider group of individuals who observe and notice that supervisors make HR decisions based on guanxi.

Chen, Friedman, Yu & Sun (2011) had examined the negative impact of group level guanxi practices on employees’ perceptions of procedural justice. After China adopted the ‘reform and open’ policy, China experienced the transformation process from traditional to modern society. As Walder (1986) states, in the past, Chinese managers adopted and applied equality, seniority and need as criteria for allocating resources. However, recent studies show that equity has become a dominant criterion for Chinese managers and organisations (Chen et al., 2011). In order to achieve effectiveness, more and more Chinese companies have started to reform their performance management systems or reward systems, by linking the performance of employees to PM result and reward. Some scholars have found that Chinese employees think performance-based HR evaluations and reward systems are just and fair (Chen, 1995; He, Chen & Zheng, 2004, Bozionelos & Wang, 2007). Therefore, when the companies use performance-based evaluation systems and employees perceive equity as proper criteria for performance appraisal, the supervisors making evaluation decisions based on their relationship with subordinates will have more or less of a negative impact on employees’ perceptions of justice. If guanxi practices between subordinates and managers are prevalent and supervisors always provide benefits to those employees with whom they have a good relationship in the

performance management process, there may be a conflict between the equity criterion and the relationship quality criterion. Therefore, every employee may be confused as to which criterion the supervisor will adopt in performance management systems and may be uncertain as to how they could strive to get good results in performance management. Even if an employee can benefit from his current good *guanxi* with managers and is glad to accept these benefits, he will be not sure about whether his supervisor will change in the future or if his colleagues have stronger relationships with his supervisor than he does. All this may happen if there is no clear underlying principle or criteria to direct the managers in performance appraisals (Chen, et al., 2011). Therefore, Chen et al (2011) found that there is a negative relationship between group level *guanxi* practice and employees' perceptions of procedural justice. The employees in Chinese companies want to develop *guanxi* with authority figures and hope to benefit from managers' *guanxi* practice at an interpersonal level; however, the employees' justice perceptions would be undermined by the managers' broad and prevalent *guanxi*-based HR decisions.

In conclusion, these two studies clearly state that *guanxi* practice at an organisational level would have a negative impact on employees' perceptions of procedural justice. Justice concerns would become an important problem in Chinese organisations if the managers' HR decisions are influenced by different *guanxi*. Some employees could benefit from *guanxi* practices, but this would also sacrifice the interests of the majority of employees, the whole company or the organisation. Chen, Chen and Xin (2004) found that the negative effect of *guanxi* practices on trust in management was mediated by employees' perceptions of procedural justice. They also suggested that future research should also examine the relationship between the *guanxi* practice and other forms of justice, such as interactional justice (Bies, 2001) and structural justice, which includes structural-distributive justice (based on equity theory) and structural-procedural justice (Greenberg, 1993) and also other employees' behavioural outcomes, such as voice. Based on the argument above, the fifth research gap obtained in the literature is as follows.

Research Gap 5: There is a lack of research on guanxi's negative impact on employees' justice perceptions, affective reactions and behavioural outcomes. In particular, there is a lack of study on guanxi's negative impact on performance appraisal and employees' attitudes and behaviour.

2.4.5 Supervisor-subordinate relationships in the study of performance appraisal in Western countries.

The relationship between supervisor and subordinate has been studied extensively and regarded as an important factor that will have a great impact on employees' reactions to the performance appraisal system. In the literature, the relationship between supervisor and subordinate is considered the social context of performance appraisal, which is the key context for the study of employees' reactions (Russel & Goode, 1988). Other scholars (e.g. Murphy & Cleveland, 1995; Erdogan, 2002; Levy & Williams, 2004) have also noticed the importance of social context in performance appraisal research. However, Pichler (2009) points out that the models in the literature used different taxonomies to categorise the social context. In his meta-analysis, Pichler (2009) summarises and identifies four constructs in Western literature that are related to the social context of performance appraisal and correlate with employees' reactions. These constructs include rater-ratee relationship quality, supervisor trust, social support and supervisor satisfaction. Although there are four major constructs in the literature, all these four constructs have very similar meanings (Pichler, 2009).

2.4.5.1 Rater-ratee relationship quality

Pichler defines the rater-ratee relationship quality as: "the extent to which a rater and a ratee have a working relationship characterized by a high-quality social exchange, which can include characteristics such as mutual trust and social support" (2009, p24). In Western literature, there have been seven studies that investigate the relationship

between the rater-ratee relationship quality and employees' reactions to performance appraisal systems (Dobbins, Cardy & Platz-Vieno, 1990; Dulebohn & Ferris, 1999; Klein & Snell, 1994; Elicker, 2000; Orpen, 1995; Roberson et al. 1993, Nathan et al. 1991). Among these studies, leader-member exchange theory has been widely used to operationalise the rater-ratee relationship quality. Moreover, the employees' reactions to performance appraisal measured in these studies also varied, including procedural justice (Dulebohn & Ferris, 1999; Elicker, 2000), distributive justice (Elicker, 2000), interactional justice (Elicker, 2000), session satisfaction (Nathan et al. 1991; Roberson et al. 1993), utility (Elicker, 2000), motivation to improve (Elicker, 2000; Orpen, 1995) and a composite of reactions (Dobbins et al, 1990; Klein & Snell, 1994; Orpen, 1995).

Here, I will briefly review the theory of leader-member exchange, because it has been widely used to measure the supervisor-subordinate relationship in Western theory and it could help us to understand the exchange between supervisor and subordinate and the constructs, such as supervisor trust or social support. Moreover, LMX also “illustrates how each of the constructs identified as aspects of the social context of appraisal are interrelated. Each of the constructs, i.e. social support and satisfaction, represent aspects of relationship quality, or a high-quality leader-member exchange” (Pichler, 2009, p26).

Leader-Member Exchange Theory (LMX), first raised by Graen and his colleagues, concentrates on the dyadic relationship between a supervisor (leader) and his subordinate (member). It could be defined as “(1) a systems of components and their relationships; (2) involving both members of a dyad; (3) involving interdependent patterns of behaviour; (4) sharing mutual outcome instrumentalities; and (5) producing concepts of environments, cause maps, values” (Scandura, Graen, and Novak, 1986, p580). It has been found that LMX is related to important individual and team outcomes and also has a contribution to theories regarding leadership in various societies with different cultures (Graen & Uhl-Bien, 1995).

According to leader-member exchange theory, supervisors always have limited resources, such as time, energy and attention, for allocation to their subordinates. Therefore, they are only able to build a close relationship with some subordinates and they will use their resources to help them to get better performance. It is said that in this situation, supervisors will categorise the subordinates into ingroup and outgroup members. Hence, those ingroup subordinates with high quality exchange will receive good levels of communication, better support and trust and finally better appraisal results, promotion and good positions; while supervisors will in turn receive the ingroup subordinates' loyalty, trust and commitment. However, the outgroup subordinates will only receive normal and routine help, supervision and support; while the supervisor receives normal benefits. Nor do the outgroup subordinates have good levels of trust, and even experience distrust with their supervisors. Some empirical studies demonstrated that it is possible for supervisors to categorise the subordinates into ingroup and outgroup, in terms of those personal characteristics, such as age, sex and race (e.g. Dansereau et al, 1975). Moreover, high quality relationship and exchange between supervisor and subordinate will be significantly related to many outcomes, such as employees' performance, employees' satisfaction with supervisors, organisational commitment and lower turnover rate (Gerstner & Day, 1997, Liden et al, 1997). Therefore, it is reported that the quality of relationship and exchange will have an impact on the behaviour of supervisors and subordinates, which will also lead to employees' perceptions of justice. For instance, some studies confirm that outgroup subordinates with lower quality exchange with their supervisors will experience feelings of injustice and unfairness (Yukl, 1994).

In performance appraisal research, some studies have shown the importance of a good relationship between supervisor and subordinates. Wexley & Klimoski (1984) indicate that subordinates who have a high quality relationship with supervisor will receive preferential treatment, i.e. increased participation in the performance appraisal process. Cleveland and Murphy (1992) point out that the exchange and relationship

quality will have an impact on how supervisors treat subordinates in an appraisal context. Dansereau and his colleagues (1975) also stated that members with high quality relationships with supervisors will have more information and greater influence on decisions. As these studies show, the ingroup employees benefit more from their good relationship with supervisors. Hence, some leader-member exchange studies showed that ingroup members will have greater trust in leaders than out-group members (Dienesch & Liden, 1986) and can even obtain higher performance ratings (Wayne & Liden, 1995).

2.4.5.2 Supervisor trust, supervisor support and supervisor satisfaction.

As Pichler (2009) summarises, in the previous studies of the social context of performance appraisal, supervisor trust, supervisor support and supervisor satisfaction are three widely measured constructs besides rater-ratee relationship quality. And Pichler (2009) also points out that these three constructs have very similar meaning as rater-ratee relationship quality. As the leader-member exchange theory proposes that supervisor trust and support are just some aspects of exchange quality, it is expected that these three constructs have a similar meaning and will have similar ways of relating to employees' reactions. In Johnson's (2003) study, through factor analysis, the results of the measurement of leader-member exchange and supervisor trust best represents a single factor, not two separate ones. Therefore, I will briefly summarise the studies regarding these three constructs in the literature of performance appraisal. Supervisor trust, meaning the ratee believes the supervisor is trustworthy, has been measured in five studies (Hubbell and Chory-Assad, 2005; Folger & Konovsky, 1989; Kinicki et al., 2004, Korsgaard & Roberson, 1995; Lee & Akhtar, 1996). Supervisor support, the perception that an employee obtains support from his supervisor in a social exchange in the workplace (House, 1981), has been measured in four studies (Burke et al., 1978; Burke & Wilcox, 1969; Nemeroff & Wexley, 1979; Giles et al., 1997). Supervisor satisfaction, the extent to which the subordinate is satisfied with the supervision he receives from the supervisor, has been measured in four studies (Elicker, 2000; Giles & Mossholders, 1990, Nathan et al., 1991; Gaby, 2004). Among

the above studies, justice was considered as one important employee reaction variable, related to supervisor-subordinate relationship, including procedural justice (Hubbell & Chory-Assad, 2005; Elicker, 2000), distributive justice (Folger & Konovsky, 1989; Korsgaard & Roberson, 1995, Elicker, 2000; Gaby, 2004) and interactional justice (Hubbell & Chory-Assad, 2005; Burke et al., 1978; Giles et al., 1997, Elicker, 2000; Gaby, 2004).

In conclusion, the social context of performance appraisal has been studied widely and is considered a the key factor in influencing employees' reactions to the PM system. There are generally four constructs, including rater-ratee relationship quality, supervisor trust, social support and supervisor satisfaction, which are used to describe the social contextual factors. However, as Pichler (2009) points out, these four constructs have similar conceptual meanings and can be summarised as the relationship between rater and ratee. Leader-member exchange theory has been used in some studies to operationalise and measure rater-ratee relationship quality. Justice has been measured as an important employee reaction variable in the previous studies.

However, the social context of performance appraisal is more complicated in Chinese organisations. Therefore, it is essential to compare the social context, e.g. supervisor-subordinate relationship, between Chinese organisations and Western organisations, to establish their differences.

2.4.5.3 The difference between the social contexts of Chinese companies and Western companies.

The social context of performance appraisal in Chinese companies and Western companies is different. In Western literature, scholars focus on the rater-ratee relationship; while in the Chinese context, *guanxi* and *guanxi* practices play an important role. Therefore, in this section, I will differentiate between these two social contexts in terms of the following four aspects.

Different types of guanxi and rater-ratee relationship

Western scholars have noticed the importance of the rater-ratee relationship's impact on employees' reactions to the PM system (e.g. Murphy & Cleveland, 1995; Erdogan, 2002; Levy & Williams, 2004). The quality of rater-ratee relationship will influence various outcomes, such as employees' perceptions of justice, session satisfaction, utility, motivation to improve and a composite of reactions (e.g. Dulebohn & Ferris, 1999; Nathan et al. 1991; Roberson et al. 1993; Elicker, 2000; Orpen, 1995). On the other hand, in the Chinese context, guanxi will have a significant impact on performance appraisal systems and will influence the managers' decisions in PA systems to a large extent. As in the Western context, the guanxi between supervisor and subordinate has an impact on the supervisors' decisions. However, there are various other types of guanxi which also influence managers' decisions, besides supervisor-subordinate guanxi. Subordinates have different types of guanxi and all these types of guanxi will have an impact on supervisors. For example, the supervisors' guanxi with important people in the companies or even guanxi with important outsiders will also have an impact on managers' decisions in performance appraisals (Wang and Bozionelos, 2007). As Tsui and Farh (1997) state, guanxi could be categorised as three types: family tie, familiar tie and stranger tie. Supervisor-subordinate relationship is just one type of familiar tie of guanxi. The family tie is the strongest tie of guanxi in China. If a Chinese employee has a strong family tie with an important person inside or outside of the company, it is possible for him to get good results in the performance appraisal from his supervisor. Therefore, it is important to note that besides the guanxi between supervisor and subordinate, subordinates' other guanxi with other persons will also have the possibility of influencing supervisors' decisions.

Workplace and non-workplace interactions

Leader-member exchange theory, which focuses on the interactions and interchange between supervisor and subordinate in the workplace, has been widely studied in Western literature. However, the interactions between supervisor and subordinate

are quite different in a Chinese context. LMX is strictly restricted to the supervisor-subordinate work-related exchange within the workplace and all the benefits both parties obtain are all work-related (Law et al, 2000; Chen & Tjosvold, 2007). For example, as Elicker et al state: “High-LMX members receive more attention and resources from the supervisor, and they tend to reciprocate this favourable treatment with higher performance, trust, loyalty, and positive attitudes” (2006, p533). On the other hand, the Chinese supervisor and subordinate also have a lot of non-work exchanges and interactions. Law et al (2000) point out that Chinese supervisors and their subordinates also have special interactions after office hours through a series of social functions. Many studies confirm that besides the exchange in workplace, Chinese employees also have different types of non-work exchange through social interactions, such as giving gifts, home visits and attending weddings and funerals (e.g. Hui & Lin, 1996). Normally, the subordinates in Chinese organisations will use the non-work interaction as a tactics in building or developing a good guanxi with his supervisor. For example, it is common for them to visit supervisors’ homes and give money or gifts on important days, such as various festivals or on important days for supervisors and their relatives. And in exchange, the Chinese supervisor will provide some work-related benefits to the subordinate, who has built good guanxi with him, such as good results for performance appraisal, more bonuses or promotion. This is the common pattern of managers’ guanxi practice in Chinese companies. The subordinate provides benefits to the supervisor through non-work interactions, and then the supervisor uses his position and resources in the company to provide work-related benefits to subordinates. If this is prevalent in the company, the performance of the employees at work becomes less important compared to subordinates’ guanxi building and development with supervisors. This phenomenon will confuse employees as to how to get a good result in their performance appraisals, and this will also lead to employees’ concern about the justice of the performance appraisal system.

Positive and negative impact

In Western performance appraisal research, almost all the studies focus on the positive impact of rater-ratee relationship quality on employees' reactions toward the PA system. As Erdogan (2002) states, the LMX quality between rater and ratee before the performance appraisal will positively correlate to employees' perceptions of rater procedural justice. The employees who have a high quality of LMX with supervisors will have the opportunities to better influence supervisors' decisions and behaviors in performance appraisals in general, and hence they will think that they have more control over the procedures of PM because of their higher LMX quality with supervisors (Scandura, et al. 1986). Pichler (2009) even proposes that social contextual variables, such as the quality of relationship between rater and ratee, will positively correlate to employees' procedural, interactional and distributive justice. On the other hand, in the Chinese context, different types of guanxi in Chinese companies will influence the managers' decisions in performance appraisal systems. The guanxi between supervisor and subordinate will have an impact on supervisors' decisions, and even the subordinates' guanxi with other important persons within or outside the companies will also have an influence on managers' decisions. This kind of managers' guanxi based decision in HR practices also correlates negatively to employees' perceptions of procedural justice (Chen, Chen & Xin 2004, Chen et al., 2009). Therefore, in terms of performance appraisal, the managers' guanxi-based decisions will also be correlate negatively to employees' perceptions of procedural justice in the PM system.

Conclusion

This section revealed the research gap in the literature of guanxi, that is a lack of study on guanxi's negative impact on human resource management, despite there being a large amount of research in the literature focusing on guanxi's positive impact on HRM practices. This necessitates a deeper analysis of the negative impact of guanxi on employees' justice perceptions, affective reactions and behavioural outcomes. The next section will construct an integrative framework of the negative

impact of guanxi in appraisal on employees' justice perceptions, affective reactions toward performance appraisal and behavioural outcomes. Moreover, hypotheses will also be developed for comparative study in the following chapters, regarding the difference of guanxi in appraisal, employees' justice perceptions and affective reactions toward appraisal, between three banks with different ownerships.

2.5 Integrative Theoretical Framework: Hypothesis Development

This section constructs an integrative theoretical framework for examining whether the impact of guanxi in appraisal will have a negative impact on employees' perceptions of justice, affective reactions to appraisal and behavioural outcomes (see Figure 2-4). This framework is created based on justice theories, theories of performance appraisal systems and theories of Chinese guanxi. Nine hypotheses were developed and derived from the existing literature and these three theories. Moreover, in order to make a comparative study of the difference in guanxi's impact on appraisal and employees' reactions toward performance appraisal between three banks with different ownerships, seven hypotheses were developed and derived from theories of Chinese culture and human resource management in China.

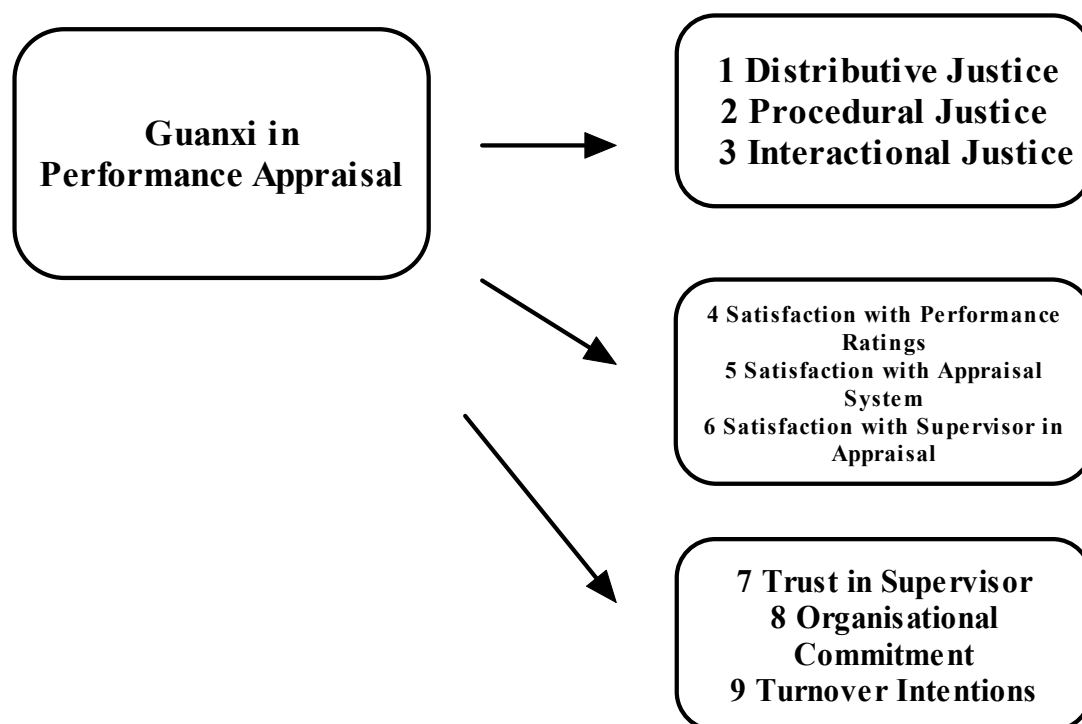


Figure 2-4: Theoretical model for guanxi in performance appraisal

2.5.1 Guanxi's impact on appraisal: A Chinese culture perspective

If supervisors' behaviour in appraisals are influenced by employees' guanxi, those subordinates who have close guanxi with their supervisors or higher level managers

within the company, or even with an important person outside of the company, could obtain more tangible or intangible benefits from the supervisor than the peers without guanxi. Thus, although highly personalised guanxi and benefit exchange may increase personal perceptions of justice at the dyadic level between two parties, it may lower the employees' perceptions of justice at an organisational level (Chen, Chen & Xin, 2004). Before considering Western justice theories, it is necessary to discuss relevant Chinese cultural values, including universalism and particularism theories and the general trend of social norms in China.

Universalism versus particularism

Universalism and particularism are two different orientations in terms of the way individuals treat others. As Parson & Shils (1951) defined, universalism means that one treats others according to general standards, independent of particularistic relationships the one has with others; while particularism means that one gives priority to particular relationships over general standards. In Trompenaars's (1994) cross-cultural study, he found that Chinese people are more particularistic than Westerners in general. The Chinese particularism is consistent with the Chinese traditional Confucian relationalism (King, 1991). Therefore, this begs the question whether managers' guanxi-based HR practices have a negative impacts if the particularistic values are widely shared by Chinese people and the action to build and maintain particularistic ties is considered as normative and even virtuous in China.

Chen, Chen and Xin state that: "there are alternative forces in Chinese society that run counter to the particularism value and that are more in line with the justice theories" (2004, p202). They provide two reasons to justify why both particularism and guanxi-based HR practices are already severely doubted and challenged in China. Firstly, particularism has not been the sole omnipotent cultural value in Chinese society, even in ancient China. As Weber (1968) stated, ancient China was one of the first to introduce merit-based governance in the world. Although Confucius steadfastly defended the patriarchic systems of his times, he did not approve of the

inheritance of officialdoms based only on blood relations, and also advocated that the government should select and promote officials based on individual integrity and merit (Wang, 1999).

General trend of social norms in China

Secondly, in modern China, the reformist forces have de-legitimated managers' guanxi practices in Chinese organisations. After the new Chinese government was founded in 1949, the communist party strived to propagate the idea that class identification and political loyalty to the party are based on ideological allegiance instead of traditional personal allegiance and familial loyalty (Gold, 1985). After the adoption of 'reform and open policy', the enterprises started to reform and tried to "construct a rational legal systems at the state level and formal rational bureaucracies at the firm level"(Guthrie, 1998, p264). As Parsons and Shils (1951) state, universalistic rules start to replace particularistic rules when a traditional society is transformed into a modern society. A number of recent studies show that China has been experiencing shifting norms in terms of resource allocation rules. Equity norm (based on performance) starts to become the dominant rule for Chinese organisations and employees, instead of equality and need (Chen and Chen, 2009). Since 1990, more and more organisations have started to reform HRM practices and accept the merit-based or performance-based reward allocation system (e.g. Child 1994, Chen et al. 1997, Chen 1995, He et al. 2004).

Studies also showed that employees consider performance-based evaluations as fair and just (He, Chen, & Zheng, 2004; Bozionelos & Wang, 2007; Chen, 1995). For instance, Bozionelos and Wang (2007) conducted a study in Chinese state-owned companies to explore the employees' attitudes toward performance-related pay. They found that employees considered reward based on performance a good principle. Moreover, employees started to notice and realise the negative impacts of guanxi. For example, in their survey, Chu and Ju (1990) found that the majority of the respondents from mainland China thought that guanxi practices were harmful to

society, although they know the building and development of guanxi is very important in China. Chen and Chen (2009), who adopted a social dilemma perspective, also point out that close guanxi parties will defect against the organisation, causing negative externalities.

Therefore, when companies use performance based evaluation systems and employees perceive equity as a proper criterion for performance appraisal, the role of guanxi on performance appraisal systems will more or less have a negative impact on employees' perceptions of justice, their affective reactions toward appraisal and behavioural outcomes. If the impact of guanxi on performance appraisal systems are prevalent in the organisation and supervisors always provide tangible and intangible benefits to those employees with guanxi in the performance appraisal process, there will be a conflict between the equity criterion and relationship quality criterion. Therefore, every employee will be confused which criteria the supervisor will adopt in performance appraisal systems and will be uncertain about how they can strive to obtain good results in appraisal as well as better treatment from supervisors. Even if an employee has a good relationship with his supervisor, he cannot be sure if his supervisor will change in the future or if his colleagues have stronger relationships with his supervisor than he does.

As Chen, Chen and Xin argue: "even though particularism may be relatively stronger in China than in many Western societies, its legitimacy and applicability in human resource management of modern enterprises in China have been severely challenged by the ascending values of the rule of laws, merit-based reward, and global competitiveness" (2004, p202). Therefore, based on the discussion of Chinese cultural values, it could be hypothesised that the impact of guanxi on appraisals in Chinese organisations will be negatively related to employees' perceptions of justice, affective reactions toward appraisal and behavioural outcomes. The next section will develop nine hypothesis based on Western justice theories and performance appraisal theories.

2.5.2 Guanxi's impact on appraisal: A Western Justice theory perspective

With the reform of the HRM systems in Chinese organisations, the equity criterion have started to be accepted by the organisations and employees, replacing the seniority, equality or need criteria. Hence, the impact of guanxi on performance appraisal becomes problematic and is likely to be doubted and challenged by employees. Considering Western justice theories, nine hypotheses will be developed to examine the negative impact of guanxi on appraisals of employees' perceptions of justice, affective reactions toward appraisals and behavioural outcomes.

2.5.2.1 Distributive justice

The impact of guanxi on supervisors' behaviour in performance appraisals will violate the major principle of distributive justice. Distributive justice originated from Adams' equity theory (1965), which proposes that people accept the decisions and consider the social exchange as fair when they think their contributions to the organisations are in balance with the rewards. Thus, the employees formulate their perceptions of distributive justice by comparing their own work outcomes to their work input in relation to the input to outcome ratio of a comparative person, such as a colleague. If the supervisor provides performance ratings to employees based on guanxi instead of performance, the employee with guanxi will obtain a better performance rating than his peers, even if this employee's performance is not better than his peers. Therefore, it is obvious that the impact of guanxi on supervisors' distribution of performance ratings violates the equity principle.

Moreover, Greenberg (2001) states that the justice issue would become salient when there are power differences created by the role differentiation between members within a workgroup. As supervisors' differing treatment toward employees with or without guanxi may result in role differentiation between employees, it would follow that the impact of guanxi on supervisors' behaviour in appraisal makes subordinates more vigilant to justice concern. Thus, the employees with higher levels of vigilance

would be inclined to expect injustice to happen (Greenberg, 2001). According to Shapiro and Kirkman's argument of anticipatory justice (2001), when an individual expects injustice to happen, he will be more likely to seek convincing and objective evidence of injustice than his peers less vigilant to justice concern. In other words, supervisors' differential treatments toward employees with or without guanxi can raise individuals' awareness of the possibility of injustice. Thus, individuals who are driven by confirmative bias and the anchoring effect, would actively search for approving evidence when they evaluate the justice of distributive outcomes through a social comparison process between themselves and others (Tversky and Kahneman, 1974). Therefore, it can be hypothesised as follows:

Hypothesis 1: *Guanxi's impact on appraisals will negatively relate to employees' perceptions of distributive justice.*

2.5.2.2 Procedural justice

That supervisors' behaviour in performance appraisal systems are influenced by guanxi also violates the major principles of procedural justice. Leventhal and his colleagues (1980) suggest six rules for procedural justice: consistency, accuracy, correctability, bias suppression, representativeness and ethicality. Lind and his colleagues (1997) point out that neutrality, which can be defined as "the decisions [being] made in an unbiased manner based on facts and rules, and not on personal opinions or preferences" (Tyler and Blader, 2000, p92), is a key principle for procedural justice. If the subordinates' guanxi can influence the managers' behaviour in the performance appraisal system, the managers are able to provide more tangible or intangible benefits (e.g. better performance ratings, more supervision, help and direction or more opportunities for communication) to those subordinates who have guanxi, than their peers without guanxi. Obviously, managers' guanxi-based behaviour in the performance appraisal violates the principle of procedural neutrality, because there is a lack of relational neutrality. Bias suppression is another important principle of procedural justice, and Chen, Chen and Xin state that "it requires resource

allocators to suppress self-interest as well as their blind allegiance to biases in favour of their personal relations” (2004, p202). Managers’ guanxi-based behaviour in performance appraisal will also violate this principle, and in turn, decrease individuals’ judgment of fairness of procedural implementation.

Secondly, employees’ perceptions of unfairness may occur, even if others’ outcomes and treatments are affected by guanxi. Van den Bos & Lind (2001) state that people care about how others are treated. Thus, any unfair treatments that others obtain from the supervisors also has a significant impact on an individual’s own perceptions of procedural justice. The result of the experimental studies by Van den Bos & Lind (2001) indicate that when observing other participants in the research who experience unfair procedures, subjects’ own perceptions of procedural justice decreased.

Thirdly, following the same line of the argument as in the distributive justice case above, supervisors’ differential treatments toward employees with or without guanxi will induce the employees to actively seek procedural legitimacy, and thus, make it much easier to find confirmative information regarding procedural unfairness within the workgroup, regardless of whether the procedure is really fair in the workgroup. Chen, Chen and Xin (2004) found a negative relationship between guanxi practices and employees’ perceptions of procedural justice; while in the study conducted by Chen and her colleagues (2011), the results also indicate a significant negative relationship between group level guanxi practice and employees’ perceptions of procedural justice. Thus, it can be hypothesised as follows:

Hypothesis 2: *Guanxi’s impact on appraisals will relate negatively to employees’ perceptions of procedural justice.*

2.5.2.3 Interactional justice

Interactional justice is “people’s concerns about the quality of interpersonal treatment they receive during the enactment of organisational procedures” (Bies 2001, p. 111).

In terms of the performance appraisal system, interactional justice concentrates on the quality of the interpersonal treatment that employees receive from supervisors during the appraisal process (Bies, 2001). Bies (2001) identifies four factors for interactional justice, including deception, invasion of the employee's privacy, disrespectful treatment and derogatory judgments. Derogatory judgments are concerned with the wrongful and unfair judgments and statements from the supervisors about the performances. If employees' guanxi influences supervisors' behaviour in appraisal, the supervisors would easily make wrongful judgments about the employees' performances. The employees who work hard but do not have guanxi will perceive that their real performance is derogated by their supervisor, when they receive a low performance rating that is not commensurate with their performance. Thus, the derogatory judgments and treatments that the employees without guanxi obtained from supervisors in appraisal would lower their evaluations of fairness in interactions with supervisor.

Moreover, the process of performance appraisal often involves the information exchange between supervisors and subordinates, and supervisors' respect and sensitivity to subordinates, which are related to employees' concern of interactional justice. It is possible for employees to feel unfairly treated by supervisors, because they have less communication with supervisors than peers, because they have obtained less information than colleagues and because they have had fewer opportunities to express opinions to supervisors. More specifically, supervisors' guanxi-based behaviour in appraisal would decrease employees' sense of interactional justice. Thus, it can be hypothesised that:

Hypothesis 3: Guanxi's impact on appraisal will be negatively related to employees' perceptions of interactional justice.

2.5.2.4 Affective reactions

Affective responses to perceptions of performance appraisal can include the following

three attitudinal responses: satisfaction with the performance appraisal rating, satisfaction with the appraisal systems and satisfaction with the supervisors' behaviour in appraisal (Thurston, 2001). As discussed above, the equity principle is adopted and accepted by more and more Chinese organisations and employees. Hence, the impact of guanxi on HRM practices could be problematic, and the legitimacy and applicability of human resource management of modern enterprises in China has, as a result, been severely doubted and challenged. Therefore, it is possible that the impact of guanxi in performance appraisal has a negative impact on these three affective reactions to performance appraisal.

Employees' satisfaction with performance ratings

The impact of guanxi on appraisal, which leads to supervisors' differential treatments toward different employees, has the potential to decrease employees' satisfaction with performance ratings. As Thurston (2001) identifies, two factors can have a significant impact on employees' satisfaction with performance ratings, namely accuracy of ratings and supervisors' concern over ratings. As the accuracy of performance ratings principle refers to whether performance ratings reflect employees' real performance, it is obvious that supervisors' guanxi-based decisions in appraisals would violate the equity norm and thus reduce employees' satisfaction with ratings. Concern over ratings refers to the measurement of whether supervisors' appraisal decisions are influenced by political factors, such as favouritism. Providing performance ratings based on employees' guanxi could also be regarded as a special form of favouritism; hence, it also has negative impact on employees' satisfaction with ratings.

Moreover, following the same line of argument made in the case of procedural and distributive justice above, supervisors' differential treatments towards employees with or without guanxi in appraisal would induce employees, especially those without guanxi, to actively search for confirmative information and evidence pointing at supervisors' unfair distribution of performance ratings within the workgroup. In that

situation, regardless of the real fairness of distribution of ratings, the employees will be more likely to believe that they have obtained unfair ratings from the supervisor. Thus, it can be hypothesised that:

Hypothesis 4: *Guanxi's impact on appraisal will be negatively related to employees' satisfaction with performance ratings.*

Employees' satisfaction with performance appraisal system

Thurston (2001) identifies three structural factors that influence employees' satisfaction with the performance appraisal system, namely assigning raters, setting criteria and seeking appeals. Assigning raters, which refers to organisations' assignment of qualified raters who have adequate knowledge of implementation and procedures of performance appraisal, as well as employees' jobs and real performance, have been found to have an impact on employees' reactions to appraisal systems in several studies (Landy et al., 1978; and Tang and Sarsfield-Baldwin, 1996; Klasson and Sorbom, 1980;). Thus, supervisors' differential treatment based on employees' guanxi in appraisal would induce the employees to complain about the organisation, because they think (1) organisation has not allocated a qualified supervisor to be in charge of performance appraisals; (2) there is no effective supervision mechanism for organisations to supervise the raters in appraisal system; (3) no effective appealing system in appraisal systems is designed for employees to doubt and challenge supervisors' results and report it to the organisation; and (4) the organisation did not take action to suppress the prevalence of guanxi in appraisal within the workgroups. More specifically, the impact of guanxi on supervisors' behaviour in appraisal would induce employees to complain about the performance appraisal systems and the organisation as well. Thus, it can be hypothesised that:

Hypothesis 5: *Guanxi's impact on appraisal will be negatively related to employees' satisfaction with performance appraisal system.*

Employees' satisfaction with supervisors in appraisal

Supervisors, one of the most important people in appraisals, have various responsibilities in the process of appraisal. Firstly, supervisors make decisions for the appraisal and distribute the performance ratings to subordinates. Secondly, supervisors enforce the criteria and regulations of the appraisal, enacted by the organisation and implement and apply the procedures of the appraisal. Thirdly, supervisors have to communicate with subordinates and provide feedback and relevant information to subordinates. Supervisors participate in almost the whole process of the performance appraisal; therefore, their behaviour at any point could influence the subordinates' attitudes towards themselves. It is possible that the impact of guanxi on supervisors' decision-making, enforcement of procedures and treatment of subordinates can lead to employees' dissatisfaction with supervisors' behaviour. Thus, it can be hypothesised:

Hypothesis 6: *Guanxi's impact on appraisals will be negatively related to employees' satisfaction with supervisors in appraisals.*

2.5.2.5 Outcomes of justice perceptions in performance appraisals

Employees' behavioural outcomes could be categorised as two important types: organisation-related outcomes and leader-related outcomes. This categorisation is not exclusive; however, these two types of outcomes represent some important reactions and attitudes toward the performance appraisal.

Leader-related outcomes: Trust in supervisor

Leader-related outcomes refer to employees' attitudes, which reflect their satisfaction with supervisors, and behaviour, which benefit the supervisors. Based on social exchange theory, individuals behave in ways that benefit the supervisors, in order to reciprocate the fairness of the supervisors (Gouldner, 1960). Supervisors make decisions, enforce the procedures and communicate with subordinates in the whole process of appraisal and any type of behaviour would influence employees' attitudes

toward them. Therefore, it is possible that supervisors' guanxi-based behaviour in appraisals would have a negative impact on employees' leader-related outcomes, because employees want to reciprocate the unfairness of supervisors' behaviour in appraisal. Empirically, Chen, Chen and Xin's study (2004), which was aimed to examine such a potential effect, indicated a significant relationship between guanxi practices and trust in management. Therefore, it can be hypothesised as follows:

Hypothesis 7: Guanxi's impact on appraisal will be negatively related to employees' trust in supervisors.

Organisational outcomes

Organisational outcomes refer to the individual's behaviour which is used to express their attitudes and reactions to the organisation. For instance, two important outcomes, namely, turnover intentions and commitment to the organisation reflect employees' affective attachment to the organisation. Social exchange theory proposes that when one entity does a favour to another, the recipient will be obliged to reciprocate (Gouldner, 1960). Based on this statement, individuals will use their behaviour to benefit the source of fairness in order to reciprocate to the source. Thus, the organisational outcomes could be the mechanism through which individuals choose to reciprocate organisational fairness.

As discussed above, supervisors' guanxi-based behaviour can lead to employee complaints about the organisation, because the organisations did not assign a qualified supervisor for appraisal and establish an effective supervision mechanism. Moreover, supervisors represent the organisation to enforce the procedures of appraisal. If supervisors provide differential treatments to employees with or without guanxi, it is possible for employees to form bad impressions about both the supervisor and the organisation, regardless of whether the organisation is the real source of unfairness. Therefore, in order to reciprocate the unfairness of the organisation, the employees would have a lower level of affective organisational

commitment, and would probably consider leaving the organisation. Thus, it can be hypothesised as follows:

Hypothesis 8: *Guanxi's impact on appraisal will be negatively related to employees' organisational commitment.*

Hypothesis 9: *Guanxi's impact on appraisal will be positively related to employees' turnover intentions.*

2.5.3 Comparison between three banks: State-owned bank A, Foreign bank B and City bank C

In order to examine the impact of guanxi on appraisals and the implementation of performance appraisal systems in Chinese organisations, three banks, including state-owned bank A, foreign bank B and city bank C were chosen for empirical studies. The state-owned bank A, which has a long history of more than 40 years, reformed its performance appraisal systems several years ago, by adopting a Western style modern system instead of the old traditional one. Both foreign bank B and city bank C, each of which have a very short history in the Chinese banking industry, started to utilise Western-style modern performance appraisal systems when they were founded in China. The reasons why these three banks were chosen for this study have been explicitly and specifically explained and discussed in Chapter 2. However, in order to develop the hypotheses for the comparative study between these three banks, some reasons will be briefly discussed here.

These three banks have different ownerships, indicating that they have different historical, institutional and cultural heritage, which also has an impacts on the implementation of HRM practices in the banks (Ding and Akhtar, 2001; Braun and Warner, 2002; Ngo, et al., 2008). A number of studies report that foreign invested enterprises adopt more market-oriented HRM systems than Chinese local enterprises,

because they have fewer institutional constraints and greater flexibility and autonomy in employment (Chow, 1992; Warner, 1999 et al., Ngo, et al., 2008). As Braun and Warner (2002) stated, a large number of multinational companies, whose HRM practices is of high strategic importance for operations, had entered a strategic investor phase in China. Bjořrkman and Lu (2001) also pointed out that HRM practices of many foreign invested enterprises in China resemble the practices adopted in their parent countries rather than the counterparts in Chinese local companies.

On the other hand, the reform of HRM practices in state-owned enterprises is more or less constrained by its institutional heritage, such as the pressures from the government and trade unions (Ding et al., 2000; Ngo et al., 2008) and cultural legacy, such as guanxi, seniority, mianzi, harmony, power distance etc (Ding and Akhtar, 2001; Zhu and Warner, 2004; Ngo et al., 2008; Bozionelos and Wang, 2007). As Law et al. (2003) stated, a large number of state-owned enterprises in China still operate like government agencies; and majority of their HR tasks were implemented to make sure that managers' decisions could be politically rather than economically correct. Although state-owned enterprises notice the importance of HRM practices, they are not able to design and implement HRM policies because they are inclined to rely on HRM practices, which were modified and inherited from their central planning past (Buck et al., 2003). Moreover, it is also reported that the managers in SOEs are considered less market-oriented and thus utilise fewer mainstream HRM practices than managers in foreign enterprises (Warner et al., 1999; Ngo et al., 2008). In those state-owned enterprises, which had reformed its HRM practices, supervisors can be constrained by traditional social ideology and old practices (Chiu, 2006).

It is possible that the reform of performance appraisal systems has been constrained heavily by the institutional and cultural heritage in state-owned bank A. Thus, the design and procedures of the appraisal system, the supervisors' enforcement of the implementation and the communication between supervisors and subordinates would

also be influenced by its institutional and cultural pressures. However, it is expected that the implementation of performance appraisals in foreign bank B and city bank C are free from a number of political obligations and cultural legacy constraints. Therefore, it could be assumed that the institutional and cultural constraints in state-owned bank A would make the design and implementation of appraisal in bank A quite different from the counterparts in foreign bank B and city bank C. Thus, to study the differences between these three banks with respect to guanxi's impact on appraisals, employees' perceptions of justice, affective reactions toward appraisal and behavioural outcomes, it could be hypothesised that:

Hypothesis 10: *Guanxi's impact on appraisals will be significantly different between these three banks.*

Hypothesis 11: *Employees' satisfaction with performance ratings will be significantly different between these three banks.*

Hypothesis 12: *Employees' perceptions of distributive justice will be significantly different between these three banks.*

Hypothesis 13: *Employees' satisfaction with performance appraisal systems will be significantly different between these three banks.*

Hypothesis 14: *Employees' perceptions of procedural justice will be significantly different between these three banks.*

Hypothesis 15: *Employees' satisfaction with supervisors in appraisal will be significantly different between these three banks.*

Hypothesis 16: *Employees' perceptions of interactional justice will be significantly different between these three banks.*

2.6 Chapter Summary

This chapter reveals some gaps in the research literature of performance appraisal systems, justice theory and guanxi theory, that is a lack of empirical studies of the performance appraisal systems in Chinese organisations with different ownerships in a market context, a shortage of in-depth research on guanxi's impact on appraisals, which could clearly explain how guanxi influences the implementation of performance appraisals in Chinese organisations and a lack of studies on guanxi's negative impact on employees' justice perceptions, affective reactions and behavioural outcomes. These research gaps necessitate a deeper analysis of performance appraisal systems in Chinese organisation and guanxi's impact on appraisals and employee outcomes. In considering the insufficiency of existing theories regarding performance appraisal systems and guanxi, this chapter finally constructs an integrative theoretical framework, within which sixteen hypotheses were developed. The next chapter is aims to explain the research design and methodology, which were adopted to test these seventeen hypotheses in three banks with different ownerships in China.

Chapter 3. Research Methodology

There are four objectives for this chapter. Firstly, based on the literature review section, I identify the research gaps, formulate the main research question, sub-research question and research objectives, and create a conceptual framework. Secondly, the philosophical stance is presented and the research design derived from the philosophical stance is introduced. Thirdly, the case study is adopted as the main research method for this study, while the specific methods for each sub-research question is also discussed in detail. Fourthly, the methods of data analysis are presented, while the discussion of validity and reliability of the method is briefly stated, concluding with the difficulties of the data collection and how they were overcome.

3.1 Research Questions and Conceptual framework

3.1.1 Research gap identification

In the literature review section, the following five research gaps were identified. Firstly, in the last decade, very few studies of organisational justice have concentrated on the performance appraisal system. The majority of them have focused on the impact of either distributive or procedural justice perceptions but rarely both [Colquitt, Conlon, Wesson, Porter and Ng (2001); Flint (1999); Folger, Konovsky & Cropanzano, (1992); Cook and Crossman (2004); Erdogan et al. (2001)]. Some studies have only focused on one or two factors of the performance appraisal system procedures [e.g. Korsgaard and Roberson (1995) for employees' voice; Leung, Su and Morris (2001) for supervisors' feedback; Barclay and Harland (1995) for location, supervisors' competence, and employees' ability to challenge the results].

Secondly, given that almost all the studies of justice in the performance appraisal system were conducted in the USA and reflected the American context, we know less about the employees' perceptions of justice in other countries with different types of

culture. Therefore, Skarlicki claims that: “by assuming that our current understanding of workplace fairness is universal, we overlook the deep cultural differences that can exist between people of different nations” (2001, p292). Therefore, it is necessary for scholars to conduct more studies in different countries with different cultures.

Thirdly, as the majority of the studies of performance appraisal in Chinese organisations has concentrated on the periods of command economy (1949-1984) and transitional economy (1985-1997), we lack studies on the implementation of the performance appraisal system in contemporary Chinese organisations in a market economy context. Moreover, in the past ten years, performance appraisals were mainly studied as an element of ‘HR bundles’ in the Strategic HRM research (Ngo et al., 2008; Björkman and Fan, 2002). No study could be found to explore the performance appraisal practices in different types of Chinese companies in a market context. Therefore, it would be interesting to investigate how the new performance appraisal system works in those companies after the reform and compare it to the old system before reform.

Fourthly, the Chinese cultural factor *guanxi*, which refers to the relationship between two persons, was reported as the most important cultural factor influencing the performance appraisal system in Chinese organisations [Bjorkman and Lu, (1999); Chen, Chen & Xin, (2004); Bai and Bennington, (2005); Bozionelos and Wang, (2007)]. Nonetheless, no study has clearly introduced *how* *guanxi* influences the performance appraisal in Chinese companies.

Fifthly, in the literature, very few studies have focused on how *guanxi* in HRM influence the employees’ affective reactions and behavioural outcomes, e.g. only ‘procedural justice’ and ‘trust in management’ have been tested as the outcome of *guanxi* in HRM. However, Chen, Chen and Xin (2004) also suggested that future research might examine the relationship between the managers’ *guanxi* practice and

other forms of justice, such as interactional justice (Bies, 2001) and structural justice, which includes structural-distributive justice (based on equity theory) and structural-procedural justice (Greenberg, 1993); and other employees' behavioural outcomes. Therefore, it is necessary to examine the relationship between guanxi in performance appraisals and employees' other justice perceptions, affective reactions toward appraisal and behavioural outcomes.

3.1.2 Research questions and research objectives

To summarise, based on the above research gaps, the following main question was raised, as existing literature has failed to answer it:

How has performance appraisal system been implemented in different organisations with different ownerships in China, and what has been the impact of guanxi on it?

In order to answer this question, different theories, including western theories on performance appraisal systems, organisational justice theories, theories regarding performance appraisal in China and guanxi theories were reviewed. Based on the above theories and research gaps, the following sub-research questions have been formulated:

1. What is the role of guanxi in performance appraisal systems?
2. How does guanxi in performance appraisals influence the employees' perceptions of justice, affective reactions toward performance appraisals and behavioural outcomes?
- 3 How do performance appraisals work in Chinese organisations?
- 4 How does guanxi's impact on appraisals and employees' reactions toward appraisals vary across three organisations in the same sector of different ownership in China?

3.2 Philosophical stances and theoretical foundation

The choice of research methodology is driven by several important philosophical assumptions (i.e. ontology and epistemology); therefore, the essential task for a researcher at the beginning of a project is to position himself paradigmatically. A paradigm could be “defined as a way of looking at the world and is composed of certain philosophical assumptions that guide and direct thinking and action (Mertens, 2005, p7)”. It is necessary for researchers to consider and fully understand these philosophical issues – paradigms, which the study is based on, in management research design, in order to ensure the high quality of the research (Easterby-Smith, Thorpe, *et al.*, 2008).

Philosophers have hotly debated the relationship between data, knowledge and theory for centuries. Before the 1980s, two contrasting views of how to conduct social science research, namely positivism and social constructionism, were widely discussed in the literature and dominated in the history of management research design. According to the view of positivism, “given that the social world exists externally, the properties of the world can be measured through objective methods, rather than by being inferred subjectively through sensation, intuition or reflection (Easterby-Smith *et al.*, 2008, p57)”. On the other hand, social constructionism argues that “the reality is not exterior and objective, but is socially constructed and given meaning by people (Easterby-Smith *et al.*, 2008, p58)”. Emphasising detachment and objectivity, the positivist approach prefers to use quantitative methodologies to examine the issues and explain the phenomena (Meredith, 1998). Social constructionism, namely the interpretive method, usually adopts the qualitative method and analysis to explore and explain the human behaviour which arises from the sense that people make of different situations (Easterby-Smith *et al.*, 2008). The following table shows the major factors and characteristics of these two paradigms.

Table 3-1: Contrasting positivism and social constructionism

	Positivism	Social Constructionism
The observer	Must be independent	Is part of what is being observed
Human interests	Should be irrelevant	Are the main drivers of science
Explanations	Must demonstrate causality	Aim to increase general understanding of the situation
Research progresses through	Hypotheses and deductions	Gathering rich data from which ideas are induced
Concepts	Need to be defined so that they can be measured	Should incorporate stakeholders' perspectives
Units of analysis	Should be reduced to their simplest terms	May include the complexity of 'whole' situations
Generalization through	Statistical probability	Theoretical abstraction
Sampling requires	Large numbers selected randomly	Small numbers of cases chosen for specific reasons

Source: Easterby-Smith, Thorpe, et al. (2008:59)

In 1980s, the debate regarding paradigms intensified. In the so-called “paradigm wars,” the issue as to whether these two contrasting paradigms should be used separately or combined together attracted significant attention. Theoretically, these two philosophical approaches are incompatible; hence, the purists claimed that paradigms should not be mixed (Creswell, 1994). On the contrary, the pragmatists oppose the dichotomy between the quantitative and qualitative methodologies and suggest that researchers could adopt a middle ground by using mixed methodologies reflecting both of these two paradigms, which could offer different perspectives on the investigation of a question or phenomena (Easterby-Smith *et al.*, 2008).

Pragmatism for mixed methods

The mixed methods is named “third methodological movement” (Tashakkori and Teddlie, 2003) and regarded as the ceasefire of the paradigm wars (Mingers, 2003). The paradigm stance and philosophical partner for mixed method is pragmatism, which refers to a practical approach to a question or problem and also regarded as a special stance at the interface between paradigm (philosophy) and methodology

(Greene and Caracelli, 2003). Johnson and Onwuegbuzie (2004, p17) considered pragmatism as productive, because it provides a helpful and immediate middle philosophical and methodological position, “a practical and outcome-orientated method of inquiry” and a way of choosing a mixture of methodologies which help to better understand and answer the research questions to researchers. Patton (2002) also pointed out that pragmatism could increase the appropriateness of research methodology selection and help the researchers to improve their adaptability and flexibility in research methodology. Therefore, since the emergence of mixed methods, pragmatism, which eradicates the epistemological dualism of subjectivity/objectivity, became the philosophical paradigm advocated by majority of scholars in this field (Johnson and Gray, 2010, p87).

Collins et al (2006, p78-79) summarized four important rationales for mixed methods from the existing studies using mixed methods they had reviewed. Firstly, mixed methods could be used to increase the accuracy of data collected in empirical studies. Secondly, researchers could use mixed methods to make the study more complete, by adopting mixed information and data derived from complementary types of studies (both qualitative and quantitative study). The third purpose of mixed methods could be to avoid or diminish the biases inherent in the use of a single method and to compensate particular weakness or strengths of specific method. Fourthly, it could also be adopted to analyse and establish the initial findings by utilising contrasting types of information, data and methodologies.

According to both of content analysis of 232 articles using mixed methods and 20 interviews with researchers, Bryman (2008, p95) summarized some important reasons for adoption of mixed methods, including “qualitative research as providing preparation for their quantitative work; qualitative findings providing explanations for quantitative findings; qualitative research providing meanings with quantitative findings providing breadth and so on.” As Bryman (2008) suggests, whether the researcher should adopt the mixed methods for a study is dependant upon whether the

research question requires, which indicated that the decision regarding methods should be task-driven. Therefore, it is necessary to review my research question in order to decide what research method I should employ.

The aim of this study is to explore the impact of guanxi on performance appraisals, which has been so rarely explored in the literature. The research goal is to obtain a thorough understanding and in-depth insight by collecting rich and different data from three banks in China. Therefore, pragmatism was adopted as a philosophical stance and mixed methods were used in this study, in order to examine the question from different perspectives, to obtain diversity of views, and create a more complete picture of the research question by collecting information from both quantitative and qualitative methods.

Moreover, the sub-research questions also require a mixed methods involving both quantitative and qualitative research in this study. In the literature review part, a model and twenty seven hypotheses were developed for testing by using the result of a large scale of the quantitative survey from sampling organisations. However, the scale of “guanxi in performance appraisal” does exist in the literature and need to be created before the model testing part. In order to develop the new scale, the qualitative interviews with employees in Chinese organisations must be utilised to have an in-depth exploration on how guanxi influence performance appraisal, which is a good preparation for the following quantitative survey research. Secondly, the result of quantitative survey is used to test the relationship between guanxi in performance appraisal and various employees’ attitudes or behaviour outcomes. In order to complement the quantitative survey, qualitative interviews with managers, employees and HR staff are also required to explore the relevant information to explain the result of model testing and comparative study of different organisations with different ownerships.

Thus, it could be summarized that it is the research question and research purposes

require pragmatism as philosophical paradigm and mixed methods involving both quantitative and qualitative research to be adopted in this study. I believe that the pragmatism and mixed methods could help to enhance the quality of this study and enable a more complete and thorough understanding of the research question with depth and breadth. Thus, based on the philosophical position, the detailed research design and methodology will be proposed in the following sections.

3.3 Selection of the research method

In terms of social science research, the major research methodology includes experiments, case studies, histories, surveys, and the analysis of archival information. Each of the above methods has its own advantages and disadvantages. In order to choose a suitable research method, it is necessary to consider these three main aspects: “(1) the type of research question posed, (2) the extent of control an investigator has over actual behavioral events, and (3) the degree of focus on contemporary as opposed to historical phenomena” (Yin, 2003, p5). The following table 3-2 indicates the main difference between the five major methods, in terms of the above three aspects.

Table 3-2: Relevant situations for different research strategies

Strategy	Form of Research Question	Requires Control of Behavioural Events?	Focus on Contemporary Events?
<i>Experiment</i>	how, why?	Yes	Yes
<i>Survey</i>	who, what, where, how many, how much?	No	Yes
<i>Archival analysis</i>	who, what, where, how many, how much?	No	Yes/No
<i>History</i>	how, why?	No	No
<i>Case study</i>	how, why?	No	Yes

Source: COSMOS Corporation. Cited in Yin (2003:5)

The main research question for this study is “*How has performance appraisal system been implemented in different organisations with different ownerships in China, and*

what has been the impact of guanxi on it?" I will first of all explain the research methodology adopted for this study in order to answer the main question. In the following sections, I will explain the research methods for each of the four sub-research questions. Considering the following three aspects, I decided to choose case studies for the main question. Firstly, the form of the main question is predominantly 'how'. Secondly, I did not need to control behavioural events in this research. Thirdly, this study concentrates on contemporary events, in exploring how guanxi influences the appraisals and the employees' attitudes and behavioural outcomes. For the above reasons, a case study was considered as the most appropriate method for this study.

A case study is "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 2003, p13). According to Hartley (2004, p323), the case study can be used to provide an analysis of the context in which the processes and behaviour are influenced, and can then in turn impact on context. In the literature, a large amount of research adopts the quantitative research method, while less use qualitative contextual data (Bamberger, 2008). In recent decades, an increasing number of scholars have remarked that there should be more qualitative research that provides in-depth descriptions (Heneman and Judge, 2000; Werner and Ward, 2004). As Heneman and Judge (2000, p 82-83) suggest, on-site visits could allow researchers to obtain a deep and thorough understanding and appreciation of the content and changes. In the HRM research in a Chinese context, Cooke claims that "more longitudinal studies and in-depth case studies at the organisational level are needed to narrate the nuances and delineate the trajectory of development of HRM in China" (2009, p16).

For the above reasons, the case study method was selected for this study. Qualitative methods, e.g. interviews and documents, are important and necessary in this study, because they are able provide an in-depth understanding of a comparatively new

phenomenon in a less-explored field. However, as in many case studies, quantitative data, i.e. the survey, was also adopted in this study, in order to test the model created in the literature section. Therefore, in order to obtain a very thorough and in-depth understanding of the research question, I selected the case study method and used both quantitative data (the survey) and qualitative data (interviews and documents) for this study. The detailed methods for each sub-question will be described in the following sections.

3.4 Research design

Research design is “the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of the study” (Yin, 2003, p19). Yin also states that case studies should have five important components, including “(1) the research question, (2) the propositions, (3) the unit of analysis, (4) the logic linking the data to the propositions, and (5) the criteria for interpreting the findings” (2003, p21). In the beginning of this chapter, the research question and objectives were presented. Therefore, other aspects, e.g. data collection methods, sampling choice, industry choice, data analysis strategy and research quality assurance will be illustrated.

3.4.1 Unit of analysis

The unit of analysis refers to the fundamental problem of the definition of ‘case’, which could be an individual, an event or an entity defined by the researcher in the study (Yin, 2003). The main research question in this study is “*How has performance appraisal system been implemented in different organisations with different ownerships in China, and what has been the impact of guanxi on it?*” The unit of analysis in this study is ‘Chinese organisation’. However, as ‘Chinese organisation’ is too broad for a case study, especially when the study has a comparative study section, I decided to choose an industry first and then select the proper cases. Hence, the choice of industry, the number of the cases and sampling strategy will be discussed in following sections.

3.4.2 Choice of Industry

China is one of the largest countries in the world and is considered as the new growth engine and an important participant in the world's economy (Qu & Leung, 2006). The scale of Chinese banking sector reflects this. "Banking assets made up 240% of GDP at the end of 2005, and at the same time loans outstanding made up 125% of GDP" (Cousin, 2011, p7). These figures are among the highest in the whole world and show how important the banks are for China.

Banking sector is the major engine which drives the economic growth of China. Between 2005 and 2010, the Chinese banking system experienced a rapid average growth at the annual rate of about 17 percent, which is around twice the growth rate of GDP. During the past 60 years, the Chinese banking system has developed from a mono banking system (with a single bank) to a multitude of banking institutions. (Cousin, 2011).

The history and current structure of the Chinese banking system

Prior to 1979, the Chinese banking system was organised around only one bank, the People's Bank of China (PBOC), which was founded in 1948. At that time, the banking system in China was not modern and contributed in very limited way to economic growth. The primary functions of the banks in the highly centralised planning system included simply collecting the revenue from state-owned enterprises and allocating investment (Ma, 2001). The banks just needed to provide credit to SOEs for production plans and monitored cash for labour cost and purchases of products (Chen, 2009).

Since 1979, when the *Vice Premier* Deng Xiaoping introduced the opening and reform policy, the government started to embark on banking system reform. A two-tier system was established, which primarily comprised a central bank and four specialised banks owned by the central government. PBOC was removed from its monopolistic position of by the government and it now functions as a supervisory

body and a central bank (Cousin, 2011). The commercial activities and treasury functions were given to those four newly-established specialised banks: the Agriculture Bank of China (ABC), Bank of China (BOC), China Construction Bank (CCB) and Industrial and Commercial Bank of China (ICBC) (Chen, 2009). This was the first stage of banking reform, which prepared a good environment for the future reform of the banking system.

The second stage of reform entails more independent banking operations between 1994 and 2000. In 1995, the Law of the People's Bank of China and the Commercial Banking Law were issued by the government for the legal underpinning of Chinese banking sector. Three policy banks, including the Agricultural Development Bank of China, China Development Bank and Export-Import Bank of China, were founded in 1994 to take over the policy lending business and long-term development finance, something which was previously performed by those four state-owned banks (Chen, 2009).

The twenty-first century has marked a new phase for banking sector reform, because China's move towards the WTO agreement provided most of the motivation for banking reform (Griffiths, 2005). The reform effort in this stage runs deeper into the banking system and even in the banking practices (Cousin, 2011). For instance, foreign entities were introduced into the management and as the stakeholders of the banks (Cousin, 2011).

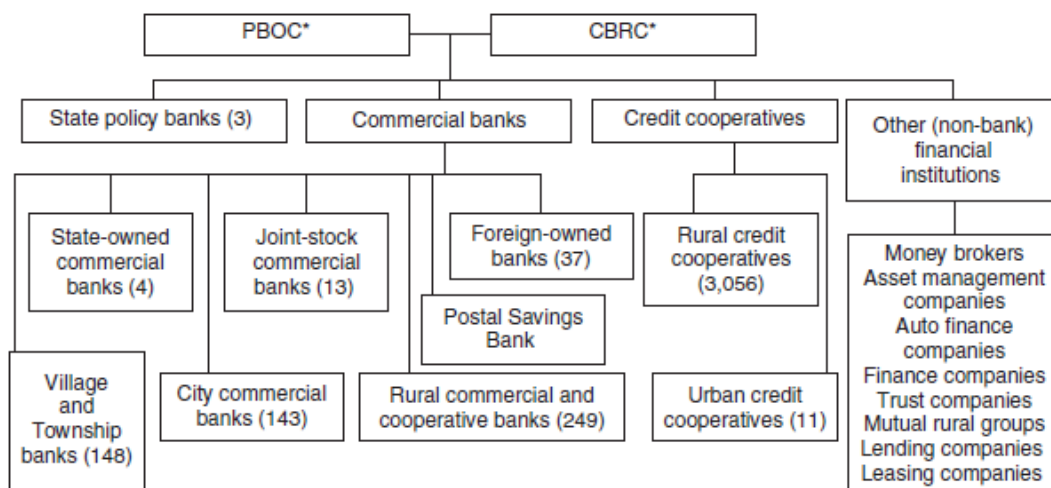
Structure of Chinese Banking Sector

By the end of 2009, the Chinese banking sector consisted of 3,857 financial institutions (see Table 3-3). In terms of weight and size, the major institutions of the banking sector include:

- four state-owned commercial banks,
- three policy banks,
- 13 joint-stock commercial banks,

- 143 city commercial banks,
- 3056 rural banks and cooperatives [the majority rural credit cooperatives (RCCs)],
- 37 foreign-owned banks,
- 148 village and township banks,
- 11 urban credit cooperatives,
- the postal savings bank.

Table 3-3: The structure of the Chinese banking system (Cousin, 2011, p5)



Note: * PBOC People's Bank of China, CBRC China Banking Regulatory Commission.

Source: CBRC (2010)

The Chinese banking industry is dominated by the Chinese domestic banking network. The big four state-owned commercial banks, including the Agriculture Bank of China (ABC), Bank of China (BOC), China Construction Bank (CCB) and Industrial and Commercial Bank of China (ICBC), dominate the banking industry in terms of employment and branches (Chen, 2009). They accounted for about 51.3 % of all banking assets, deposits and loans by the end of 2006 (Chen, 2009).

The 13 nationwide or regional joint-stock commercial banks were established in the late 1980s or early 1990s. The 143 city commercial banks were established by restructuring the former city credit cooperatives. The majority of these commercial banks adopted a shareholding ownership structure. However, in most of them, the state still holds a control stake. The 13 joint-stock commercial banks have the central government or the respective provincial or municipal government as the largest shareholders; while for the 143 city commercial banks the respective city governments having a controlling stake.

The big four state-owned banks, 13 joint-stock banks and 143 city banks accounted for 73.1% of local banking assets by the end of 2009 (they respectively accounted for 46.7%, 19.2% and 7.2% of market shares) (Cousin, 2011).

Between 1979 and 1982, 31 representative offices of foreign financial firms were permitted to set up in several special cities (open cities and Special Economic Zones). In 1982, the first foreign bank, Nanyang Commercial Bank Ltd, Hong Kong, was authorised by the Chinese government to establish branches in mainland China. This was the start of the reform in the Chinese local banking industry. The foreign banks began to have their wholly-owned or joint venture branches in several special Chinese cities. However, the business scope of them was very narrow, because they could only conduct parts of the business related to foreign currency. Since Deng Xiaoping's southern tour at the beginning of the 1990s, foreign banks have been allowed to expand their business into more areas, such as banking, insurance or security. The rapid development and market expansion of foreign banks in China took place between 1994 and 1997.

By the end of 2001, 193 subsidiaries of foreign banks had opened to do business, approved by the Chinese government. At the same time, China entered into WTO, which represented a new era of the full liberalisation of the Chinese local banking market. The Regulations on the Administration of Foreign Invested Financial

Institutions and the Implementation Rules, approved by the Chinese government, had set a timetable for foreign banks, in 2001 (Chen, 2009). It indicated that the Chinese local banking market should be opened fully to foreign banks in 2007. According to the WTO rules, foreign banks should have full market entry into the Chinese banking industry, which signalled a new boom for the development of foreign banks in China. After the regulations were approved by the Chinese government in 2001, the expansion of foreign banks had sped up. 180 foreign banks were permitted to open 163 branches, 223 representative offices, five joint ventures and 8 wholly owned subsidiaries in China by 2005. By the end of 2006, the numbers of branches and subsidiaries of foreign banks in China had increased to 254 (China Financial Stability Report, PBOC, 2006). The total assets of foreign banks were 171.463 billion USD by the end of 2007, up by 47 percent compared to the beginning of 2007 (Chen, 2009). All these figures indicate that foreign banks in China have experienced a rapid development since 2005. Although foreign banks have developed rapidly since 2001, they only account for a small percentage of the Chinese banking industry, about 2.4 percent of banking assets in 2007 in China (Chen, 2009).

In the 1990s, more and more joint-stock commercial banks and city commercial banks started to establish and participate in the banking market competition. Since 2001, with China's entry to WTO, foreign banks have had the opportunities to develop in China's financial market. All of these new banks had a rapid development and increase speed, compared to the traditional state-owned banks. The growth in the banking industry in China is not evenly spread. The smaller banks have grown much faster and more strongly in the past several years (Table 3-4). According to the table, in terms of banking assets, the city commercial banks and other banks (e.g. foreign banks) have had higher average growth rates between 2007 and 2009 than state-owned commercial banks.

Table 3-4: Banking asset growth in China (half-yearly growth rates, %) (Cousin, 2011)

	Jan.–Jun. 2007	Jul.–Dec. 2007	Jan.–Jun. 2008	Jul.–Dec. 2008	Jan.–Jun. 2009	Jul.–Dec. 2009
SOCBs	7.9	6.5	6.9	5.3	20.7	4.5
JSCBs	19.8	9.3	12.3	9.4	23.1	6.7
CCBs	12.5	14.5	7.5	15.0	19.9	14.6
Others	9.0	10.0	13.9	10.4	10.5	9.0
Total assets	10.4	8.4	9.8	8.1	18.2	6.8

Source: Based on CBRC data.

Note: SOCBs: State-owned Commercial Banks, JSCBs: Joint-stock Commercial Banks, CCBs: City Commercial Banks.

According to Xie (2001), the new environment has led to changes, because the success of banks relies on highly committed and motivated personnel. Changes have happened in terms of deregulation, globalisation and technology; hence, the competition focus will have changed from being largely market-based to a more resource-based model (Perez & Falcon, 2004). The foreign banks are considered to have modern HR system implementation. For example, the Standard Chartered Bank China won the Best HR Systems Implementation Award beating more than 50 financial institutions in the fifth Asian Bank Technology Implementation Awards Programme, held at The Hong Kong Jockey Club in 2011. Standard Chartered Bank China was reported to successfully streamline workflows, automate processes, and strengthen risk control for human resource management, in order to achieve efficiency and consistency for its expanding operations in mainland China (The Asian Bank, Online, 2011).

In order to satisfy the need of the modern banking industry, in terms of attracting and retaining qualified personnel, the state-owned banks started to reform their HR system implementation. For example, Industrial and Commercial Bank of China (ICBC)

reformed its HRM system and formed a new one: “with characteristics of employees and enterprise's common development, powerful incentive and awards program, and active constraint mechanism” (Review of Human Resource Strategy of ICBC, online, 2008). In terms of performance appraisal systems, ICBC introduced a integrated performance assessment system, which: “introduces advanced tool and philosophy, such as individual performance agreement, target assessment management, ability evaluation, and establishes perfect performance assessment system and performance management procedure which guide all staff to pay attention to their performance attribution and development of professional ability, and form the value of making contribution to the bank and emphasizing performance” (ICBC Online, 2012). Moreover, the Bank of China (BOC) has also reformed its human resource management systems. In 2003, BOC hired an American consultancy firm to help with the HR reform. Considering its actual situation and local experience, they carried out a new HR system after repeated argument and revision. In the middle of 2004, the new HR system was implemented at head office level and at the end of 2004, the pilot reforms were carried out at Zhejiang and Jiangsu Province. In 2005, the HR system reform was conducted in all branches in mainland China. The HR system reform of BOC, which is spectacular and quotable for other Chinese domestic banks, included the following aspects: avoiding a wholesale massacre of jobs, cancelling administrative titles, competing and selecting the best and marketilisation of payment system (Review of HR reform at Bank of China, Online, 2006).

The Western modern style HRM system has taken the place of the traditional old HRM system in state-owned banks and stock-joint banks. The Chinese banking industry can be seen as the pioneer in reforming the human resource management in China. The large-scale transition from the old HRM system to a market-oriented and performance related HRM system provides a vivid case for study. In spite of the importance of the banking industry, very little research has been conducted in this industry in China. It is also very difficult to get access to the banks and collect the

data in banks in China. In order to fulfill this research gap, I intend to conduct the first study to explore the performance appraisal system in three banks in China.

3.4.3 Numbers of Case

There is a long term debate about the ‘optimal’ number of cases in the literature of research design. According to Meredith (1998), it is appropriate to use the single-case design for a complete new, exploratory investigation. The researchers have greater opportunity for richness of data collection and depth of observation, by using a small number of case-design (Voss et al., 2002). On the other hand, multiple-case research designs should be adopted when researchers already have some knowledge about it but still need to explore much more about it (Meredith, 1998). Multiple-case designs are usually recommended, because “single-case designs are vulnerable if only because you will have put all eggs in one basket” (Yin, 2003, p53). However, there is no conclusion regarding the ideal number of cases that should be used in the literature. As Eisenhardt (1991) said, the proper number of cases should depend on how much information is already known and how much will be learnt from the incremental cases. Therefore, Eisenhardt (1989) suggested that four to ten cases are regarded adequate and appropriate, because it is be difficult to cope with the complexity of the data in more than ten cases.

In this study, I conducted in-depth research to explore the performance appraisal system in Chinese banks and the impact of guanxi upon it. Firstly, both qualitative (interviews to managers and employees) and quantitative (large scale questionnaires) methodology were adopted. Secondly, a comparative study between the sampling banks with different ownership was also conducted. Thirdly, no study has focused on the performance appraisal systems in Chinese companies (e.g. banks) and the impact of guanxi on it before in the literature. Very little information about this is already known to scholars. Thus, it was better for me to choose fewer cases for a thorough in-depth study, because of the complexity of the research methodology I uses in this study and the very little information I know about the issue. Therefore, I

intended to select three banks for study than more cases, because it is not difficult and or complicated to conduct the in-depth study respectively in these three cases and the comparative study between these three cases in detail. Consequently, given the research questions, objectives and methodology, this study conducted three-case research design, by choosing one state-owned commercial bank, one foreign commercial bank and one city commercial bank in China for in-depth research. The sampling strategy and the characteristics of the selected cases will be discussed in the following section.

3.4.4 Choice of cases

As described in the former section, the Chinese commercial banking industry mainly includes the following six ownerships of banks: state-owned commercial banks, joint-stock commercial banks, city commercial banks, foreign commercial banks, village and township banks and rural commercial and cooperative banks. In this multiple-case study, one state-owned commercial bank, one city commercial bank and one foreign commercial bank in the Eastern China were selected for the following reasons.

Firstly, I wanted to concentrate on the banks in urban areas because they have more advanced appraisal systems and comparability between each other. With the reform of the banking system, Chinese banks changed from only one bank, the People's Bank of China (PBOC), to a big system, including different ownerships of banks. This change has made the market competition become very intense. As discussed above, the state-owned commercial banks started to reform their human resource management system several years ago, e.g. Bank of China and Industrial and Commercial Bank of China. The new performance appraisal systems and payment systems have been adopted to increase their competitive advantages. This reform still remains unexplored and provides a very good opportunity for in-depth research. It is very interesting to study the implementation of the Western-style appraisal system in the traditional Chinese banks which have a long history. Therefore, it was

important to include one state-owned commercial bank in my case study.

When they entered Chinese market, foreign commercial banks adopted the Western-style appraisal system, which emphasises the performance and contribution of employees. Their human resource management systems are more modern and effective, compared to their counterparts in China. Therefore, it was also necessary to select one foreign bank for study. In the 1990s, the city commercial banks were founded by restructuring the former city credit cooperatives. Since 2000, more and more new city commercial banks have been established. The new city commercial banks have had rapid development and fast extension. They have adopted the new style of human resource management system since they were founded, especially those established after 2000. It was also interesting to include one city commercial bank for study here.

Another important ownership is called a joint-stock commercial bank. The existing 13 nationwide or regional joint-stock commercial banks were established in the late 1980s or early 1990s. They accounted for 19.2% of local banking assets in China by the end of 2009, which is just below state-owned banks (46.7%) but more than city commercial banks (7.2%); therefore, they are also an important part of the banking industry in China (Cousin, 2011). However, I didn't select a joint-stock commercial bank in this study, because they have a long history and cultural and institutional heritage that is too similar to state-owned banks; also because I did not receive any information about the reform of their old traditional HRM system and because I could not get access to any of them for both the pilot study and formal study.

There are another two important commercial banks: village and township banks and rural commercial and cooperative banks, which can be seldom found in the urban areas. I did not choose any case from these two types of banks, because I wanted to concentrate the current study on the banks in urban areas of China. I had no information about the HRM system of these rural commercial banks and no access to

them for study. The banks in urban areas had more advanced HRM systems than those rural banks in China, after the reform or even when they were founded. The comparative study is included in this project; therefore, I had to choose the banks with comparability in terms of their performance appraisal systems. Thus, based on the reasons above, one state-owned bank, one city commercial bank and one foreign bank were finally chosen for this study.

Secondly, I wanted to choose three banks with different ownerships and historical heritage, in order to make a good comparative study between them. Company ownership plays a very important role in the employment of HRM practices in China, which has been well documented in recent empirical studies (Ding and Akhtar, 2001; Braun and Warner, 2002; Ngo, et al., 2008). The modern Western-style HRM expertise were transferred to China from abroad, mainly via the foreign-invested enterprises (FIEs), especially joint-ventures (Ding, et al., 2002; Warner, 1998). It was reported that FIEs adopt more market-oriented HRM systems than Chinese local companies, because they have fewer institutional constraints and greater flexibility and autonomy in employment (Chow, 1992; Warner, 1999 et al., Ngo, et al., 2008). Therefore, Western-style modern high performance HRM systems and practices are often implemented in the foreign-invested enterprises.

On the other hand, the reform of HRM systems and the import of new modern-style HRM systems and practices in state-owned enterprises have been more or less constrained by the Chinese context, namely the culture and institutional heritage of the SOEs (Ding et al., 2000; Ngo et al., 2008). With the decentralisation of decision-making power in mid 1980s, state-owned companies in China began to adopt more market-oriented HRM systems, such as recruitment, training, payment systems and performance management (Ding and Akhtar, 2001; Zhu and Warner, 2004; Ngo et al., 2008, pp77). Nonetheless, it is reported by Ngo et al. (2008) that these SOEs are always constrained by institutional pressures, such as the pressures from the government and trade unions, when they reform their HRM systems and adopt new

modern HRM practices. It is further reported that because of limited exposure, the managers in SOEs are much less market-oriented and thus use fewer mainstream HRM practices than their counterparts in FIEs (Warner et al., 1999; Ngo et al., 2008). For example, according to Ngo et al.'s research of a number of Chinese companies in different regions and industries (2008), the implementation of modern strategic HRM systems was comparatively lower in SOEs than in FIEs and private companies.

Besides the institutional pressures (e.g. government or trade unions), cultural legacy is another form of constraint to the adoption of SHRM system in SOEs. For example, according to the study of white-collar workers in a SOE by Bozionelos and Wang (2007), the traditional cultural factors in China, especially *guanxi* and *mianzi* (face) will influence the employees' attitudes toward performance-related pay. It was reported that the employees' belief that *guanxi* influences the distribution of PRP will have a negative impact on employees' acceptance of PRP in this SOE. Therefore, the authors suggest that managers in China should consider these cultural characteristics when formulating and implementing a successful PRP scheme. Thus, the cultural legacy of the companies with different ownerships will also have impact on the implementation of new HRM systems and the acceptance of the new system by employees.

The existing literature on HRM in the Chinese context emphasises the organisational continuities of organisational practices, that is the cultural and institutional legacy of SOEs, in the process of market oriented reform (Francis, 1996; Goodall and Warner, 1997; Warner, 1999; Ding et al., 2001; Ding and Akhtar, 2001). The FIEs and new private companies are comparatively free from a number of political obligations and cultural legacy constraints. Therefore, traditional Chinese characteristics such as *guanxi* will play a different role and have different levels of impact on HRM systems in different companies with different ownerships.

Thus, I selected a state-owned commercial bank, which has a long history and heavy

cultural legacy, to explore the impact of guanxi on performance appraisal systems. It is believed that traditional Chinese cultural factors, such as guanxi, significantly influence the managers' distribution of outcomes and attitudes toward different employees with or without guanxi. On the other hand, the foreign commercial bank, which has a shorter history and enjoys more autonomy, has fewer historical cultural legacy and pressure compared to state-owned banks. Therefore, a foreign commercial bank was also chosen to examine whether guanxi influences the performance appraisal and if so, to what extent the guanxi will have impact on appraisal and employees' attitudes. Thirdly, a city commercial bank, which was founded after 2000 and has a very short history, was selected for this study. This city bank adopted the new-style performance appraisal system when it was established. Moreover, this city bank does not have any historical cultural heritage. Therefore, it was very interesting to explore whether guanxi between employees and their managers has been developed after its establishment and now has an impact on appraisal system. Firstly, this city bank is different to foreign banks, because all managers in the bank are Chinese and are familiar with the building and development of guanxi. Secondly, this city bank is distinct from the state owned bank, in terms of history and cultural legacy.

To sum up, one state-owned commercial bank, one foreign commercial bank and one city commercial bank were chosen as samples in this study, because I wanted to concentrate on the banks in urban areas that have more advanced appraisal systems and comparability with each other; and because each of these three banks has a different ownership and historical institutional and cultural legacy, allowing a good basis for comparative study. All these three sampling banks were selected from the major cities in Eastern China. The Eastern China, including two provinces: Jiangsu and Zhejiang and one city: Shanghai, is one of the most developed regions in China. All bank selections were directed by the following criteria:

- (1) Commercial banks adopt the modern Western-style performance appraisal system, which has been implemented more than three years.
- (2) Commercial banks are located in major cities in Eastern China (Jiang province, Zhejiang Province and Shanghai city).
- (3) The state-owned commercial bank has reformed their performance appraisal system from the traditional Chinese style to a new market-oriented and performance-related modern one.
- (4) The city commercial bank was founded after 2000 and has adopted a performance-related performance appraisal system since its establishment.
- (5) I have the access to study the banks and is able to carry out both interviews and questionnaires in the banks.

A brief description of the three-case studies in this research is shown in the table 3-5 below. Due to the confidentiality agreement between the sample banks and me, the names of all banks are omitted throughout this thesis.

Table 3-5: Choice of the sample banks

	Case A: a state-owned bank	Case B: a foreign bank	Case C: a city commercial bank
Visit Time	Feburary, 2012	March, 2012	March, 2012
Stay Time	Ten days	One week	One week
Location	A city in Eastern China	A city in Eastern China	A city in Eastern China

3.4.5 Data Collection Methods

According to Yin (2003, p85), several different sources of data are usually adopted in case studies, including archival records, interviews, documentation, direct observation, physical artifacts and participant-observation. Besides these qualitative methods, many case studies also use quantitative methods e.g. surveys to obtain quantitative data for analysis. As there are four sub-research questions in this study, each question has different features and objectives that require different research methods

for data collection. The first question requires a pilot study to develop a scale for ‘the impact of guanxi on appraisal’ to be used in the main study of three banks in China. Therefore, the methodologies for the pilot study will first of all be discussed in this section.

Moreover, the data for the remaining three sub-research questions were all derived from the main empirical study of state-owned bank A, foreign bank B and city bank C in China. It involves the interviews of HR staff in three banks to obtain a thorough understanding of the design and implementation of performance appraisal systems, and employee surveys for the model testing, interviews with supervisors and employees to obtain relevant information and evidence for their attitudes to appraisal and the analysis of secondary documents. Therefore, both of the qualitative and quantitative methodologies for the main study of three banks in China will be presented in this section.

3.4.5.1 Pilot Study for Sub-research Question 1: What is the role of guanxi in performance appraisal system?

The aim of the pilot study is to examine how guanxi influences performance appraisals in Chinese organisations and to develop a scale for ‘the impact of guanxi on appraisal’. Therefore, in order to fulfill these two aims, the pilot study will be divided into two parts, with interviews as the first part and explanatory factor analysis as the second.

The First part: interviews

Given that the first research aim is to examine the question ‘what is the role of guanxi in performance appraisal systems?’, the interview was the most appropriate method here. Qualitative interviews were used to obtain a thorough understanding of the role of guanxi in performance appraisal systems from both employees and managers’ perspectives. The interviews with employees provided information about the employees’ perceptions of the impact of guanxi on performance appraisals, how

employees view the guanxi and managers' behaviour caused by guanxi. On the other hand, the interviews with managers were to ensure that I could understand whether managers would consider subordinates' guanxi in the performance appraisal process and how supervisors behave in terms of the impact of guanxi. Therefore, interviews with both employees and managers were conducted to obtain a thorough and clear understanding of the impact of guanxi on performance appraisals in Chinese organisations.

Sample and procedure of the interviews

Twenty face-to-face semi-structured interviews were conducted with 20 employees from 8 companies in Eastern China in the summer of 2009. Participants in the interviews were selected by using a purposeful qualitative sampling strategy. The sample was reasonably diverse in terms of sex (15 male and 5 female), age ($M=30.8$, ranging from 26 to 44), and hierarchical level and positions, ranging from 14 ordinary employees to 6 managers. Fourteen of the participants were chosen from the state-owned companies; while three were selected from the public sector and four from private companies.

I did not choose the employees of multinational companies for this part of the study, because it is reported that multinational companies in China have a comparatively lower level of historical cultural heritage (e.g. guanxi) and I did not have access to any multinational company for pilot study. In order to capture a clear picture of the impact of guanxi on the performance appraisal system, I chose a large percentage of the participants from the state-owned companies for the following two reasons: Firstly, Chinese state-owned companies are reported to have greater institutional and cultural heritage, such as guanxi, and the heritage would have a significant impact on its HRM system (Warner et al. 1999; Ngo et al., 2008; Wei, 2009). Secondly, the three sample banks for this case study included two Chinese banks, one state-owned bank and one city commercial bank, which share many more similarities with other state-owned companies in terms of Chinese cultural factors, such as guanxi. Therefore, more

participants from state-owned companies in the pilot study helped to capture the clear features of the impact of guanxi in traditional Chinese state-owned companies.

For the interviews, I invited the employees who had worked in the companies for at least two years, to ensure that these employees would have a comprehensive understanding of the performance appraisal system and the impact of guanxi upon it. A semi-structured interview format was adopted in the pilot study, involving responses to open-ended probe questions, which gave the interviewees chance to articulate their thoughts on the impact of guanxi on performance appraisal systems in their companies. The participants were asked to describe their feelings and perceptions of guanxi in the performance appraisal system and explain how guanxi influenced the system and the supervisors' and subordinates' behaviour in the process (full interview questions see Appendix 4-1,4-2). The interviews were conducted off-site (e.g. a comfortable coffee shop) to encourage them to express their opinions freely and openly. The confidentiality agreement was put in place before the interview; while the notes were written down on my own with no recording at all. All 20 interviewees declined the opportunity to review the notes and claimed that they trusted my confidentiality clauses and were comfortable with the information they disclosed during the interviews.

Sample questions included:

- 1 What kinds of impact have the employees' guanxi had on performance appraisals in your company?
- 2 What types of employees' guanxi have an impact on supervisors' behaviour in appraisals?
- 3 How does employees' guanxi influence supervisors' decisions and behaviour in appraisals in your company?

4 Do those employees with guanxi obtain better performance ratings from supervisors, compared to those employees without guanxi, regardless of their performance?

5 Do those employees with guanxi obtain better treatment from supervisors, compared to those employees without guanxi?

The second part: development of a scale for “guanxi’s impact on appraisal”

The second aim of the pilot study was to develop a measure of ‘guanxi’s impact on appraisal’, which will be used to test the model in Chapter 5. In order to validate the new measure, the exploratory factor analysis needs to be conducted. I administered a questionnaire, which consisted of the newly developed scale ‘guanxi’s impact on appraisal’ to a sample of 158 part-time MBA students, in order to conduct a construct validation test of the new scale. The part-time MBA students invited to participate in the study were from two universities in the Eastern China. I chose part-time MBA students for the following two reasons. Firstly, as the questionnaire is about the impact of guanxi on appraisal in the work group, which refers to the supervisor’s behaviour and communication with subordinates, the part-time MBA students, who still have their own jobs, could complete the questionnaire according to the situation in their current workplace. Secondly, the part-time MBA students were working in different companies of different industries and with different types of ownership, which could be seen to be representative of employees in China. Paper copies of the questionnaire were handed out to them in December of 2011 in their classes and I asked them to fill out the questionnaire anonymously during class break. The questionnaire was written in Chinese, which was translated from the original English version by back-translation method (Brislin, 1970, 1980). The final sample of this study included 145 part-time MBA students, representing a response rate of 92%.

3.4.5.2 Sub-research Question 3: How do performance appraisals work in Chinese organisations?

For this question, I intend to collect some basic information about the implementation

of performance appraisal systems in these three banks. Given that this research aims to explore the details of the procedures of appraisal systems, something that is very sensitive and confidential in the majority of organisations in China, interviews seemed more appropriate here. Interviews give the chance to researchers to explore a new phenomenon in depth, undercover new dimensions of a question or problem, and secure accurate, inclusive and vivid accounts based on personal experience (Burgess, 1984). Therefore, semi-structured interviews, which provide the flexibility to ask questions that emerge during the interview (Bernard, 1995), were adopted in this section, in order to collect enough detailed information about the appraisal system in each bank.

Interviewees were selected from the HR department of each bank, on the basis of their experience and knowledge of the current performance appraisal system and its reform, if any. Ideally, the head of the HR department and one employee responsible for appraisal work with at least five years' work experience in the bank, were chosen for the interviews. They were believed to be very familiar with how the performance appraisal system works and what kind of responsibilities the managers and employees have respectively in the bank. However, only the head of the HR department in the state-owned bank was available to attend the interviews, while it was not convenient for the head of HR department in the city commercial bank or foreign bank to participate in the interviews. Therefore, another employee responsible for the performance appraisal system was instead selected for interviews in these two banks.

My opportunity to conduct empirical studies in these three banks was introduced through personal *guanxi*, normally through the introductions by a top-level manager in the bank with whom I have *guanxi*. First of all, the top-level manager in each bank introduced the relevant interviewees to me. Then, I made an appointment with each interviewee before visiting their office, to ensure that the interviewees had adequate time to complete the interviews. In each interview, the nature and purpose of the study was briefly introduced to interviewees, and at the beginning of the

interviews, a confidentiality agreement was made verbally between interviewee and me.

I recorded all interview data by taking notes in each interview. Digital recorders were not used in the interview because some respondents felt less comfortable speaking candidly and freely. In fact, Chinese interviewees talk very carefully in front of the digital recorders, in order to avoid unexpected trouble after the interviews that may be caused by digital recording. Moreover, writing down the answers provided more time for me to reflect on them and formulate more tailored questions to pursue items of interest.

Each interview lasted one and half to two hours and took place in either the interviewee's own office (for the HR department manager) or a secret meeting room in the bank (for the HR department staff who did not have their own office). I mainly used open-ended questions around the broad theme of: How do you think the implementation of the performance appraisal system in your bank could have been improved? The semi-structured interview and a list of detailed interview questions were developed based on the following four broad categories (Bretz et al. 1992); (1) system design and characteristics, (2) system management, (3) important appraisal uses and (4) performance distribution (See Appendix 2-1, 2-2). "The 'system design and characteristics' dimension includes appraisal construction and development, appraisal approach and format, raters, and rating sources, and performance criteria. The 'system management' dimension is concerned with appraisal frequency, appraisal-related decision-making, rater training and rater accountability. 'Appraisal use' includes concerns about developmental and administrative uses of appraisals, whereas 'performance distribution' talks about differentiating employee performance on certain levels (Shrivastava and Purang, 2011, p636)".

In order to examine the procedures of the appraisal system, I will also include some questions based on 'due process model' (Folger, et al., 1992). The following

procedural elements were examined by these questions: the criteria of the performance, the setting of the performance objectives at the beginning of appraisals, the feedback, employees' participation, the appeal system and the formal review.

The 'back-translation' research method for cross-cultural research was conducted for all interview questions (Brislin, 1970; 1980). It required the following steps: Firstly, the original questions in English being translated into Chinese by the author. Secondly, the Chinese version being given to another translator who is fluent in both English and Chinese for translation back to English. Thirdly, the new English version being compared to the original English version and the items being retranslated, in order to ensure that the new English version was of a semantic and grammatical equivalent to the original Chinese version.

Sample questions included:

- 1 What is the format and design of the new performance appraisal system in your bank?
- 2 What is the administrative purpose of the new performance appraisal system in your bank?
- 3 How often are performance appraisals conducted in your bank?
- 4 How were the criteria for the evaluation decided upon during the performance appraisal system reform?
- 5 Can you introduce the performance criteria which have been adopted in the performance appraisal system in your bank? KPI? Objective or subjective criteria?

3.4.5.3 Sub-research Question 2: How does guanxi in performance appraisals influence the employees' perceptions of justice, affective reactions toward performance appraisals and behavioural outcomes?

In terms of the impact of guanxi on employees' justice perceptions and behavioural outcomes, a multi-level model was created based on the research hypotheses. The survey research approach was used to make statistical inference of the interactions and relationships between multiple variables, based on the conclusion derived from a representative sample of the population of interest (Alasuutari et al., 2008). Therefore, in order to test the model, the survey design was adopted here. Compared to the experiment design, the advantage of the survey is that it has relatively lower costs and a rapid turnaround in data collection (Robson, 2002). Another reason for choosing surveys over experiments is that there would be practical difficulties in examining the guanxi through experiment design, because the development of guanxi requires a substantial amount of time for sufficient interactions between two individuals. Given the limited resources for my research, the survey design seemed more appropriate.

Questionnaire design

The questionnaire was developed for the employees of the banks in this study. All items were assessed using a 6-point Likert-scale, with response options from strongly disagree to strongly agree. I adopted the six-point Likert scale because previous research has demonstrated that Chinese people are inclined to select the mid-point of the scale, because of the Confucian 'doctrine of the mean' value (Chiu & Yang, 1987). I wanted to reduce this central tendency bias by using the 6-point Likert scale, which eliminates a mid-point. Moreover, in the pilot study, I conducted a factor analysis for the new scale 'guanxi's impact on appraisal', which was also assessed using the 6-point Likert-scale. In order to ensure consistency between the new scale and the model, the 6-point Likert-scale was chosen for the questionnaire. On the front page of this questionnaire, the respondents in the study were informed of

the aims and objectives of this survey and of assured confidentiality (Robson, 2002). The template of the questionnaire (English version) is provided in the Appendix 5.

The scale ‘guanxi in performance appraisal’ was created in English in my pilot study and all other items were drawn from validated scales designed for English speakers. Given that the participants of the survey were employees in Chinese banks, the questionnaires needed to be translated from English to their native language of Chinese. As with the interview questions, the translation followed the back-translation procedures suggested by Brislin (1980) to make sure that the Chinese version of the questionnaires had the equivalent meaning with the English version.

Measures

The model developed in the literature review chapter has one independent variable, nine dependent variables and five control variables.

Independent Variables

Guanxi’s impact on appraisals

The scale I created in the pilot study was used here to measure the ‘guanxi’s impact on appraisal’ (see Chapter 4). This scale had two factors, which include seven items in total. In the scale, “guanxi refers to any type of the following: (a) guanxi with supervisor; (b) guanxi with an important person within the company; (c) guanxi with an important person outside the company”. The first factor is named “guanxi’s impact on appraisal outcome”, which includes the following three items: “(1) Performance ratings are often distributed based on employees’ guanxi”. “(2) It is more important to have guanxi than to perform well, if I want to get a good performance rating,” and “(3) Those employees who have guanxi will get better performance rating than their peers, even if their performance is not better than their peers”. Cronbach’s alpha for guanxi’s impact on appraisal outcome was 0.82.

The second factor, namely ‘guanxi’s impact on communication’ includes the

following four items: “(1) The supervisor provides more help and supervision to those employees who have guanxi for improvement of their performance”, “(2) The supervisor provides more feedback and direction in appraisal to those employees who have guanxi”, “(3) The supervisor has more non-workplace and workplace communication with those employees who have guanxi”, and “(4) The employees who have guanxi will have more opportunities to express their own opinion regarding appraisal to supervisor”. Cronbach’s alpha for guanxi’s impact on communication was 0.88.

Dependent variable:

Organizational justice

The three facets of organizational justice, including distributive, procedural and interactional justice, were adopted in this study. These three justice factors were measured by the scale from Colquitt et al (2001). Some wordings of the items were modified as appropriate, in order to fit my study. For instance, “my outcome”, which means the various outcomes at work, e.g. pay, promotion, appraisal, was replaced by “my performance rating” to concentrate the scale on the outcome of performance appraisal.

Distributive justice

Distributive justice was measured by the following four factors: “(1) My performance rating reflects the effort I have put into my work,” “(2) My performance rating is appropriate for the work I have completed,” “(3) My performance rating reflects what I have contributed”, and “(4) My performance rating is justified, given my performance.” Cronbach’s alpha for distributive justice was 0.87.

Procedural justice

The factor of procedural justice include the following seven items: “(1) I have been able to express my views and feelings during the procedures of performance appraisal,” “(2) I have had influence over my performance rating arrived at by those

procedures of performance appraisal”, “(3) Those procedures of performance appraisal have been applied consistently”, “(4) Those procedures of performance appraisal have been free of bias,” “(5) Those procedures have been based on accurate information”, “(6)I have been able to appeal my performance rating arrived at by those procedures of performance appraisal”, and “(7) Those procedures of performance appraisal have upheld ethical and moral standards.” Cronbach’s alpha for procedural justice was 0.71.

Interactional justice

Interactional justice was measured by the following nine factors: when enacting the procedure of performance appraisal, my supervisor (1) “has treated me in a polite manner”, (2) “has treated me with dignity,” (3) “has treated me with respect,” and (4) “has refrained from improper remarks or comments.” When enacting the procedure of performance appraisal, “(5) my supervisor has been candid in (his/her) communications with me,” (6) “my supervisor has explained the procedures thoroughly”, (7) “my supervisor’s explanations regarding the procedures were reasonable”, (8) “my supervisor has communicated details in a timely manner”, and (9) “my supervisor has seemed to tailor (his/her) communications to individuals’ specific needs.” Cronbach’s alpha for interactional justice was 0.82.

Employees’ satisfaction with performance appraisal

The employees’ affective reactions to performance appraisal system itself, to their performance ratings, and to the supervisors’ behaviors in appraisal, were measured by three scales. These three scales were considered as the most important indicators of employees’ satisfaction with appraisal itself. The scales adopted here were modified from previous research (Tang and Sarsfield-Baldwin, 1996, Taylor, Tracy, Renard, Harrison & Carroll, 1995) and were used by Walsh (2003) in the study of performance appraisal in American public sectors.

Satisfaction with performance ratings

The scale “satisfaction with performance ratings” is used to test the extent to which employees regard the appraisal outcome as fair, accurate and reflective of their effort and performance (Thurston, 2001). It include the following four items: (1) I am satisfied with the performance rating I received for the most recent rating period, (2) My most recent performance rating was fair, (3) My most recent performance rating reflected how I did on the job, and (4) The performance rating I received was pretty accurate. Cronbach’s alpha for satisfaction with performance ratings was 0.89.

Satisfaction with the performance appraisal system

This scale was used to examine whether employees thought that the implementation of the appraisal system was fair and worthwhile (Walsh, 2003). It includes the following six items: (1) Overall, I think the performance appraisal system is fair, (2) I am satisfied with the way the performance appraisal system is used to set my expectations for each rating period, (3) I am satisfied with the way the performance appraisal system is used to evaluate and rate my performance, (4) I think my department should change the way they evaluate and rate job performance (R), (5) I think the performance appraisal process is a waste of time (R), (6) The performance appraisal has helped me to improve my job performance. Cronbach’s alpha for satisfaction with performance appraisal system was 0.83.

Satisfaction with supervisor in appraisal

This scale reflects the employees’ overall perceptions of supervisors’ behaviors in appraisal process (Walsh, 2003). It includes the following five items: (1) I am satisfied with the amount of support and guidance I receive from my supervisor, (2) Overall, I am satisfied with the quality of supervision I receive at work from supervisor, (3) All in all, I think I have a good supervisor, (4) I would give my supervisor a positive rating, and (5) My supervisor takes the rating system and process seriously. Cronbach’s alpha for satisfaction with supervisor in appraisal was 0.86.

Employees' behavioral outcomes

Four behavioral outcomes, including trust in supervisor, commitment to organization, turnover intention, were measured in this study.

Trust in supervisor

Trust in supervisor was measured by a four-item scale. It includes the following items. The item - (1) My supervisor would try to gain an advantage by deceiving employees (R), - was derived from the work of Cook and Wall (1980), and along with the second item - (2) I have complete faith in the integrity of my supervisor, - derived from the work of Podsakoff and his colleagues (1990), to examine the employees' faith in the integrity of their supervisors. Two more items - (3) I feel a strong loyalty to my supervisor, and (4) I would support my supervisor in almost any emergency, - which were also derived from Podsakoff and his colleagues' work (1990), were adopted to explore employees' sense of allegiance and loyalty to their supervisors. Cronbach's alpha for trust in supervisor was 0.76.

Organizational commitment

Organizational commitment was examined by the nine-item scale from Meyer et al. (1993). It includes the following items: (1) I am willing to put in a great deal of effort beyond that normally expected in order to help this bank be successful, (2) I talk up this bank to my friends as a great organization to work for, (3) I would accept almost any type of job assignment in order to keep working for this bank, (4) I find that my values and the bank's values are very similar, (5) I am proud to tell others that I am part of this bank, (6) This bank really inspires the very best in me in the way of job performance, (7) I am extremely glad that I chose this bank to work for over others I was considering at the time I joined, (8) I really care about the fate of this bank, (9) For me this is the best of all possible organizations for which to work. Cronbach's alpha for organizational commitment was 0.81.

Turnover Intentions

Employees' turnover intentions was assessed by Camman et al.'s (1979) scale, which includes the following two items: (1) I often think about quitting my job with my present organization, and (2) I will probably look for a new job within the next year. Cronbach's alpha for turnover intentions was 0.84.

Control variables:

Three control variables, including demographic information, outcome favorability and company ownership were measured, in this study.

Demographic information

This refers to the age, gender and education of the employee. These variables were included because previous studies had demonstrated that these demographics may have impacts justice perceptions, organizational commitment and employees' intentions to quit (e.g., Lee & Farh, 1999). In the study of negative impact of guanxi practices on trust in management and procedural justice, Chen, Chen and Xin (2004) also controlled three demographic variables: age, gender and education. In this study, age was measured in years. Male was coded as 1 and female as 0. Education was measured by five categories: below high school (=1), high school (=2), 3-year college (=3), 4-year college (=4), and Master's degree or above (=5).

Outcome favourability

Outcome favourability is used to assess the extent to which the participants receive favourable outcomes from the procedures and policies of their own company (Tyler and Blader, 2000). It is important to control outcome favourability in this model, because previous studies showed that outcome favourability can influence several employees' perceptions or behavioural outcomes, such as procedural justice perceptions and trust in management (e.g. Brockner et al., 2000). Chen et al. (2004) controlled this variable in their study of the impact of managers' guanxi practice on employees' procedural justice perceptions and trust in management. Chen et al.

(2011) also controlled the variable called ‘interpersonal level guanxi practice’, when they examined the impact of group level guanxi practice on employees’ procedural justice perceptions. The ‘interpersonal level guanxi practice’ assessed the extent to which the employees obtain a better outcome (e.g. pay, promotion or task allocation) than others under the same condition of qualification. In fact, this has the same meaning as outcome favourability. Therefore, it is also necessary to control the outcome favourability variable in this study, in order to avoid any bias caused by it. I adapted two items from Tyler and Blader (2000) to measure outcome favourability. These two items include (1) The policies and procedures of performance appraisals at my bank are favourable to me and (2) My supervisor often allocated me better performance ratings than others. Cronbach’s alpha for outcome favourability was 0.87.

Company ownership

In this study, three banks, including one foreign bank, one state-owned bank and one city bank in China, were chosen. It is assumed that employees in companies with different ownership have different perceptions of justice and behavioural outcomes. Chen, Chen and Xin (2004) also controlled the company ownership in their study. Therefore, the company ownership was coded as a multiple categorical variable in this study.

Sample and procedures

Samples were drawn from the selected three banks, one state-owned commercial bank, one city commercial bank and one foreign commercial bank. An important criterion was adopted when choosing participants for the employee survey, that is, the subordinates had to have been in the bank for more than a year and have experienced the performance appraisal once, from the beginning period e.g. the setting of the objectives for the coming year to the end of appraisal e.g. receiving a performance rating from the supervisor.

The permission to survey employees for this study was obtained from the chief executives or managers of these three banks. The managers in the human resource departments of each bank were asked to provide a list of the potential participants. The initial selection of the sample excluded the employees who were not available because of holiday leave or business travel. Secondly, due to the large size of all these three banks, I could only randomly choose a small number of employees for my study. As I wanted to obtain more than one hundred usable questionnaires from each bank, it was necessary for me to distribute around 150 questionnaires. A bank has different departments, which can be generally divided into two parts: the banking part (e.g. private banking, investment, quantitative analysis and so on) and the support part (IT service, HR, administration and so on). The banking part is always bigger than the support part in a bank. Therefore, I chose 60% of my sample from the banking part and 40% from the support part in each bank.

Packages of questionnaires were prepared individually for each participant. A package included one employee questionnaire. On the cover page, I explained clearly the purpose of the survey, i.e. that it was not to be used in the performance appraisal of the bank, but was for academic purposes and scientific research only. One envelope was also provided to participants with the questionnaire. The questionnaire could be sealed by the participants when they had completed it so that no person other than me could see their answers. Confidentiality is always a very important issue in surveys, especially in China. In this study, the questionnaire related to performance appraisal, *guanxi* and participants' attitudes, which were all very private and sensitive to almost all the respondents in Chinese banks.

Before I distributed the questionnaires, the survey was scheduled in order to avoid the peak time of the banking industry. The surveys in all three banks were conducted from February to March of 2012, when the last performance appraisal had just finished. Given that employees had just experienced the final period of the appraisal and obtained a performance rating, they should have been very familiar with what

happened in the appraisal and have a very clear impression of it. The questionnaires in these three banks were to be distributed on site on my own, at a non-busy time of a working day (e.g. during the rest time at noon and the time before leaving work for the day). In the state-owned commercial bank and city commercial bank, I conducted the survey smoothly and successfully with the help of the managers. The participants of the survey were given the questionnaires directly on my own and I also collected the completed questionnaires directly from the participants. The aim and purpose of the survey was introduced to participants before distribution and participation was absolutely voluntary. However, administering the questionnaires was not permitted on site in the foreign commercial bank, because managers felt that the survey would disrupt their regular business and work. Therefore, participants in the foreign commercial bank were asked to take the questionnaires home and complete them independently, seal the finished questionnaires in the envelope provided on my own and return the envelope to a manager in the human resource department on their next working shift.

A total of 428 questionnaires were distributed to these three banks (151 for state-owned bank A, 145 for foreign bank B and 132 for city bank C). 350 questionnaires were collected (125 for state-owned bank A, 112 for foreign bank B and 113 for city bank C) and the average response rate was high at 81.8% (82.8% for state-owned bank A, 77.2% for foreign bank B and 85.6% for city bank C). All returned questionnaires were sealed in the proper manner. Data analysis for this study was based on a sample of 308 employees, with 108 in state-owned bank A, 100 in foreign bank B and 100 in city bank C. The average age of all the respondents in this survey was 30.37 years. Male employees accounted for 61% of the total population. Most (89.6%) had the educational equivalent of four-year college study or higher. 35% of respondents in this survey were employees in state-owned bank A, compared to 32.5% from foreign bank B and 32.5% from city bank C.

Qualitative part: interviews with supervisors and employees

Besides the survey, interviews with managers and employees were also adopted for this question. The data from the quantitative survey was used to test the model; while the qualitative interviews were used to explore in detail more confirmative information and evidence regarding the employees' and managers' perceptions of performance appraisals, guanxi and the impact of guanxi on appraisal. With the interviews, I aimed to obtain a thorough understanding of the employees' and managers' attitudes, which could help to explain the in-depth reasons behind the model.

I selected two managers and three to four employees in each bank for one-to-one semi-structured interviews. One-to-one interviews were chosen, because Chinese employees are reluctant to talk in front of their colleagues. In order to let the interviewees express their opinions freely and comfortably on the sensitive topics of appraisal and guanxi, the one-to-one interview was adopted instead of a focused group interview. With the help of the relevant high-level managers or CEOs with whom I had guanxi in each bank, 2 managers and 3 to 4 employees were selected from the employee list and the interviews were arranged properly. All the interviewees had worked in their banks for at least three years, which means that they were all very familiar with the procedures of performance appraisal.

The semi-structured interview format with open-ended probe questions was adopted to give opportunity for interviewees to be free to respond in the way they wanted (see Appendix 3-1, 3-2, 4-1, 4-2). For instance, interviewees were asked: What do you think have been the achievements and what problems have occurred in the implementation of the current performance appraisal system in your bank? Some interviews were conducted at the workplace e.g. in the manager's own office or in an empty conference room in the bank; while the others were off-site. The confidentiality was assured and the notes were written down on my own. The proposed interview questions are stated below:

- 1 What is the role of the supervisor in performance appraisals in your bank?
- 2 What responsibilities does the supervisor have in performance appraisals?
- 3 How do you communicate with subordinates in performance appraisals?
- 4 Do you have frequent communication with subordinates in the process of appraisals?
- 5 How frequently do you provide formal feedback to subordinates regarding their performance? How about informal feedback?

Table 3-6: Data sources in each case

Case	Interviews	Questionnaires
Case A: State-owned bank	<ul style="list-style-type: none"> ● Head of HR department (2.5 hours) ● An employees of HR department (2 hours) ● 2 managers (1 hour for each) ● 4 employees (1 to 1.5 hours for each) 	<ul style="list-style-type: none"> ● 151 questionnaires distributed to employees
Case B: Foreign Bank	<ul style="list-style-type: none"> ● Two employees of HR department (2 hours) ● 2 managers (1 hour for each) ● 3 employees (1 to 1.5 hours for each) 	<ul style="list-style-type: none"> ● 145 questionnaires distributed to employees
Case C: City bank	<ul style="list-style-type: none"> ● Two employees of HR department (2 hours for each) ● 2 managers (1 hour for each) ● 3 employees (1 to 1.5 hours for each) 	<ul style="list-style-type: none"> ● 132 questionnaires distributed to employees

3.5 Data Analysis

This study adopted both within-case analysis and cross-case analysis to have an in-depth investigation. The combination of these two types of analysis can counteract biases during the information processing period and keep the study from making “premature and even false conclusions” (Eisenhardt, 1989, p540).

3.5.1 Within-case analysis

Within-case analysis normally means in-depth and detailed case study write-ups and analysis for each site (Eisenhardt, 1989). The second sub-research question is ‘how does guanxi in performance appraisals influence employees’ affective attitudes toward appraisal and behavioural outcomes?’. The study for this question involves a large scale employee survey as well as the interviews with managers or employees in each bank. The third sub-research question is ‘how does performance appraisal work in each bank?’ For each bank in the study, I recorded all the semi-structured interviews with the staff in the HR departments by taking detailed notes. The notes from the interviews as well as the secondary data were the primary sources for obtaining the information relevant to answering this question.

The analysis of the notes of these interviews also had the following process of within-case analysis. The data, which were collected from the semi-structured interviews, were analysed through a thematic analysis process. Thematic analysis is qualitative data encoding process, in which themes were searched and identified through “careful reading and re-reading of the data” (Rice and Ezzy, 1999, p258). A theme is defined as “a pattern in the information that at minimum describes and organises the possible observations and at maximum interprets aspects of the phenomenon” (Boyatzis, 1998, p161). In this study, I adopted a hybrid approach of thematic analysis, which incorporated both the deductive approach, which generates the themes from previous research and prior theories (Crabtree and Miller, 1999) and the inductive approach, which generates the themes from the raw data (Boyatzis, 1998).

Firstly, I created a template as a management tool for organizing relevant information from the data for future interpretation (Crabtree & Miller, 1999). In this study, the template was mainly developed based on the research question, theoretical framework and models before I commenced the data analysis. The template consisted of three broad code categories: (1) guanxi and guanxi practices; (2) performance appraisal system in three banks and (3) supervisors' and employees' attitudes toward them.

Moreover, I divided each category into detailed sub-categories. For instance, for guanxi and guanxi practices, I divided it into "the institutional reason for guanxi practices in appraisals," "the cultural reason for guanxi practices in appraisal," "supervisors' guanxi practices in appraisals," "the trend of guanxi and guanxi practices in Chinese organizations." The performance appraisal system category was divided into four categories i.e. 'system design and characteristics', 'the communication between supervisor and subordinates', 'the responsibilities of supervisor and subordinates', and 'the procedures of the performance appraisal'. Supervisors' and employees' attitudes toward them category was also divided into several aspects e.g. "attitudes toward guanxi within the bank," "attitudes toward guanxi practices in appraisals," "attitudes toward performance appraisal procedures", and "attitudes toward the outcomes of appraisals". Thus, the sub-categories in template can help to direct the following data analysis process and obtain relevant information to answer my research questions.

Secondly, I started to read the individual interview text carefully in order to obtain a sense of the entire system of meaning in the interviews. Then, I applied the codes in template to the interview text to identify the relevant and important information from these raw data, in order to match codes with selected and sorted segments in texts. Meanwhile, I also adopted the inductive approach, which requires the researcher to recognize (see) and encode (see it as something) an important event in the raw data (Boyatzis, 1998). During the coding process, I also noticed some information, which describes new themes found in the interview text. Thus, I identified some additional

new categories to complement the template. For instance, based on the interview text, I found that some other cultural factors, such as seniority, collectivism and power distance have important impacts on appraisals in banks; thus, I added “the impact of other cultural factors on appraisals” to form a new category.

Thirdly, I connected codes and identified the patterns and themes in the text. In this study, I connected the data from both supervisors and employees in each bank to explore the differences and similarities among them. This process clarified the detailed research questions and objectives to be examined in each sample bank. Given that there were several interviewees from each bank, a comparison between different interviewees from the same bank was conducted, in order to obtain a better understanding of the implementation of performance appraisal and the attitudes of employees and managers toward it, and the impact of guanxi in each bank. Consequently, the within-case analysis focused on how these three banks implemented performance appraisals, how the employees and managers perceived the appraisal and of guanxi’s impact upon it, so as to answer the first question and help to explain the third question. This not only reflected the objectives of this study, but also provided detailed information as a foundation for the following cross-case analysis.

3.5.2 Cross-case analysis

As Eisenhardt said, one strategy for cross-case analysis is to “select pairs of cases and then to list the similarities and differences between each pair” (1989, p540). The within-case analysis used the interview text and secondary sources to provide a detailed insight into each bank respectively. The questionnaire also provided specific data on employees’ attitudes toward guanxi in performance appraisals, justice perceptions, affective reactions toward appraisal and behavioural outcomes in each bank. Hence, a second phase of data analysis was comparing the findings from all interviews, questionnaires and secondary sources for different banks. The fourth research question is ‘How does the impact of guanxi vary across three banks of

different ownership?'. The juxtaposition of these three banks can break the simplistic frames, while the research for similarity and difference between these three banks could also lead to a more sophisticated and thorough understanding of the research objective and questions (Eisenhardt, 1989).

3.6 Research quality

To evaluate the quality of empirical social research, there are four aspects, including construct validity, external validity, internal validity and reliability, that should be maximized (Yin, 2003). As this study involved both exploratory and descriptive enquiry (e.g. interviews) and the investigation of the relationship between variables (e.g. survey), all these four criteria are described and discussed below.

Construct validity refers to “the establishment of correct operational measures for the concepts being studied” (Yin, 2003, p34). As Gibbert et al. state, construct validity regards “the extent to which a study investigates what it claims to investigate, that is, to the extent to which a procedure leads to an accurate observation of reality” (2008, p1466). In order to ensure the construct validity of this study, I adopted the following two tactics in the process of data collection. Firstly, I tried to collect the data and information from multiple sources. Both of the quantitative large-scale employee surveys and qualitative interviews with key informants were conducted to collect relevant data, in order to gain a better understanding of the research objective. Besides this, the confidential documents, including the performance criteria sheets in each bank and the reform policy and regulation in state-owned bank, were also collected under a confidentiality agreement. Secondly, I tried my best to collect the data from different positions and levels of employees. Given that my research is about the negative impact of guanxi in performance appraisal, it would have led to bias, if I merely collected data from either managers or employees. The data from both parts could ensure that I had a thorough understanding of the question. Through this, some more obscure issues and points were finally confirmed in the case study.

Internal validity, also named ‘logical validity’ (Cook and Campbell, 1979), regards the causal relationships between variables and results. The main issue is “whether the researcher provides a plausible causal argument, logical reasoning that is powerful and compelling enough to defend the research conclusions” (Gibber et al., 2008, p 1466). Internal validity should be applied to the data analysis phase. There are three measures which can be used to enhance internal validity. Firstly, a clear research framework should be formulated, to demonstrate that “variable x leads to outcome y, and that y was not caused spuriously by a third variable z” (Gibber et al., 2008, p 1466). In order to achieve this, I should ensure that the framework was explicitly derived from the literature e.g. diagram or explicit description of relationships between variables and outcomes. In this study, I made clear hypotheses in the literature review chapter and provided a diagram model to explain the explicit relationships between different variables. The second measure for internal validity is ‘pattern matching’, which is to compare the observed patterns from the empirical studies with the predicted pattern or the patterns established in different contexts or in previous studies (Denzin and Lincoln, 1994). In this study, I used the data from the survey (employee questionnaire) to test the model and then compared the results with the original model and the previous studies in the literature. The third measure is ‘theory triangulation’, which enables the researcher to verify findings by using multiple perspectives (Yin, 1994). Theory triangulation refers to “different theoretical lenses and bodies of literature used, either as research framework, or as means to interpret findings” (Gibber et al., 2008, p 1467). In this study, I reviewed several theories from the literature, including performance appraisal, justice theories, leader-member exchange, guanxi, and performance appraisal in a Chinese context, and formed the model involving all these theories. Therefore, all the above enhanced the internal validity of this study.

External validity, which is also named ‘generalizability’, requires that the findings of the research should be generalisable beyond the case study (Yin, 2003, p37) As Gibber et al. (2008, p1468) claim, neither single nor multiple case studies can be used

for statistical generalisation, however, it does allow for the analytical generalisation. Analytical generalisation regards: “a process separate from the statistical generalization in that it refers to the generalization from empirical observations to theory, rather than a population” (Gibber et al., 2008, p1468). Eisenhardt (1989) suggests that a cross-case analysis can provide a good foundation for analytical generalisation and researchers should provide clear criteria for the case selection and sampling choice. In this study, a cross-case analysis, including a state-owned commercial bank, a foreign commercial bank and a city commercial bank, was adopted. I chose the sampling bank based on very clear rationale. Each sampling bank was among the top twenty in its ownership in China. Thus, all these strengthened the external validity of the case studies in this research.

The aim of reliability is to minimise bias and errors in the research (Yin, 2003). According to Gibbert et al. (2008), the achievement of reliability of the case study depends on its transparency and replication. Transparency could be assured “through measures such as careful documentation and clarification of the research procedures” (Gibbert et al., 2008, p1468). In this study, I recorded each case study carefully. Although the names of the sampling banks can not be presented here because of the confidentiality agreements, I shared the names with my academic supervisor. Moreover, in order to achieve replication, I put together a database for case study, including interview notes, questionnaires, case study documents and the narratives during the case study.

Table 3-7: Case study tactics for research design tests

Tests	Case study tactic	Phase of research in which tactic occurs	How these criteria were followed in the study?
<i>Construct validity</i>	<ul style="list-style-type: none"> ● Use multiple sources of evidence ● Establish chain of evidence ● Have Key informants review draft case study report 	<ul style="list-style-type: none"> ● Data collection ● Data collection ● composition 	<ul style="list-style-type: none"> ● Multiple sources of evidence: interviews with HR staff, managers and employees, employee survey, organizational internal documents
<i>Internal validity</i>	<ul style="list-style-type: none"> ● Formulate a clear research framework ● Pattern matching ● Theory triangulation 	<ul style="list-style-type: none"> ● Data analysis ● Data analysis ● Data analysis 	<ul style="list-style-type: none"> ● Clear hypotheses were made and a clear diagram model was drawn to explain the relationships between different variables. ● Hypotheses derived from theories were matched with empirical patterns. ● Different theoretical lenses and bodies of literature used: performance appraisal, justice, leader-member exchange, guanxi, performance appraisal in Chinese context.
<i>External validity</i>	<ul style="list-style-type: none"> ● Use replication logic in multiple-case studies 	<ul style="list-style-type: none"> ● Research Design ● Research Design 	<ul style="list-style-type: none"> ● Multiple-case study method adopted, with three cases selected according to a clear rationale of case sampling.
<i>Reliability</i>	<ul style="list-style-type: none"> ● Use case study protocol ● Develop case study database 	<ul style="list-style-type: none"> ● Data collection ● Data collection 	<ul style="list-style-type: none"> ● Careful documentation and clarification of the research procedures, following the case study protocol established ● Case study database, including case study notes, interview transcripts, questionnaires, case study documents

Source: adapted from Yin (2003, p34)

3.7 Challenges when conducting the case studies, and how they were overcome

This study is a pioneering study of the performance appraisal system and the impact of guanxi in Chinese banking industry. The difficulty of obtaining key informants' trust and enough usable questionnaires were serious challenges for me. As Cooke (2009) states, it is very difficult to gain access, and many of those people who conduct research in China noticed that access to research organisations is always the biggest hurdle. The majority of Chinese companies are not willing to cooperate with academic research, because most of them are sensitive to external investigation (Cooke, 2009). Because of this research barrier, in order to conduct research on HRM, the researcher should have "good personal networks, additional resources and skills, and the adoption of an informal approach including interviews and observations instead of large scale survey" (Cooke, 2009, p17). Moreover, urging the "gatekeepers to these organisations to adopt a more open-minded approach to their people management and invite external scrutiny" (Cooke, 2009, p17), also has an important impact on whether or not the researchers can obtain desired research data. It is very difficult to obtain access to companies for research in China, especially for large-scale survey studies. In this study, all sample banks were accessed through personal guanxi; my relatives and friends introduced me to the high-level managers of the banks for on-site research. At the beginning of the study, confidentiality agreements were usually made on my own.

The interviews with the staff of the HR departments were arranged by the highest-level managers i.e. CEOs and the interviewees were introduced to me by these managers. Therefore, there was no risk to the interviewees' jobs and they were more likely to be willing to participate in answering the questions in detail. However, I found that they did not want to express their own opinion on appraisals, preferring to simply introduce the system without any preference or comments. I understood this, because Chinese employees are always cautious and do not want to give their own opinions, in order to avoid future unexpected problems caused by such talk, and even if the CEO had given them permission them to participate. I

continued to ensure the interview was conducted in a comfortable and relaxing atmosphere, repeating that I would not tell anybody about the content of the conversation, in order to obtain their trust. Ultimately, I thought the interviews were successful, because all the detailed information was obtained that was intended.

At the end of the interviews with the staff of the HR department in each bank, some supporting documents were proposed, including the policy of appraisal and a sample of a performance criteria sheet. However, the interviewees all said that they wanted to check with the high-level managers before bearing the risk of releasing any document. After the interviewees had confirmed everything with the high-level managers who arranged the interviews, they released some of the requested documents. In the state-owned company, the policy and a sample of performance criteria sheet were given to me by the head of the HR department. The interviewees in the foreign bank only provided the sample of performance criteria sheet to me and refused to release any policy or regulation of appraisal. However, the managers in the city bank refused to provide any documents, because no permission from the high-level manager of the bank was obtained. Thus, I include a sample of the performance criteria sheet from the foreign bank in the Appendix 6. Although I also obtained some relevant documents from the state-owned bank in empirical studies, I could not attach them in the Appendix, because I received a call from the CEO of the state-owned bank, who told me that the document could be only used for research but could not be published in my thesis. In order not to make the CEO, who helped me a lot in the empirical study in the state-owned bank, bear any risk, I finally decided not to include any documents from the state-owned bank in the appendix of my thesis.

The interviews with the managers and employees in the banks were more difficult in comparison. In order to avoid bias, I planned to choose a mixture of both employees with guanxi and without guanxi. However, it was difficult for me to identify the qualified interviewees with this intention, because I did not know whether or not the employees have guanxi. Therefore, I had to choose 2 managers and 3-4 employees

for interview at random from the employee list provided by HR department. Finally, the interviews were arranged after I had decided which candidates to interview from the employee list. I did think that on-site interviews would make the interviewees, especially the ordinary employees, uncomfortable and unwilling to talk freely. Thus, I tried to arrange the majority of the interviews off-site, after employees had finished work or at the weekend. I invited the candidates to have coffee or dinner and after that conducted the interview. The off-site interviews were all very successful, because the interviewees relaxed and trusted me and spoke freely without any pressure, compared to the on-site interviews which happened in their offices or in empty conference rooms.

My experience in each bank was quite different because of the company culture, which originates from the ownership. Therefore, I adopted different strategies to obtain access and collect the required data. In the state-owned bank, the CEO arranged the access and study for the research, because one of my uncles has a very close guanxi with him. The CEO told me that it was necessary to introduce me to other high-level managers in the bank, as the CEO wanted to let other highest level managers know about this research and obtain the permission from them. Thus, I arranged a dinner with the CEO and other two managers in the state-owned bank and also gave some gifts to them after the pleasant dinner. I wanted to entertain them and build a good guanxi with them by the dinner and gifts, in order to obtain access and conduct successful research. I should point out that it is not the bribery, but it is a tradition and custom to show respect to authority in China by inviting them to dinner and giving them gifts. With the permission of all these three high-level managers in the state-owned bank, I was able to conduct all the study very smoothly, and I had the opportunity to obtain more documents and distribute more questionnaires than other two banks.

In the foreign bank, the situation was entirely different. One of the highest level managers in the bank arranged the study for me. I did not need to invite the

managers to any dinners but I also gave a gift to the manager who arranged this in order to show appreciation. The issue in the foreign bank was that the employees were quite busy during work time and I was not permitted to distribute the questionnaires at workplace. Therefore, the questionnaires were ultimately provided to the targeted participants before off-work time and they were asked to finish the questionnaire in their spare time. They were also asked to return the completed questionnaires to one of the managers of the human resources department on their next working shift. I was quite worried about the response rate of the questionnaires, in case the participants forgot to complete the questionnaires and bring them back. Therefore, I spoke to the participants several times in order to ask them to remember to finish the questionnaires. Luckily, the number of the usable questionnaires and the response rate was satisfactory.

The research in the city commercial bank was the most difficult. When I decided to focus this study on banking industry, I decided on the state-owned bank and foreign bank quickly, because I had *guanxi* to obtain the access to the banks. However, I needed one more bank, two banks not being enough for this study. Therefore, my uncle introduced me to the manager of the city commercial bank, who then arranged the study. As the regulations in the bank are very strict and the manager was very cautious, the manager also put a lot of restrictions on me: it was not possible for me to choose the employees for survey, the manager only introduced me to the managers with whom he had good *guanxi*, and I was only able to conduct the survey to the employees in these workgroups. Actually, this did not result in any bias, because the managers of these workgroups did not participate in the survey. In order to make the sample diverse in different job divisions, I asked the manager to include groups from different departments. I intended to distribute around 150 questionnaires in each bank, however, in this city commercial bank, only 131 questionnaires were successfully distributed, fewer than 151 in state-owned bank A and 145 in foreign bank B. The manager refused to introduce more groups, because he had tried his best to introduce all the groups whose head was a close and reliable friend of his.

The manager said that it was not good for him to introduce me to those managers with whom he was not familiar, as they might not cooperate fully. Moreover, I could not choose the interview candidates either. The managers introduced some potential candidates to me for interviews. I did not have the opportunity to interview the head of the HR department, because the manager was not familiar with the head. Instead, the interview was arranged with a manager responsible for appraisals. The majority of the interviews happened at non-workplace locations, usually when having coffee or after a pleasant dinner. I tried my best to become familiar with the interviewees, in order to obtain more information from them.

To summarise; when conducting a study regarding HRM in Chinese organisations, obtaining access to the organisations, especially for the survey, was challenging. I tried my best to overcome all difficulties and collected a wide range of data from each bank. Although some data were not perfect in certain cases, it is believed that the case studies in these three banks provide a thorough understanding of the question under study.

3.8 Chapter summary

This chapter defines the conceptual framework and research methodology for this study. Based on the research questions, research hypotheses and model developed from the literature, the research adopts both social constructionism and positivism as its philosophical positions. Thus, a three-case study was adopted, including a state-owned commercial bank, a foreign commercial bank and a city commercial bank in China, in order to explore the implementation of appraisals, the impact of guanxi on them, and the employees' justice perceptions, affective reactions and behavioural outcomes caused by the impact of guanxi in appraisal. The specific methods for each sub-research question have been discussed in detail, while the entire research design, choice of industry, data analysis strategy and the challenges in the case study have also been presented. In conclusion, this chapter had chosen the appropriate research methodology for this study, and I expect that this will lead to valid and

reliable results. The case description, the findings in each sample bank, the result of the model and the comparative study between these three sample banks will be discussed in the following chapters.

Chapter 4 Pilot Study

The first sub-research question is ‘What is the role of guanxi in performance appraisal systems?’ It was essential to answer the question before the main case study was conducted, because answering this question is vital to the subsequent research and for the creation of the measure of ‘guanxi’s impact on appraisal’ in this chapter, which will be adopted in the following model-testing chapter. Employees’ guanxi was reported to have impacted on performance appraisal in Chinese organisations (e.g. Bjorkman and Lu, 1999; Chen et al., 2004; Bai and Bennington, 2005; Bozionelos and Wang, 2007). However, no study has explained clearly and explicitly how guanxi influences performance appraisal in Chinese organisations. Therefore, the first aim of this chapter is to examine the role of guanxi in appraisals. The second aim is to develop a measure for ‘guanxi’s impact on appraisal’, which is based on the findings from the interviews and will be used in the model testing in Chapter 5. In order to achieve these two aims, the results of the two parts of the pilot study, namely the interview and explanatory factor analysis, are presented in detail in this chapter.

4.1 The First part: Findings from the interviews

Based on the interviews, I have found that guanxi has an impact on both supervisors’ and subordinates’ behaviour. I have also summarised and categorised two aspects of the performance appraisal that are influenced by guanxi. Therefore, I will elaborate on how guanxi influences these two important aspects, including outcome of the appraisal and two-way communication between supervisor and subordinate. Then, I will also explain clearly how supervisors’ and subordinates’ behaviour is influenced by guanxi in terms of these two aspects.

4.1.1 Outcome:

The outcome of the performance appraisal system is reported to be influenced by guanxi. All 14 employee participants in the interviews claimed that the

employees who have guanxi get a good performance rating, even if they didn't perform better than their peers.

Speaking from personal experience, a participant stated:

“In my department, I have a colleague who is the son of an important person in the government of the city. His work capacity is just ordinary and his performance is not that good. However, as far as I know, he got a good performance rating in the appraisal. And those who perform better than him were only able to get a worse performance rating than him in the appraisal. (employee)”

Another participant also claimed:

“Well, performance is not the determinant of the performance rating the employee could get in appraisal. I think it is more important for you to have guanxi than to perform well. If you don't have guanxi, it is difficult for you to get a performance rating which is compatible with your performance. The employees who have guanxi will always get the good performance ratings in the appraisal. (employee)”

One more participant said:

“It is very common in my company (a monopoly state-owned company) for the employees who have good guanxi with their supervisors to get good performance ratings. I even believe that the performance rating is not based on our performance but on the guanxi between employee and the supervisor. Of course, the performance appraisal is just one aspect which will be influenced by guanxi. Promotions, rewards and recruitment are all influenced by guanxi.”

All six manager participants considered the impact of guanxi on their decisions to violate the equity principle and to have a negative impacts on the fairness of the performance appraisal system. However, it is interesting to note that although all the employees of participants claimed that guanxi influences the supervisors' distribution of performance ratings among subordinates, only 3 manager participants out of 6 (50%) confirmed this phenomenon.

One manager said:

“I have a subordinate who is a relative of a higher level manager in the company. I know that I have to give a good performance rating to this subordinate to satisfy this higher level manager. Actually, I have tried my best to help him to perform well, but I didn't think he performed well during the last year. Finally, I had to give a good performance rating to him; otherwise, I think my guanxi with this higher level manager would be broken.”

Besides the findings in my pilot study, there is evidence from the literature to confirm that the supervisors' guanxi influences managers' decisions in performance appraisal system. Bozionelos and Wang's (2007) interviews with managers in Chinese state-owned companies confirmed that the subordinates' guanxi with other important persons has an impact on managers' distribution of performance ratings. For example, one of the managers confessed: “I feel very uncomfortable when I have to balance Guanxi and individual job performance, especially when I have to assess a subordinate who performed unsatisfactorily but possesses good Guanxi, say, with the boss, top-level managers or even important outsiders. I may give him/her a satisfactory rating so long as he/she did not perform extremely poorly” (Bozionelos and Wang, 2007, p295). According to the interviews with managers (Bozionelos and Wang, 2007), the managers in Chinese state-owned companies believe that the performance evaluation should be unbiased; however, the subordinates' guanxi still

coloured their decisions, because they thought that not taking guanxi into account would have a negative impact on them. For example, “one interviewee noted that his relationship with a senior manager had been spoiled when he gave a low performance rating to that senior manager’s nephew. And another interviewee noted that: ‘A low rating would not only make the subordinate feel displeased, but it might also offend high-level managers because they are relatives or confidants of his/hers’” (Bozionelos and Wang, 2007, p295-296).

While three manager participants in the interviews unequivocally admitted that they took into account the subordinates’ guanxi when they made decisions for performance appraisal, the other three managers tried to avoid answering this question directly.

One manager participant said:

“I will try to make my decisions as impartial as possible; however, I don’t think I ensure it is 100% unbiased. I am familiar with the subordinate with whom I have good guanxi, so I think I tend to give a good performance rating to this subordinate. But I think I base my decisions mainly on the performance of subordinates not on the guanxi. And for the employee with whom I have good guanxi, I will primarily provide him with more help to improve his performance, not give a very good performance rating which doesn’t reflect his contribution.”

Therefore, based on the interviews, I found that the managers’ decisions of performance rating among different subordinates with or without guanxi are influenced by the subordinates’ guanxi.

4.1.2 Two-way communication

All participants also pointed out that the employees who have guanxi have better

communication with their supervisors. The communication includes two facets: the treatment from supervisors and employees' opportunities to express their opinions to supervisors regarding appraisals.

Treatment from supervisor

Firstly, all of the participants (14 employees and 6 managers) stated that the supervisors will provide more help and better supervision to the employees who have guanxi.

A participant stated:

“I can't really get enough help from my supervisor to improve my performance. And the feedback from my supervisor is general; I don't think it pointed out what I should improve and it seems that my supervisor doesn't really know my work. I think it is because I don't have a close guanxi with my supervisor. I know one of my colleagues, who has a very close guanxi with the supervisor, can always obtain help from the supervisor. His supervisor is concerned with his work and is active in providing feedback and direction to him. (employee)”

Another participant also stated:

“If you want to get more help or direction from your supervisor, you should have a close guanxi with your supervisor. Or, you should have a special guanxi with the higher level managers within the companies or some important persons outside of the companies. I have a colleague whose father is a higher level manager of my company, who always gets more direction from the supervisor. The supervisor is always ready to help him to improve his performance. We admire this colleague very much. (employee)”

One participant confirmed that supervisors have different attitudes toward the

subordinates with whom they have different guanxi:

“Previously, I didn’t have a close guanxi with my supervisor, and I could get just normal treatment from him. And the treatment was useless to help me to improve my performance. Therefore, I thought it was important for me to develop a close guanxi with my supervisor. I started to have more non-workplace interactions with my supervisor. For instance, I visited my supervisor’s home and gave gifts to him on some important days. (e.g. spring festival or new year) And gradually, I built a close guanxi with him through non-workplace interactions. My supervisor started to pay more attention to my work and provide more direction on how to improve my work to me. Actually, the non-workplace interaction is a very good way of talking with your supervisor. (employee)”

Another participant also pointed out that non-workplace interaction could be a good way for a supervisor to provide supervision or direction to employees, in order to help them to improve their performance:

“I know that the employee who has good guanxi with his supervisor will have more opportunities to have non-workplace interactions with his supervisor. Actually, when the employee visits the supervisor’s home or has dinner with their supervisor, they will have some discussion about their work. And the employee will get more information and direction from his supervisor. The supervisors’ suggestion in these non-workplaces, are normally very useful and helpful. But if the employee doesn’t have a close guanxi with his supervisor, he will never have these non-workplace interactions with their supervisors. (employee)”

All the six managers in the interviews confirmed that they would provide more supervision and direction towards those employees who have guanxi with them or

close guanxi with some important top-level managers or even important persons who are outside of the companies.

“One of my subordinates is the son of a top-level manager in the company. And his father (the top-level manager) has talked with me about his son (my subordinate). He asked me to “take care of” his son and give more supervision to his son. I think I have to provide more help to this subordinate and make him be satisfied with me. Otherwise, his father, the top-level manager will be unhappy about me and this might even have a negative impact on my career. (Manager)”

Another manager concurred:

“I think I provide more help to those subordinates with whom I have close guanxi. Actually, in my company, I just need to provide the feedback to my subordinates once, which is in the middle of the year. And I know that this is not enough at all. Therefore, I will provide more direction to those employees with whom I have close guanxi. We have a lot of opportunities to have non-workplace interactions. In those non-workplaces, I think I can talk more about the work without reservation and talk about the things we couldn’t discuss at the workplace.”

Therefore, all the participants mentioned that the supervisors provide more supervision to those employees who have close guanxi with their supervisors or have close guanxi with some top-level managers within the company or even the important persons outside of the companies.

The employee voice in appraisal

According to the literature, participation in the process of the performance appraisal system can increase employees’ perceptions of fairness and satisfaction

with the appraisal system and their supervisors (Folger, et, al., 1992; Taylor, et, al., 1995). Subordinates' voices, including instrumental voice and non-instrumental voice could also lead to employees' positive attitudes and reactions toward the performance appraisal system and supervisors (Korsgaard and Roberson, 1989). Therefore, the employees' 'voice' is an important factor in performance appraisal. Seven employee participants out of fourteen (50%) in the interviews reported that the subordinates who have guanxi have more opportunities than their peers to express their opinions to supervisors regarding appraisal.

One participant said:

“The employee who has close guanxi with the supervisor has more opportunities to communicate with the supervisor, especially through frequent non-workplace interactions. In those non-workplace talks, this employee can express his opinions to supervisors freely and influence supervisors' decisions of performance appraisal to some extent. Actually, this is quite common in China, because Chinese people like to talk about and decide the business in non-workplaces, such as at dinner. And in our company, non-workplace interaction is a useful way of communicating with supervisors by those employees who have guanxi. (employee)”

One more participant said:

“In my company, the performance objective is set by the supervisor and the employees accept it and don't have the opportunity to participate in the objective setting. However, if the employee has guanxi, he can discuss the performance objective with the supervisor. And this employee could also express his opinion regarding his performance and explain it in detail to make sure that his supervisor knows all about this through both non-workplace and workplace interactions. But the employee who does not have guanxi will

have very limited opportunities to talk about this with his supervisor. And in this situation, his supervisor won't have a clear understanding of his performance and contribution.”

Four manager participants out of six (67%) confirmed that they would have more opportunities to listen to the employees who have guanxi and consider their inquiries carefully:

“I do have more opportunities to talk with the employee who has guanxi. They talk about their work and ask me for suggestions. And I consider what he says carefully.”

Therefore, the employees who have guanxi have more opportunities than their peers to express their own opinions to their supervisors regarding performance appraisal.

4.1.3 The types of guanxi influencing appraisal

Based on the interviews, I have found that two types of guanxi have an impact on supervisors' and subordinates' behaviour, including the subordinates' guanxi with supervisors and subordinates' guanxi with some top-level managers within the companies or with important persons outside of the companies. I found that the participants in the interviews mentioned these two types of guanxi many times in their examples.

Firstly, the guanxi between supervisor and subordinate will influence supervisors' behaviour in the performance appraisal system. The impacts of supervisor-subordinate guanxi on managers' decisions in Chinese companies have been discussed in some studies in management literature (e.g. Zhang & Yang, 1998; Law et al., 2000; Zhou and Martocchio, 2001). However, all these studies have focused mainly on the Chinese managers' guanxi practice in terms of reward and

promotion. The managers are inclined to give more rewards and promotion opportunities to those employees with whom they have high quality of guanxi. Nonetheless, all studies on the impact of guanxi on pay and promotion simply describe the phenomenon and focus only on the outcome of HRM practices. Based on my interviews, the subordinates' guanxi not only influences supervisors' decisions in the performance appraisal system, but also the communication between supervisor and subordinates and the supervisors' treatment of subordinates. The supervisor tends to give a good performance rating and provide more supervision to the employee with whom he has close guanxi.

Secondly, the supervisors' guanxi with important persons within the companies or even guanxi with important outsiders also has an impact on supervisors' behaviour in the performance appraisal system. In my interviews, I noticed that the participants mentioned this kind of guanxi frequently (e.g. the employee who is the son of a high level manager within the company or the employee who is the son of an important person in the government of the city). Bozionelos and Wang (2007) also discovered the impact of this kind of subordinate guanxi on supervisors' decisions (e.g. the subordinate is the nephew of a senior manager within the company). The supervisors would give a *satisfactory* performance (normally a good performance rating) rating to the employees who have this kind of guanxi, so long as he/she did not perform extremely poorly.

However, not all of these kinds of guanxi have a significant impacts on supervisors' behaviour. Whether guanxi can greatly influence supervisors depends on the relational closeness or the strength of the guanxi. Only strong or close guanxi significantly influences the supervisors' behaviour in the appraisal process.

One employee participant said:

“Normally, not all the guanxi will have a significant impact on

supervisors' behaviour. It really depends. I can't tell which kind of the guanxi will have the greatest impact. But I should say that your guanxi should be strong. Ordinary guanxi could not influence the supervisor in the appraisal process."

4.1.4 Conclusion

This pilot study aimed to explore how guanxi influences the performance appraisal system in Chinese organisations. Three major findings were obtained from the interviews. Firstly, that subordinates' guanxi influences the performance appraisal system in terms of two aspects: outcome of performance appraisal and two-way communication between supervisor and subordinate. Secondly, it confirmed that there are two types of guanxi that influence the performance appraisal system, including the subordinates' guanxi with his supervisor and subordinates' guanxi with higher level managers within the company or even with important persons outside of the company. Thirdly, non-workplace interactions are a very useful and common way of communication between supervisor and subordinates.

4.2 The second part: scale development

The second aim of the pilot study was to develop a measure of 'guanxi's impact on appraisal', which will be used to test the model in Chapter 5. Drawing on the findings from the interviews, a scale with two factors, including nine items, was developed for 'guanxi's impact on appraisal' (see table 4-1). These nine statements constitute the original version of the measure for 'guanxi in performance appraisal'. All items were based on six-point Likert scales, with response options from 1 = strongly disagree to 6 = strongly agree. The six-point Likert scale was adopted because previous research has demonstrated that Chinese people are inclined to select the mid-point of the scale, because of the Confucian 'doctrine of the mean' value (Chiu & Yang, 1987). I wanted to reduce this central tendency bias, by using the 6-point Likert scale, which

eliminates a mid-point.

Table 4-1: scale for “guanxi’s impact on appraisal”

Guanxi’s impact on appraisal

Guanxi below refers to any type of the following: (a) guanxi with supervisor; (b) guanxi with an important person within the company; (c) guanxi with an important person outside the company.

Factor 1: Guanxi’s impact on Appraisal Outcome:

- (1) Employees’ guanxi will influence supervisor’s decisions in performance appraisal.
- (2) Performance ratings are often distributed based on employees’ guanxi.
- (3) It is more important to have guanxi than to perform well, if employees want to get a good performance rating.
- (4) Those employees who have guanxi will get better performance ratings than their peers, even if their performance is not better than their peers.

Factor 2: Guanxi’s impact on communication

Compared to employees without guanxi:

- (1) The supervisor treats employees with guanxi differently.
 - (2) The supervisor provides more help and supervision to those employees who have guanxi for improvement of their performance.
 - (3) The supervisor provides more feedback and direction in appraisal to those employees who have guanxi.
 - (4) The supervisor has more non-workplace and workplace communication with those employees who have guanxi.
 - (5) The employees, who have guanxi, will have more opportunities to express their own opinion regarding appraisal to supervisor.
-

Results of the exploratory factor analysis

The first step was to calculate the variance on each of the 9 items. The item which shows little variability will not be of much value and hence should be removed from the measure. In the literature, no established criterion was agreed for ‘adequate variability’. According to James (1993), a standard deviation of 1.0 should be adopted, because this number could represent an adequate amount of variability for usefulness as an item. In this study, all 9 items had standard deviation exceeding 1.0 with a range from 1.11 to 1.42, and therefore, all items should be included in the following scale development.

I conducted an exploratory factor analysis, which uses principal components with the number of factors not specified, by using the data from the sample of 145 part-time MBA students. The magnitude and scree plot of eigenvalues indicated that there are two factors. The principal axis factor analysis with promax rotation led to two factors that had eigenvalues greater than one and explained 71% of the total variance. Subsequently, two items with cross-loadings on factors other than the intended factor were deleted. The resulting solution revealed that seven items should be retained here and explained 76.8% of the variance. The breakdown of these items was ‘Guanxi’s Impact on Appraisal Outcome’ (3 items) and ‘Guanxi’s Impact on Communication’ (4 items). The retained 7 items have generally very high loading, with a range from 0.77 to 0.87. The rotated factor loadings for these seven items are presented in the following table 4-2.

Table 4-2: Exploratory Factor Analysis Results

<i>Items</i>	<i>Factor 1: Appraisal Outcome</i>	<i>Factor 2: Two-way Communication</i>
Retained Items		
1 Performance ratings are often distributed based on employees' guanxi.	0.85	0.14
2 It is more important to have guanxi than to perform well, if I want to get a good performance rating.	0.82	0.23
3 Those employees who have guanxi will get better performance rating than their peers, even if their performance is not better than their peers.	0.79	0.28
4 The supervisor provides more help and supervision to those employees who have guanxi for improvement of their performance.	0.25	0.87
5 The supervisor provides more feedback and direction in appraisal to those employees who have guanxi.	0.26	0.86
6 The supervisor has more non-workplace and workplace communication with those employees who have guanxi.	0.15	0.87
7 The employees, who have guanxi, will have more opportunities to express their own opinion regarding appraisal to supervisor.	0.26	0.77
Excluded Items (Reason for Exclusion: Cross loading)		
1 Employees' guanxi will influence supervisor's decisions in performance appraisal.	0.64	0.33
2 The supervisor treats employees with guanxi differently.	0.45	0.69

Note: N=145

4.3 Conclusion

In conclusion, the pilot study has two aims: examining the role of guanxi in performance appraisal and developing a scale for 'guanxi's impact on appraisal'. Therefore, 20 interviews were conducted to explore the impact of guanxi on appraisal and a scale was created including two factors with nine items based on the findings of the interviews. Subsequently, a survey consisting of 145 part-time MBA students from two universities in Eastern China was administrated in order to validate the scale. Based on the results of exploratory factor analysis, seven items were retained to form the scale 'guanxi's impact on appraisal', which will be used in the model test in next chapter. The next chapter will conduct the model testing by using the data from the employee survey.

Chapter 5: Data Analysis and Results of Model Analysis

This chapter aims to test the model and hypotheses developed in the literature review with the data collected from empirical studies in three banks in Eastern China. As discussed in Chapter 2, guanxi in performance appraisal has a negative impact on employees' justice perceptions, affective reactions toward appraisals and behavioural outcomes. Based on the discussion, a theoretical framework with nine hypotheses, was developed for testing. The pilot study in Chapter 4 developed a scale for the measurement of the impact of guanxi on appraisals, which includes two factors: guanxi's impact on appraisal outcomes and guanxi's impact on communication. In order to test the model and hypotheses, I conducted the empirical studies in three banks – state-owned bank A, foreign bank B and city bank C- in Eastern China and finally obtained 308 valid questionnaires for model analysis. Therefore, in this chapter, first of all data analysis strategy, which introduces the methodologies for model testing, will be briefly described. Then, the data will be analysed using the hierarchical multiple regression method and the result of each hypothesis will be presented individually.

5.1 Data Analysis Strategy

5.1.1 Hypotheses to be tested in this chapter

5.1.1.1 Revision of the model

As discussed in Chapter 2, research hypotheses were developed for testing in this project. The original research model includes one independent variable: guanxi's impact on appraisals, nine dependent variables: distributive justice, procedural justice, interactional justice, satisfaction with performance ratings, satisfaction with appraisal system, satisfaction with supervisors in appraisal, trust in supervisor, organisational commitment and turnover intentions and five control variables: age, gender, education, organisational membership and outcome favourability. In the pilot study in Chapter 4, a new scale, which includes two factors, was developed for the measurement of the

independent variable: guanxi's impact on appraisals. These two factors for the variable present guanxi's two kinds of impact on performance appraisals, namely guanxi's impact on appraisal outcomes and guanxi's impact on communication. Hence, the original independent variable needs to be replaced by these two factors; and I will then test the relationships between these two factors and nine dependent variables respectively.

5.1.1.2 The moderating effect of the guanxi impact on communication on the relationship between a guanxi impact on appraisal outcomes and employees' reactions.

The two factors for a guanxi impact on appraisal founded in the pilot study represents two types of supervisor guanxi practices in the process of performance appraisal. Therefore, it is interesting to examine the interaction effect of these two factors in order to have a deep and dynamic understanding on the impact on appraisal of guanxi.

One apparent difference between these two dimensions is the frequency they occur in the whole process. One formal performance appraisal process in an organisation always begins at the objective setting and ends at the distribution of performance ratings, which normally for half a year or one year. Guanxi's impact on communication means that supervisors provide more intangible benefits, such as help, support, direction or information to those employees with guanxi, which could happen at the workplace every working day. Employees could have an understanding of this through daily observation or gossip in the office. On the other hand, guanxi's impact on an appraisal outcome means that supervisors provide better performance ratings to those employees with guanxi, regardless of their performance. This only happens at the end of the appraisal process, normally the middle or the end of the given year. Thus, employees could have a much more frequent and better feeling and experience of guanxi's impact on communication, rather than guanxi's impact on an appraisal outcome.

Previous studies in the literature mainly focus on supervisors' tangible benefits based on guanxi in HRM practices which ignore the impact of guanxi on supervisors' intangible benefits (Chen, Chen and Xin, 2004; Chen et al., 2011). It is found that supervisors' guanxi practices (tangible benefits) have significant negative impacts on employees' procedural justice perceptions and trust in the management (Chen, Chen and Xin, 2004; Chen et al., 2011). Employees' long-term observation (half a year or one year) of guanxi's impact on communication can accumulate their negative reactions and perceptions of injustice. At the end of the appraisal procedure, if supervisors distribute ratings based on guanxi, employees' accumulated feelings regarding communication through daily observation encourage employees' negative attitudes towards guanxi's impacts on appraisal outcomes. Therefore, I add one more hypothesis to the model created in literature review, as follows.

Hypothesis: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and employees' reactions (i.e. distributive justice perceptions, procedural justice perceptions, interactional justice perception, satisfaction with ratings, satisfaction with system, satisfaction with supervisors, trust in supervisors, organisational commitment and turnover intentions) in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

5.1.2 Method for model testing

Hierarchical multiple regression was adopted to test the model. Hierarchical multiple regression was used in the situation that more than one independent variables needs to predict the dependent variable. In contrast to the standard multiple regression, in which the independent variables need to be entered into the equation at one time, with hierarchical multiple regression, the independent variables need to be entered at different steps. The important feature of hierarchical multiple regression is that it can be used to examine how well each of the independent variables can

predict the dependent variable when controlling other independent variables in the regression equation (Bingham & Fry, 2010). As demographic variables, such as age, gender, education, organisational membership and outcome favourability were reported to bias the dependent variables, such as procedural justice and trust in supervisor (Chen, Chen & Xin, 2004), I will control all these five variables when testing the relationships between independent variables and dependent variables in the model. Therefore, the hierarchical multiple regression was chosen for model testing.

Common method biases

Common method variance which is “attributable to the measurement method rather than to the constructs the measures represent” is regarded by a number of scholars as a potential threat to the study of human behaviours (Podsakoff et al., 2003, p879). Harman’s one-factor (single-factor) test is one of the most popular techniques which is adopted to deal with this problem. It indicates that one should load all variables into an explanatory factor analysis to check the factor loading situation in terms of an un-rotated factor solution (Aulakh & Gencturk, 2000; Organ & Greene, 1981). Theoretically, if (1) only one factor emerges; or, (2) one major factor accounts for the majority of the variances, a severe common method bias exists in the study. In order to examine the common method variances in this study, I conducted an explanatory factor analysis with all variables. The results indicate that the biggest component accounts for only 13.892% of the total variances, which means that common method bias is not a problem in this study.

Multicollinearity issue

Another important aspect of the model testing is checking whether there is any risk of multicollinearity in the data. Multicollinearity is a statistical phenomenon, whereby several predictor variables in the multiple regression model are highly correlated to one another (Hair, Andersen, Tatham and Black, 1998). Although multicollinearity does not have any negative impact on the reliability and predictive power of the whole model, it could influence the calculation of the individual predictor variable. That is

to say, the multiple regression model, which has correlated predictor variables, can still indicate how well the whole set of predictor variables predicts the dependent variables; however, it will not provide valid results for individual predictor variables. Therefore, it is necessary to check the multicollinearity of the individual predictor variables for the multiple regression model. The variance inflation factors (VIF) test was adopted to examine the severity of multicollinearity of the predictor variables in the model in this study.

Before conducting the regression analysis, I formed the interaction term first. In order to reduce the possibility of multicollinearity issue, I centered two variables, i.e. guanxi's impact on appraisal outcome and guanxi's impact on communication, and created the interaction term based on the centered data. The means, standard deviations and Pearson bivariate correlation of major variables were presented in table 5-1 below.

Table 5-1: Descriptive Statistics and Correlation Matrix

Variables	Mean(s.d.)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
1Age	30.42 (4.39)																	
2Gender	0.61 (0.49)	0.04																
3Education	4.15 (0.62)	-0.18**	0.09															
4SO bank	0.35 (0.48)	0.51**	0.03	-0.34**														
5Foreign Bank	0.32 (0.47)	-0.37**	-0.04	0.18**	-0.51**													
6City bank	0.32 (0.47)	-0.16**	0.01	0.17**	-0.51**	-0.48**												
7Favorability	2.81 (0.97)	-0.12*	-0.05	-0.08	-0.07	0.16**	-0.09											
8Guanxi's 1	3.30 (0.89)	0.28**	0.09	-0.07	0.31**	-0.27**	-0.04	-0.22**										
9Guanxi's 2	4.23 (0.63)	0.19**	-0.21**	-0.13*	0.26**	-0.34**	0.08	-0.09	0.36**									
10Distri Jus	3.50 (0.93)	-0.15**	0.00	0.03	-0.21**	0.14*	0.08	0.17**	-0.25**	-0.16**								
11Rating Sati	3.41 (0.96)	-0.15**	0.02	0.03	-0.19**	0.11	0.09	0.16**	-0.23**	-0.17**	0.96**							
12Pro Justic	3.47 (0.41)	-0.16**	0.01	0.03	-0.27**	0.25**	0.02	0.16**	-0.31**	-0.26**	0.19**	0.19**						
13System Sati	3.44 (0.61)	-0.20**	0.12*	0.20**	-0.25**	0.34**	-0.09	0.14*	-0.24**	-0.26**	0.10	0.10	0.36**					
14Inter Jus	3.53 (0.47)	0.05	0.07	0.09	-0.04	0.07	-0.03	0.09	-0.09	-0.07	-0.04	-0.03	-0.02	0.10				
15Sup Satis	3.54 (0.60)	-0.17**	0.02	0.16**	-0.21**	0.24**	-0.03	0.15**	-0.22**	-0.17**	0.07	0.07	0.18**	0.20**	0.13*			
16Trust	3.82 (0.58)	-0.15**	0.05	0.06	-0.16**	-0.01	0.17**	0.18**	-0.28**	-0.19**	0.23**	0.24**	0.08	0.11	0.10	0.18**		
17Commitment	3.92 (0.40)	0.08	0.09	-0.06	0.12*	-0.11	-0.02	-0.03	0.03	-0.06	-0.03	0.01	-0.05	-0.07	-0.10	-0.06	-0.04	
18Turnover	2.28 (0.79)	-0.07	-0.11	0.04	-0.08	0.16**	-0.09	-0.01	-0.04	-0.02	-0.03	-0.02	0.04	-0.02	0.02	0.08	0.01	-0.11

Note: N=308. * $p<0.05$, ** $p<0.01$ (2-tailed). Gender: 1=male, 0=female; education: 1=below high school, 2=high school, 3=3-year college, 4=4-year college, 5=Master's degree or above; SO bank, foreign bank and city bank = Dummy codes for bank ownership. In the table, 4 =State-owned bank; 7 = outcome favorability; 8 = guanxi's impact on appraisal outcome; 9 = guanxi's impact on communication; 10 = distributive justice; 11 = satisfaction with performance ratings; 12 = procedural justice; 13 = satisfaction with system; 14 = interactional justice; 15 = satisfaction with supervisor; 16= trust in supervisor; 17 = organizational commitment; 18= turnover intention.

CFA for “distributive justice” and “satisfaction with ratings”

According to the correlation matrix in table 5.1, it is found that the correlation coefficient between distributive justice and satisfaction with ratings is 0.956. Thus, it is necessary to examine whether there are two distinct constructs in this study. I used AMOS to conduct a confirmatory factor analysis for this test. Firstly, I created two dimensions to obtain the model fit index for the two-variable model; results are presented in Model A in table 5-2 below. Then, I put these two variables into one dimension to examine whether one construct model is better, and the model fit index was presented in Model B in table 5-2 below. It is found that χ^2 (=60.375) and χ^2/df (=3.354) in Model A is smaller than χ^2 (=189.263) and χ^2/df (=9.961) in Model B; while GIP (0.954), CFI (0.981) and IFI (0.981) in Model A are bigger than the counterparts in Model B (GIP=0.901, CFI=0.924, IFI=0.924). Moreover, the RMSEA in Model A (=0.088) is much better than RMSEA (=0.171) in Model B. Based on these results, Model A, i.e. the two-variable model, is better and more acceptable than Model B i.e. the one-variable model. Therefore, I kept them as two distinct variables in model testing in this study.

The distributive justice scale is modified from the study conducted by Colquitt et al. (2001); while the satisfaction with ratings scale adopted here is borrowed from Walsh (2003), who modified it from previous studies (Tang and Sarsfield-Baldwin, 1996, Taylor, Tracy, Renard, Harrison & Carroll, 1995). Although they are separate variables, they have overlapping content and similar items in measurement. For instance, fairness is considered as one important aspect of employees' satisfaction with performance ratings; thus, one item in satisfaction within the ratings scale i.e. “My most recent performance rating was fair” was used to examine employees' justice perceptions regarding the distribution of ratings. However, I kept them as two constructs in the model, because they have different indications and meanings, which could also provide relevant reference information for further studies.

Table 5-2: Result of CFA for distributive justice and satisfaction with ratings

model fit index	χ^2	df	χ^2/df	GIF	CFI	IFI	RMSEA
Model A	60.375	18	3.354	0.954	0.981	0.981	0.088
Model B	189.263	19	9.961	0.901	0.924	0.924	0.171

5.2 Hypotheses testing

5.2.1 Distributive justice

Supervisor's decisions and behaviour influenced by employees' guanxi also violate the equity principle, which is the major principle of distributive justice. As Greenberg (2001) stated, justice issue become noticeable when there are power differences, which are created by role differentiation within a workgroup. Role differentiation will make the individual employee vigilant to justice concerns, and thus they will tend to expect any injustice to happen. If the supervisors make decisions or provide direction to employees based on employees' guanxi, those employees without guanxi are more likely to perceive injustice than peers with guanxi. That is to say, the supervisors' guanxi-based decisions and behaviour in appraisal will drive the employees to seek out evidence regarding the fairness of outcomes through social comparison. Therefore, with the new scale for guanxi's impact on appraisal, it could be hypothesised as follows:

Hypothesis 1a: Guanxi's impact on appraisal outcome will be negatively related to employees' distributive justice perceptions.

Hypothesis 1b: Guanxi's impact on communication will be negatively related to employees' distributive justice perceptions.

Hypothesis 1c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and distributive justice perceptions, in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

Results of the testing

I regressed distributive justice on the guanxi's impact on appraisal outcome and guanxi's impact on communication scales, the demographic variables and outcome favorability. In the first step, I entered the demographic variables and outcome favorability scale; and in the second step, I entered the two guanxi's impact scales. In the third step, I entered the interaction term.

To check whether the risk of multicollinearity was presented in the model, I also conducted variance inflation factors test. The results of the variance inflation factors test for all the variables in the model are between 1.081 and 1.412 (age: 1.412; gender: 1.100; education: 1.157; outcome favorability: 1.081; guanxi's impact on appraisal outcome: 1.387; guanxi's impact on communication: 1.368), which confirmed that there is no multicollinearity problem.

The table 5-3 below, which shows the results of the regression, indicates that all of the Model 1, Model 2 and Model 3 were significant. Model 2, considering all of the independent variables, was highly significant, with an R^2 of 0.100 and an adjusted R^2 of 0.076. R^2 indicated what percentage the independent variables explained the dependent variable. Thus, in Model 1 and Model 2, the independent variables explained 6.9% and 10% of the variance, respectively. Moreover, the outcome favorability was a significant predictor of employees' distributive justice perceptions in Model 2. Based on the results of Model 2, it is found that the guanxi's impact on appraisal outcome is significantly related to distributive justice, while the guanxi's impact on communication is not. Therefore, it could be concluded that H1a was supported; while the H1b was not supported. Based on the results of Model 3, the moderating effect is not significant; thus, H1c was not supported.

Table 5-3: Regression analysis results for distributive justice

<i>Independent variables</i>	<i>Standardized Beta Coefficients (t-statistics)</i>		
	Model 1 (Controls)	Model 2 (Main effects)	Model 3 (Moderating effect)
Age	-0.041(-0.624)	-0.018(-0.277)	-0.021(-0.318)
Gender	0.017(0.311)	0.015(0.267)	0.015(0.264)
Education	-0.035(-0.590)	-0.034(-0.581)	-0.034(-0.570)
SO bank ^a	-0.183(-2.491)**	-0.148(-2.021)*	-0.153(-2.085)*
Foreign Bank	0.013(0.199)	-0.022(-0.324)	-0.037(-0.534)
Outcome favorability	0.144(2.538)**	0.114(1.991)*	0.112(1.965)
Guanxi's impact 1		-0.166(-2.631)**	-0.153(-2.369)*
Guanxi's impact 2		-0.059(-0.926)	-0.066(-1.022)
Guanxi's 1 × Guanxi's 2			0.053(0.902)
<i>R</i>	0.263	0.316	0.320
<i>R</i> ²	0.069	0.100	0.103
Adj. <i>R</i> ²	0.051	0.076	0.075
<i>F</i> -value	3.722**	4.156***	3.782***

Note: Guanxi's impact 1: Guanxi's impact on appraisal outcome; Guanxi's impact 2: Guanxi's impact on communication; Guanxi's 1 × Guanxi's 2: interaction term; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; ^aCity bank is the omitted category.

5.2.2 Procedural justice

The impact of guanxi on supervisors' behaviour in the performance appraisal process violates the core principle of procedural justice. Lind and his colleagues (1997) suggest that neutrality is one of the most important principles for procedural justice. Leventhal and his colleagues (1980) also state that there are six important rules for procedural justice, including consistency, accuracy, correctability, bias suppression, representativeness and ethicality. If the supervisor provides more benefits to those employees who have guanxi, such as better performance ratings, more help and direction and more communication opportunities, this supervisor's guanxi-based behaviour in appraisals will violate the neutrality principle of procedural justice, because there is a lack of relational neutrality. Therefore, it could be assumed that the impact of guanxi on performance appraisals will have negative impact on employees' sense of procedural justice. Based on the new scale for guanxi's impact on appraisals, it is hypothesised that:

Hypothesis 2a: Guanxi's impact on appraisal outcomes will be negatively related to employees' procedural justice perceptions.

Hypothesis 2b: Guanxi's impact on communication will be negatively related to employees' procedural justice perceptions.

Hypothesis 2c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and procedural justice perceptions, in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

Results of the testing

I regressed procedural justice on the guanxi's impact on appraisal outcome and guanxi's impact on communication scales, outcome favorability and the demographic variables. Similarly, the demographic variables and outcome favorability were entered in the first step, as control variables. The two main guanxi related variables, guanxi's impact on appraisal outcome and guanxi's impact on communication, were entered in the second step. The interaction term was entered in the third step.

The results of the variance inflation factors test for all the variables in the model are between 1.081 and 1.412 (age: 1.412; gender: 1.100; education: 1.157; outcome favorability: 1.081; guanxi's impact on appraisal outcome: 1.387; guanxi's impact on communication: 1.368), which proved that there is no multicollinearity problem.

Table 5-4 indicates the results of hierarchical multiple regression analysis. All of the Model 1, Model 2 and Model 3 were significant. Model 1 only considered the impact of demographic variables. Model 2, which considered all independent variables, was highly significant, with an R^2 of 0.163 and an adjusted R^2 of 0.141. According to the amount of R^2 in Model 1 and Model 2, the independent variables

explained 11% and 16.3% of the variance, respectively. Therefore, based on the results of Model 2, H2a is supported while H2b is not supported. According to the results of Model 3, the moderating effect is not significant; thus, H2c was not supported.

Table 5-4: Regression analysis results for procedural justice

<i>Independent variables</i>	<i>Standardized Beta Coefficients (t-statistics)</i>		
	Model 1 (Controls)	Model 2 (Main effects)	Model 3 (Moderating effect)
Age	-0.002(-0.036)	0.026(0.409)	0.028(0.441)
Gender	0.027(0.497)	0.014(0.244)	0.014(0.246)
Education	-0.063(-1.070)	-0.062(-1.098)	-0.063(-1.105)
SO Bank ^a	-0.214(-2.984)**	-0.170(-2.400)*	-1.166(-2.333)*
Foreign Bank	0.135(2.096)*	0.081(1.255)	0.093(1.389)
Outcome favorability	0.122(2.193)*	0.085(1.538)	0.086(1.556)
Guanxi's impact 1		-0.189(-3.112)**	-0.199(-3.189)**
Guanxi's impact 2		-0.118(-1.917)	-0.113(-1.822)
Guanxi's 1 × Guanxi's 2			-0.040(-0.708)
<i>R</i>	0.332	0.404	0.406
<i>R</i> ²	0.110	0.163	0.165
Adj. <i>R</i> ²	0.093	0.141	0.140
<i>F</i> -value	6.230***	7.298***	6.532***

Note: Guanxi's impact 1: Guanxi's impact on appraisal outcome; Guanxi's impact 2: Guanxi's impact on communication; Guanxi's 1 × Guanxi's 2: interaction term; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; ^aCity bank is the omitted category.

5.2.3 Interactional justice

The performance appraisal process often involves the exchange of information and respect between supervisors and subordinates, which is related to interactional justice concerns. If the supervisors treat employees with or without guanxi differently, the employee who receives less information, direction and help than their colleagues will feel unfairly treated by the supervisor. Moreover, Bies (2001) identifies four factors for interactional justice, including deception, invasion of the employee's privacy, disrespectful treatment and derogatory judgments. Derogatory judgments refer to supervisors' unfair and wrongful judgments and statements about the employees'

performances. If the supervisors make appraisal decisions and judgments based on guanxi, the employees without guanxi are more likely to perceive lower interactional justice. Thus, with the new scale for guanxi's impact on appraisals that was developed in the pilot study, it could be hypothesised that:

Hypothesis 3a: Guanxi's impact on appraisal outcomes will be negatively related to employees' interactional justice perceptions.

Hypothesis 3b: Guanxi's impact on communication will be negatively related to employees' interactional justice perceptions.

Hypothesis 3c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and interactional justice perceptions, in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

Results of the testing

I regressed interactional justice on guanxi's impact on appraisal outcome and guanxi's impact on communication scales, the demographic variables and outcome favorability. As control variables, the demographic variables and outcome favorability were entered into the model in the first step. Subsequently, the two main independent variables, guanxi's impact on appraisal outcome and guanxi's impact on communication, were entered into the model in the second step. Lastly, the interaction term was entered into the model in the third step. The results of the variance inflation factors test for all the independent variables in the model are between 1.081 and 1.412 (age: 1.412; gender: 1.100; education: 1.157; outcome favorability: 1.081; guanxi's impact on appraisal outcome: 1.387; guanxi's impact on communication: 1.368), which confirmed that there is no multicollinearity problem.

The table 5-5 below indicates that neither Model 1 nor Model 2 was significant.

Moreover, the demographic variables and outcome favorability were not significant predictors of employees' interactional justice perceptions in Model 2 either. Based on the results of Model 2, it is found that neither guanxi's impact on appraisal outcome nor guanxi's impact on communication was significantly related to employees' interactional justice perceptions. Therefore, it could be concluded that both H3a and H3b were not supported. Based on the results of Model 3, the moderating effect is not significant; thus, H3c was not supported either.

Table 5-5: Regression analysis results for interactional justice

<i>Independent variables</i>	<i>Standardized Beta Coefficients (t-statistics)</i>		
	Model 1 (Controls)	Model 2 (Main effects)	Model 3 (Moderating effect)
Age	0.116(1.728)	0.126(1.867)	0.124(1.835)
Gender	0.065(1.133)	0.069(1.151)	0.068(1.148)
Education	0.085(1.400)	0.086(1.414)	0.087(1.420)
SO Bank ^a	-0.035(-0.473)	-0.021(-0.274)	-0.025(-0.323)
Foreign Bank	0.066(0.976)	0.055(0.789)	0.044(0.614)
Outcome favorability	0.098(1.682)	0.084(1.420)	0.083(1.401)
Guanxi's impact 1		-0.079(-1.217)	-0.070(-1.051)
Guanxi's impact 2		-0.007(-0.105)	-0.012(-0.174)
Guanxi's 1 × Guanxi's 2			0.037(0.617)
<i>R</i>	0.179	0.194	0.197
<i>R</i> ²	0.032	0.038	0.039
Adj. <i>R</i> ²	0.013	0.012	0.010
<i>F</i> -value	1.657	1.459	1.336

Note: Guanxi's impact 1: Guanxi's impact on appraisal outcome; Guanxi's impact 2: Guanxi's impact on communication; Guanxi's 1 × Guanxi's 2: interaction term; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; ^aCity bank is the omitted category.

5.2.4 Affective reactions to appraisal

Employees' affective reactions to performance appraisals have been widely studied in the literature, especially in these three important aspects: satisfaction with performance ratings, satisfaction with the appraisal system and satisfaction with supervisors' behaviour in appraisals (Thurston, 2001). As the equity principle is adopted and accepted by Chinese employees and organisations, the impact of guanxi

on performance appraisals becomes problematic and has a negative impact on employees' affective reactions toward appraisal.

If the supervisors distribute higher performance ratings to employees with guanxi, even if their performance is not better than their peers, the employees, especially those without guanxi will have greater dissatisfaction with their performance ratings. Secondly, a supervisor is a key person, who executes the whole procedure of the appraisal system. Hence, if the supervisor provides more direction, help and information and distributes higher performance ratings to those employees who have guanxi, this will lead to employees' dissatisfaction with supervisors' behaviour in appraisals. Thirdly, as the supervisor was appointed by the organisation and the policy and procedure was also designed by the organisation, the impact of guanxi on supervisors' decisions and communication with subordinates will also have a negative impact on employees' satisfaction with the appraisal system itself. Therefore, with the new scale for guanxi's impact on appraisals, it could be hypothesised as follows:

Hypothesis 4a: Guanxi's impact on appraisal outcomes will be negatively related to employees' satisfaction with performance ratings.

Hypothesis 4b: Guanxi's impact on communication will be negatively related to employees' satisfaction with performance ratings.

Hypothesis 4c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and employees' satisfaction with performance ratings, in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

Hypothesis 5a: Guanxi's impact on appraisal outcomes will be negatively related to employees' satisfaction with the performance system itself.

Hypothesis 5b: Guanxi's impact on communication will be negatively related to employees' satisfaction with the performance system itself.

Hypothesis 5c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and employees' satisfaction with the performance system itself, in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

Hypothesis 6a: Guanxi's impact on appraisal outcomes will be negatively related to employees' satisfaction with supervisors' behaviour in appraisal.

Hypothesis 6b: Guanxi's impact on communication will be negatively related to employees' satisfaction with supervisors' behaviour in appraisals.

Hypothesis 6c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and employees' satisfaction with supervisors' behaviour in appraisals, in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

Results of the testing

Satisfaction with performance ratings

The Scale "Employees' satisfaction with performance ratings" is regressed on the scales of guanxi's impact on appraisal outcome and guanxi's impact on communication, the demographic variables and outcome favorability. The results of the variance inflation factors test for all the independent variables in the model are between 1.081 and 1.412, which confirmed that there is no multicollinearity problem. Table 5-6 below indicates that all of the Model 1, Model 2 and Model 3 were significant. Model 2 was highly significant, with an R^2 of 0.089 and an adjusted R^2 of 0.065. Thus, in Model 1 and Model 2, the independent variables explained 6.3% and 8.9% of the variance, respectively. Moreover, the outcome favorability was

significantly related to employees' satisfaction with performance ratings in Model 2. According to the results of Model 2, guanxi's impact on appraisal outcome is significantly related to satisfaction with ratings, while the guanxi's impact on communication is not a significant predictor of satisfaction with ratings. Thus, it can be concluded that H4a is supported; while H4b is not supported. Based on the results of Model 3, the moderating effect is not significant; thus, H4c was not supported either.

Table 5-6: Regression analysis results for satisfaction with ratings

<i>Independent variables</i>	<i>Standardized Beta Coefficients (t-statistics)</i>		
	Model 1 (Controls)	Model 2 (Main effects)	Model 3 (Moderating effect)
Age	-0.061(-0.930)	-0.042(-0.634)	-0.047(-0.714)
Gender	0.034(0.613)	0.025(0.427)	0.024(0.422)
Education	-0.026(-0.438)	-0.026(-0.442)	-0.025(-0.424)
SO Bank ^a	-0.169(-2.290)*	-0.137(-1.862)	-0.148(-2.001)*
Foreign Bank	-0.013(-0.200)	-0.051(-0.757)	-0.080(-1.158)
Outcome favorability	0.142(2.481)*	0.115(2.011)*	0.113(1.969)
Guanxi's impact 1		-0.133(-2.093)*	-0.108(-1.670)
Guanxi's impact 2		-0.083(-1.297)	-0.096(-1.489)
Guanxi's 1 × Guanxi's 2			0.101(1.730)
<i>R</i>	0.251	0.298	0.313
<i>R</i> ²	0.063	0.089	0.098
Adj. <i>R</i> ²	0.044	0.065	0.071
<i>F</i> -value	3.368**	3.655***	3.603***

Note: Guanxi's impact 1: Guanxi's impact on appraisal outcome; Guanxi's impact 2: Guanxi's impact on communication; Guanxi's 1 × Guanxi's 2: interaction term; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; ^aCity bank is the omitted category.

Satisfaction with appraisal system

I regressed the scale "satisfaction with appraisal system" on the guanxi's impact on appraisal outcome and guanxi's impact on communication scales, outcome favorability and the demographic variables. The results of the variance inflation factors test for all the variables, which was used to check whether the risk of multicollinearity was presented in the model in the model, are between 1.081 and

1.412, which proved that there is no multicollinearity problem. Table 5-7 below indicates that all of the Model 1, Model 2 and Model 3 were significant. Model 2, which considered all independent variables, was highly significant, with an R^2 of 0.188 and an adjusted R^2 of 0.166. Thus, in Model 1 and Model 2, the independent variables explained 16.6% and 18.8% of the variance, respectively.

Moreover, it is very interesting to find that gender and education were significant predictors of employees' satisfaction with appraisal system in Model 2. Based on the result, neither guanxi's impact on appraisal outcome nor guanxi's impact on communication is significantly related to employees' satisfaction with appraisal system. Therefore, both H5a and H5b are not supported. Based on the results of Model 3, the moderating effect is not significant; thus, H5c was not supported either.

Table 5-7: Regression analysis results for satisfaction with system

<i>Independent variables</i>	<i>Standardized Beta Coefficients (t-statistics)</i>		
	Model 1 (Controls)	Model 2 (Main effects)	Model 3 (Moderating effect)
Age	-0.061(-0.981)	-0.044(-0.706)	-0.042(-0.679)
Gender	0.131(2.475)*	0.119(2.175)*	0.119(2.175)*
Education	0.126(2.221)*	0.125(2.236)*	0.125(2.227)*
SO Bank ^a	-0.031(-0.451)	-0.003(-0.046)	-0.002(-0.041)
Foreign Bank	0.266(4.269)***	0.229(3.596)***	0.238(3.622)***
Outcome favorability	0.107(1.984)*	0.084(1.551)	0.085(1.564)
Guanxi's impact 1		-0.111(-1.859)	-0.119(-1.936)
Guanxi's impact 2		-0.088(-1.457)	-0.084(-1.381)
Guanxi's 1 \times Guanxi's 2			-0.032(-0.569)
<i>R</i>	0.408	0.433	0.435
R^2	0.166	0.188	0.189
Adj. R^2	0.149	0.166	0.164
<i>F</i> -value	9.990***	8.648***	7.706***

Note: Guanxi's impact 1: Guanxi's impact on appraisal outcome; Guanxi's impact 2: Guanxi's impact on communication; Guanxi's 1 \times Guanxi's 2: interaction term; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; ^aCity bank is the omitted category

Satisfaction with supervisors in appraisal

The scale “satisfaction with supervisor in appraisal” was regressed on the guanxi’s impact on appraisal outcome and guanxi’s impact on communication scales, outcome favorability and the demographic variables. The results of the variance inflation factors test for all the variables are also between 1.081 and 1.412, which proved that there is no multicollinearity problem. Table 5-8 below indicates that all of Model 1, Model 2 and Model 3 were significant. It is found that education was a significant predictor of employees’ satisfaction with supervisor in appraisal in Model 2. However, neither guanxi’s impact on appraisal outcome nor guanxi’s impact on communication is significantly related to employees’ satisfaction with supervisors in appraisal. In conclusion, based on the results of regression, both H6a and H6b are not supported. Based on the results of Model 3, the moderating effect is not significant; thus, H6c was not supported either.

Table 5-8: Regression analysis results for satisfaction with supervisors

<i>Independent variables</i>	<i>Standardized Beta Coefficients (t-statistics)</i>		
	Model 1 (Controls)	Model 2 (Main effects)	Model 3 (Moderating effect)
Age	-0.048(-0.740)	-0.031(-0.484)	-0.033(-0.504)
Gender	0.025(0.457)	0.024(0.421)	0.024(0.419)
Education	0.115(1.959)	0.116(1.982)*	0.117(1.985)*
SO Bank ^a	-0.056(-0.771)	-0.031(-0.421)	-0.033(-0.457)
Foreign Bank	0.155(2.381)*	0.130(1.945)	0.122(1.769)
Outcome favorability	0.128(2.291)*	0.106(1.874)	0.105(1.857)
Guanxi's impact 1		-0.120(-1.918)	-0.114(-1.766)
Guanxi's impact 2		-0.041(-0.654)	-0.045(-0.702)
Guanxi's 1 × Guanxi's 2			0.027(0.471)
<i>R</i>	0.309	0.334	0.335
<i>R</i> ²	0.096	0.112	0.112
Adj. <i>R</i> ²	0.078	0.088	0.085
<i>F</i> -value	5.299***	4.695***	4.188***

Note: Guanxi’s impact 1: Guanxi’s impact on appraisal outcome; Guanxi’s impact 2: Guanxi’s impact on communication; Guanxi's 1 × Guanxi's 2: interaction term; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; ^aCity bank is the omitted category.

5.2.5 Supervisor-related outcome: trust in supervisor

Employees' leader-related outcomes, the employees' attitudes toward supervisors and behaviour benefiting supervisors, such as trust in management or prosocial behaviour targeting the supervisor, are widely studied in HRM literature. According to social exchange theory, the employees benefit supervisors by their behaviour at work, in order to reciprocate the fairness of and the better treatment from the supervisors. The supervisor, who enforces the regulation of appraisals, communicates with employees and makes decisions regarding the performance ratings, then has a great impact on the success of the performance appraisals. As more and more employees in Chinese organisations have started to accept the equity principle and perceive the performance-based HRM valuations to be fair, guanxi's impact on supervisors' appraisal decisions and treatment in appraisals are regarded as unfair and unjust by employees. Thus, in terms of social exchange theory, employees have lower levels of trust in supervisors if the supervisor's behaviour in appraisals is influenced by guanxi. Chen and his colleagues (2004) found that guanxi practice in Chinese organisations has a negative impact on trust in management. Thus, with the new scale for guanxi's impact on appraisal, it could be hypothesised as follows:

Hypothesis 7a: Guanxi's impact on appraisal outcome will be negatively related to trust in supervisor.

Hypothesis 7b: Guanxi's impact on communication will be negatively related to trust in supervisor.

Hypothesis 7c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and trust in supervisor, in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

Results of the testing

I regressed trust in supervisor on the guanxi's impact on appraisal outcome and guanxi's impact on communication scales, outcome favorability and the demographic variables. Table 5-9 below indicates that all of the Model 1, Model 2 and Model 3 were significant. Model 2, which considered all independent variables, was highly significant, with an R^2 of 0.145 and an adjusted R^2 of 0.122. Thus, in Model 1 and Model 2, the independent variables explained 8% and 14.5% of the variance, respectively. According to the results of Model 2, it is found that guanxi's impact on appraisal outcome is significantly related to employees' trust in supervisors; while guanxi's impact on communication is not. Moreover, it is also found that outcome favorability was a significant predictor of employees' trust in supervisors in Model 2. To summarise, H7a is supported; while H7b is not supported. Based on the results of Model 3, the moderating effect is not significant; thus, H7c was not supported either.

Table 5-9: Regression analysis results for trust in supervisors

<i>Independent variables</i>	<i>Standardized Beta Coefficients (t-statistics)</i>		
	Model 1 (Controls)	Model 2 (Main effects)	Model 3 (Moderating effect)
Age	-0.107(-1.643)	-0.074(-1.173)	-0.077(-1.211)
Gender	0.055(0.987)	0.048(0.858)	0.048(0.854)
Education	0.015(0.258)	0.016(0.284)	0.017(0.294)
SO Bank ^a	-0.173(-2.373)*	-0.123(-1.718)	-0.128(-1.781)
Foreign Bank	-0.164(-2.503)*	-2.218(-3.326)**	-0.232(-3.436)**
Outcome favorability	0.176(3.104)**	0.132(2.368)*	0.130(2.343)*
Guanxi's impact 1		-0.232(-3.776)***	-0.220(-3.493)**
Guanxi's impact 2		-0.100(-1.615)	-0.107(-1.703)
Guanxi's 1 \times Guanxi's 2			0.049(0.868)
<i>R</i>	0.282	0.381	0.384
<i>R</i> ²	0.080	0.145	0.147
Adj. <i>R</i> ²	0.061	0.122	0.121
<i>F</i> -value	4.337***	6.339***	5.713***

Note: Guanxi's impact 1: Guanxi's impact on appraisal outcome; Guanxi's impact 2: Guanxi's impact on communication; Guanxi's 1 \times Guanxi's 2: interaction term; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; ^aCity bank is the omitted category.

5.2.6 Organisational outcomes: organisational commitment and turnover intentions

Organisational outcomes, which refer to employees' behaviour used to express their attitudes toward the organisation, are widely studied in the literature. As social exchange theory states that an entity is obliged to reciprocate when receiving a favour from another entity, the individual then uses their behaviour to benefit the source of fairness for reciprocity (Gouldner, 1960). Thus, the employees will choose to behave in the way of benefiting the organisation, if they perceive the fairness of the organisation. A number of studies indicate that employees' justice perceptions, especially procedural justice, are significantly related to various employees' organisational outcomes, such as organisational commitment and turnover intentions (Dailey & Kirk, 1992; Konovsky & Cropanzano, 1991; Taylor et al., 1995). If employees perceive that guanxi influences appraisal outcomes and communication in appraisals, they consider that the organisation is one of the sources of unfairness in appraisals, because the regulation, designed by organisation, could not stop the impact of guanxi on appraisal and because the supervisors, appointed by the organisation, could not behave in a just way in appraisal. Therefore, the employees become dissatisfied with the organisation, show less commitment to the organisation and intend to leave the organisation. Thus, with the new scale for guanxi's impact on appraisal, it could be hypothesised as follows:

Hypothesis 8a: Guanxi's impact on appraisal outcome will be negatively related to organisational commitment.

Hypothesis 8b: Guanxi's impact on communication will be negatively related to organisational commitment.

Hypothesis 8c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and organizational commitment, in

the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

Hypothesis 9a: Guanxi's impact on appraisal outcome will be positively related to turnover intentions.

Hypothesis 9b: Guanxi's impact on communication will be positively related to turnover intentions.

Hypothesis 9c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and turnover intentions, in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.

Results of the testing

Organizational commitment

I regressed organizational commitment on the guanxi's impact on appraisal outcome and guanxi's impact on communication scales, outcome favorability and the demographic variables. The results of the variance inflation factors test for all the variables in the model are between 1.081 and 1.412, which proved that there is no multicollinearity problem. Table 5-10 indicates that neither Model 1 nor Model 2 was significant. Moreover, the demographic variables and outcome favorability were not significant predictors of employees' organizational commitment either. Therefore, both H8a and H8b are not supported. Based on the results of Model 3, the moderating effect is not significant; thus, H8c was not supported either.

Table 5-10: Regression analysis results for organizational commitment

<i>Independent variables</i>	<i>Standardized Beta Coefficients (t-statistics)</i>		
	Model 1 (Controls)	Model 2 (Main effects)	Model 3 (Moderating effect)
Age	0.012(0.186)	0.014(0.208)	0.010(0.145)
Gender	0.118(2.072)*	0.098(1.645)	0.098(1.642)
Education	-0.053(-0.871)	-0.055(-0.903)	-0.054(-0.888)
SO Bank ^a	0.065(0.864)	0.071(0.934)	0.062(0.822)
Foreign Bank	-0.056(-0.837)	-0.079(-1.135)	-0.103(-1.438)
Outcome favorability	0.008(0.130)	0.006(0.105)	0.004(0.067)
Guanxi's impact 1		0.014(0.211)	0.034(0.508)
Guanxi's impact 2		-0.087(-1.319)	-0.097(-1.469)
Guanxi's 1 \times Guanxi's 2			0.083(1.376)
<i>R</i>	0.181	0.196	0.211
<i>R</i> ²	0.033	0.039	0.045
Adj. <i>R</i> ²	0.014	0.013	0.016
<i>F</i> -value	1.704	1.500	1.548

Note: Guanxi's impact 1: Guanxi's impact on appraisal outcome; Guanxi's impact 2: Guanxi's impact on communication; Guanxi's 1 \times Guanxi's 2: interaction term; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; ^aCity bank is the omitted category.

Turnover Intentions

I regressed turnover intentions on the guanxi's impact on appraisal outcome and guanxi's impact on communication scales, outcome favorability and the demographic variables. The results of the variance inflation factors test for all the variables in the model are between 1.081 and 1.412, which indicated that there is no multicollinearity problem. Table 5-11 indicates that neither Model 1 nor Model 2 was significant. Moreover, the demographic variables and outcome favorability were not significant predictors of employees' turnover intentions either. According to the result of Model 2, it is found that guanxi's impact on appraisal outcome and guanxi's impact on communication were not significantly related to employees' turnover intentions. Therefore, both H9a and H9b are not supported. Based on the results of Model 3, the moderating effect is not significant; thus, H9c was not supported either.

Table 5-11: Regression analysis results for turnover intention

<i>Independent variables</i>	<i>Standardized Beta Coefficients (t-statistics)</i>		
	Model 1 (Controls)	Model 2 (Main effects)	Model 3 (Moderating effect)
Age	-0.014(-0.209)	-0.015(-0.216)	-0.017(-0.248)
Gender	-0.105(-1.851)	-0.103(-1.730)	-0.103(-1.731)
Education	0.018(0.293)	0.018(0.295)	0.018(0.303)
SO Bank ^a	0.025(0.334)	0.024(0.312)	0.019(0.254)
Foreign Bank	0.169(2.529)*	0.173(2.488)*	0.160(2.239)*
Outcome favorability	-0.037(-0.645)	-0.037(-0.621)	-0.038(-0.639)
Guanxi's impact 1		0.001(0.020)	0.012(0.173)
Guanxi's impact 2		0.011(0.173)	0.006(0.092)
Guanxi's 1 \times Guanxi's 2			0.043(0.704)
<i>R</i>	0.198	0.198	0.202
<i>R</i> ²	0.039	0.039	0.041
Adj. <i>R</i> ²	0.020	0.014	0.012
<i>F</i> -value	2.041	1.525	1.409

Note: Guanxi's impact 1: Guanxi's impact on appraisal outcome; Guanxi's impact 2: Guanxi's impact on communication; Guanxi's 1 \times Guanxi's 2: interaction term; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$; ^aCity bank is the omitted category.

5.3 Conclusion

To summarise, it was found that guanxi's impact on appraisal outcomes is negatively related to employees' perceptions of distributive justice, procedural justice, satisfaction with performance ratings and trust in supervisors; nonetheless, there was no relationship between guanxi's impact on communication and any of the employees' attitudes or behaviour based on the results of model testing. A summary of hypothesis testing results was presented in table 5-11.

Table 5-12: Summary of Hypothesis Tests Results

Hypotheses	Results
H1a: Guanxi's impact on appraisal outcome will be negatively related to employees' distributive justice perceptions.	Supported
H1b: Guanxi's impact on communication will be negatively related to employees' distributive justice perceptions.	Not Supported
H2a: Guanxi's impact on appraisal outcomes will be negatively related to employees' procedural justice perceptions.	Supported
H2b: Guanxi's impact on communication will be negatively related to employees' procedural justice perceptions.	Not Supported
H3a: Guanxi's impact on appraisal outcomes will be negatively related to employees' interactional justice perceptions.	Not Supported
H4a: Guanxi's impact on appraisal outcomes will be negatively related to employees' satisfaction with performance ratings.	Supported
H4b: Guanxi's impact on communication will be negatively related to employees' satisfaction with performance ratings.	Not Supported
H5a: Guanxi's impact on appraisal outcomes will be negatively related to employees' satisfaction with the performance system.	Not Supported
H5b: Guanxi's impact on communication will be negatively related to employees' satisfaction with the performance system.	Not Supported
H6a: Guanxi's impact on appraisal outcomes will be negatively related to employees' satisfaction with supervisors in appraisal.	Not Supported
H6b: Guanxi's impact on communication will be negatively related to employees' satisfaction with supervisors in appraisals.	Not Supported
H7a: Guanxi's impact on appraisal outcome will be negatively related to trust in supervisor.	Supported
H7b: Guanxi's impact on communication will be negatively related to trust in supervisor.	Not Supported

H8a: Guanxi's impact on appraisal outcome will be negatively related to organisational commitment.	Not Supported
H9a: Guanxi's impact on appraisal outcome will be positively related to turnover intentions.	Not Supported
H9b: Guanxi's impact on communication will be positively related to turnover intentions.	Not Supported
H1c-9c: Guanxi's impact on communication moderates the relationship between guanxi's impact on appraisal outcomes and employees' reactions, in the way that the relationship will be stronger in work units with higher levels of guanxi impact on communication.	Not Supported

Chapter 6: Discussion of Pilot Study and Model Testing

Based on the new scale for guanxi's impact on appraisals that was developed in the pilot study, the previous chapter tested the model with 18 hypotheses that were developed in the literature review. The model-testing mainly examined the effect of "guanxi's impact on appraisal outcomes" and "guanxi's impact on communication" on employees' justice perceptions, employees' reactions toward appraisals, leader-related outcomes and organisation-related outcomes respectively, with a sample of 308 valid employee questionnaires from three banks in Eastern China. It was found that guanxi's impact on appraisal outcomes was negatively related to employees' distributive justice perceptions, procedural justice perceptions, satisfaction with performance ratings and trust in supervisors, while there was no relationship between guanxi's impact on communication and any of the employees' attitudes or behaviour. In this part, the findings of the model-testing section will be presented, and then linked to various theories mentioned in the literature review. The findings will be discussed drawing on justice theories, performance appraisal system theories, theories regarding employees' reactions to appraisals, and guanxi theory in the Chinese context. Moreover, the theoretical implications and practical implications of this study will also be discussed.

6.1 Discussion of the results

6.1.1 Distributive justice

Guanxi's impact on appraisal outcomes

Consistent with previous theorising, a negative relationship was found between guanxi's impact on appraisal outcomes and employees' distributive justice perceptions. If the supervisors make appraisal decisions and distribute performance ratings based on employees' guanxi, it is more likely for the subordinates to regard distributive justice as unfair. Firstly, this finding is consistent with Greenberg's configural justice for performance appraisals (1993) and Thurston's structural force associated

with distributive justice in appraisal (2001). Greenberg identifies four types of justice for performance appraisal, in which configural justice is related to the distribution of appraisal outcomes. Configural justice, which is based on equity theory, examines the social norms to which the performance ratings were structured to conform. Greenberg points out that the performance ratings distributed based on equity are likely to be regarded as fair and just by employees.

Thurston (2001) also categorises two types of structural forces for configural justice (distributive justice) in performance appraisals. Similarly to Greenberg, Thurston points out that decision norms are regarded as one of the most important forces that will have an impact on employees' perceptions of distributive justice in appraisals. Thus, if the supervisors make appraisal decisions based on equity, the employees will believe that the performance ratings are fair. However, the performance ratings will be considered as unjust and unfair by employees if the supervisors make decisions that conform to other norms, such as equality, needs or social status. Therefore, according to these two theories, the performance ratings being distributed based on *guanxi* will also lead to employees' lower level of distributive justice perceptions, which is consistent with the findings here.

Secondly, this finding is also consistent with Greenberg's argument (2001) that the justice issue becomes salient when there are power differences within a workgroup, created by role difference. In the workgroup that has great power differences, individuals are inclined to expect the injustice to occur (Shapiro & Kirkman, 2001), and will then actively seek the evidence that proves the injustice when they evaluate the distributive justice. It is found that employees have the knowledge of the performance ratings awarded to their colleagues via three primary ways: office gossip, colleagues' own words or the supervisors told them in final interviews. In the workgroup, those employees whose supervisors make appraisal decisions based on employees' *guanxi*, especially those without *guanxi*, will pay greater attention to collecting the information and evidence regarding supervisors' unfair decisions and

distributions. One interviewee who works in state-owned bank A shared his experience in the interview:

“The levels of guanxi quality between supervisor and each subordinate vary significantly in my workgroup. I did not have a close and special guanxi with my supervisor. Therefore, in the past five years, I have not been able to obtain a proper performance rating, which my objective performance deserved, even if I had strived to perform better than my peers. Thus, I was very sensitive to supervisors’ decisions. I always noticed whether supervisors made fair decisions and looked for the supporting evidence for this, by paying attention to what performance ratings, those colleagues with guanxi, could receive from the supervisor.”

Thus, the findings here support Greenberg’s statement (2001) that the justice issue is noticeable in workgroups with higher level of power differences.

Thirdly, this finding echoes the social comparison theory of distributive justice theory. A number of studies show that the individuals are likely to evaluate the level of justice through a process of within-group social comparison (Liden, et al., 2006; Hooper & Martin, 2008; Erdogan & Bauer, 2010). The justice issue is salient in those workgroups whose supervisor has a different guanxi quality with each subordinate, because the variability of guanxi quality violates the equality principle, which is considered fundamental to the judgment of fairness (Uhl-Bien et al., 2000; Scandura, 1999). Ma and Qu (2010) illustrate that supervisors are inclined to provide better performance appraisals to those subordinates with a higher relationship quality than what their real performance deserves. Thus, the employees form their justice perceptions when they make horizontal comparisons of their input/output ratio with their colleagues. As one interviewee from state-owned bank A said,

“One of my colleagues whose father is a higher level leader in the city

government, entered the bank via his father's guanxi. This colleague did not really perform very well in my workgroup; however, he always received better performance ratings than his peers. It was heard that his father had a close relationship with a high level manager in state-owned bank A. Thus, the supervisor was told to take care of this colleague by the high level manager. I think I will always keep an eye on the colleagues' performance and the ratings he obtains, in order to explore whether he deserves the rating and whether I obtain a fair rating compared to him."

It is observed that employees in China tend to make social comparison between themselves with their colleagues in the workgroup, to discover any unfairness in supervisors' appraisal decisions. Therefore, both the findings in model testing and interviews echo the social comparison theory of justice perceptions.

Guanxi's impact on communication

However, the findings in the model testing failed to provide support for the negative relationship between guanxi's impact on communication and distributive justice. Distributive justice mainly focuses on whether supervisors' distribution of performance ratings is fair and unbiased. Therefore, guanxi's impact on communication is distant from distributive justice, compared to guanxi's impact on appraisal outcomes, which concentrate directly on supervisors' allocation of ratings. Moreover, a proportion of supervisors in Chinese organisations have the tendency to provide intangible help and direction to those employees with guanxi, instead of directly providing them with tangible benefits, such as bonuses or ratings, because the policy and regulation of the organisation has become strict and the supervision mechanism or appeal system had been improved. As one interviewee from city bank C said:

"A large number of supervisors do provide different treatment to employees with or without guanxi in appraisal. Normally, in terms of the appraisal

outcome, more and more supervisors will make decisions and distribute performance ratings based on the real employees' performance, because the unfair performance ratings can be easily challenged and appealed. In order to avoid the risk of being appealed against, the supervisors make fair distribution of ratings in appraisal. However, in order to satisfy those employees with guanxi, the supervisors provide more help and direction to them, because this cannot be clearly observed, noticed and reported."

Therefore, it is understandable that guanxi's impact on communication does not have a very close relationship with distributive justice.

6.1.2 Procedural justice

Guanxi's impact on appraisal outcomes

It was found that guanxi's impact on appraisal outcome has a significantly negative relationship with employees' procedural justice perceptions. This finding is consistent with the findings in the following two important studies of guanxi practices in the literature. Chen and his colleagues (2004) illustrate that guanxi practices in Chinese organisations have a negative impact on employees' procedural justice; while Chen et al. (2011) also found that group level guanxi practices were negatively related to procedural justice. In these two studies, guanxi practices refer to HRM outcomes, such as bonuses, promotions, appraisals or task allocation, that were determined based on employees' guanxi, which is very similar to the meaning of guanxi's impact on appraisal outcome in this study. Leventhal (1980) states that bias suppression is one core principle for procedural justice; while Lind and his colleagues (1997) also point out that neutrality is a key rule for procedural justice. Therefore, supervisors' decisions based on guanxi violate the core principles of procedural justice, which definitely lead to employees' lower level perceptions of procedural justice.

Moreover, following the same line of argument made in the case of distributive justice, guanxi's impact on appraisal outcomes is likely to induce the employees to actively

seek the confirmative evidence for procedural injustice from the supervisor and workgroup, mainly by the social comparison between the individual and peers. Therefore, this finding also echoes Greenberg's argument (2001) that power differences lead to justice issues and the social comparison theory of justice (Liden, et al., 2006; Hooper & Martin, 2008; Erdogan & Bauer, 2010).

Guanxi's impact on communication

However, the result failed to explain the significant relationship between guanxi's impact on communication and employees' perceptions of procedural justice. One possible reason for this may be that guanxi's impact on appraisal outcome is considered much worse and more serious than guanxi's impact on communication. Chinese people pay more attention to the outcome than the process; and to the tangible benefits related to guanxi than intangible benefits related to guanxi. Almost all previous studies regarding guanxi practices only focus on supervisors' guanxi-based HR decisions, such as bonuses, promotions, performance ratings or task allocation (Chen et al., 2004; Chen et al., 2011) and ignored the intangible benefits such as help, direction and communication, which is related to employees' guanxi. Moreover, evidence in previous studies also shows that Chinese employees perceived performance-based HR evaluation as just and guanxi-based HR practices as unfair (Bozionelos & Wang, 2007; He, Chen & Zheng, 2004; Chen, 1995), also ignoring the employees' attitudes toward the supervisors' daily intangible benefits. Thus, as the outcome of HR practices is considered the most important aspect by Chinese employees, guanxi's impact on appraisal outcomes seems to be more serious than guanxi's impact on communication.

Moreover, as guanxi-based decisions in HRM practices, such as guanxi-based distribution of performance ratings, directly violate the equity principle and equity principle-based organisational policies, they are regarded as the violation of the social norm, which indicates a shift from particularism to universalism. On the other hand, supervisors providing more help and direction to employees with guanxi does not

directly violate the equity principle and is likely to be more or less tolerated by the majority of employees in Chinese organisations. Thus, guanxi's impact on communication in appraisals is tolerated by employees and does not have a significant negative impact on employees' perceptions of procedural justice. As one interviewee from state-owned bank A said:

“That supervisors provide more help and direction provided to employees with guanxi is more prevalent than supervisors making appraisal decisions based on guanxi, as the latter directly violates the organisational regulations and also would be easily noticed, challenged and reported by employees. I can understand in order to satisfy those employees with guanxi, supervisors have to provide better help, direction and have more frequent communication with them, because the development and maintenance of guanxi requires benefit exchange between supervisor and employees. However, I cannot tolerate or accept supervisors making decisions based on guanxi, because it not only violates the organisational policy, but also leads to derogatory judgments on real performance, which makes employees without guanxi feel very frustrated.”

Thus, it could be concluded that guanxi's impact on appraisal outcomes is much more harmful to employees' perceptions of procedural justice than guanxi's impact on communication, because the former is related to the outcome of performance appraisals, which is more valued and cared by Chinese employees and which directly violates the equity principle. Of course, these speculations require further exploration in future research.

6.1.3 Interactional justice

The results of model testing failed to provide support for the negative relationship between guanxi's impact on appraisal outcomes and guanxi's impact on communication and interactional justice. The explanation for this may be that in

order to maintain the harmonious environment and relationships with subordinates, the supervisors in China tend to act politely in face-to-face communication with all subordinates, even if supervisors' behaviour is influenced by employees' guanxi.

Collectivism and Confucius culture, which are valued by Chinese society, requires the supervisors in Chinese organisations to maintain group harmony and avoid conflict. Experimental studies suggest that harmony in relationships among members is considered a more important cultural factor by Chinese leaders and supervisors than their American counterparts (Zhou and Martocchio, 2001). Thus, maintenance of a harmonious environment and guanxi within the workgroup is one of the most important responsibilities for Chinese supervisors. As Bies (2001) identifies, four important factors have a negative impact on employees' perceptions of interactional justice, including deception, invasion of the employees' privacy, disrespectful treatment and derogatory judgments. These four types of actions could also be seen by Chinese supervisors as potentially harmful to the harmonious atmosphere within the workgroup and harmonious guanxi with subordinates. Based on this reasoning, Chinese supervisors, especially those in state-owned companies, are inclined to behave in a polite and respectful way in communication with all subordinates.

Confirmative evidence for the above reason was also found in the interviews. As one interviewee from state-owned bank A said:

“My supervisor is always very nice and polite when he has communication with any subordinate in my workgroup. However, I could not get any real help from him, because I do not have a very close guanxi with him. He only takes care of those employees with guanxi and is always ready to provide direction to them. Therefore, I think his politeness is ostensible and formal, in order to main harmonious atmosphere within the workgroup. But I feel that I am only an outsider compared to his in-group members.”

Based on the findings in the interviews, it seems that although Chinese supervisors distinguish subordinates into different groups, such as those with or without guanxi, they ostensibly treat all subordinates in a polite, respectful and formal way. Therefore, this explains why guanxi's impact on outcome and communication is not significantly related to employees' sense of interactional justice.

6.1.4 Employees' reactions to appraisal

Satisfaction with performance ratings

Consistent with the hypothesis, a negative relationship was found between guanxi's impact on appraisal outcomes and employees' satisfaction with performance ratings. If the supervisors distribute performance ratings based on employees' guanxi, it is more likely for the employees to have comparatively lower levels of satisfaction with performance ratings. This finding is consistent with Thurston's two factors (2001), which influence employees' satisfaction with ratings, namely accuracy of ratings and supervisors' concern over ratings. Accuracy of ratings refers to the measurement of whether performance ratings reflect employees' real performance; while supervisors' concern over ratings refers to the measurement of whether supervisors' decisions were influenced by politics. Guanxi's impact on appraisal outcomes, which violates the equity norm, leads to inaccurate performance ratings and thus the employees' dissatisfaction with ratings. Moreover, in Western literature, politics in the distribution of performance ratings has been widely discussed, especially these two types: favouritism and avoiding the conflict by inflating performance ratings (McCarthy 1995; Longnecker, C.O., Gioria, D.A. & Sims, H.P., 1987). Guanxi's impact on appraisal systems could also be regarded as one type of supervisors' politics in appraisal, because it also reflects the supervisors' favouritism to those subordinates with guanxi. Therefore, guanxi's impact on appraisal outcomes, which violates both the accuracy of ratings and supervisors' avoidance of politics principles, is likely to have a negative impact on employees' satisfaction with ratings.

However, the findings failed to provide support for the negative relationship between

guanxi's impact on communication and employees' satisfaction with performance ratings. Following the same line of argument made in the case of the relationship between guanxi's impact on communication and distributive justice, guanxi's impact on communication is also more distinct from employees' satisfaction with performance ratings, compared to guanxi's impact on appraisal outcomes. As discussed above, an increasing number of supervisors in Chinese organisations provide more intangible benefits to those employees with guanxi, such as help and direction, instead of directly providing a better performance rating to them, in order to avoid the risk of being challenged and appealed. Therefore, it is possible that the fair distribution of performance ratings, based on employees' real performance and contribution, leads to employees' satisfaction with performance ratings, even though the supervisors still provide intangible benefits to those employees in the workgroup with guanxi. Thus, it can be concluded that guanxi's impact on communication does not have a significant relationship to employees' satisfaction with performance ratings.

Employees' satisfaction with the appraisal system

The results of model-testing failed to explain the negative relationship between "guanxi's impact on appraisal outcomes" and "guanxi's impact on communication" and employees' satisfaction with appraisal system respectively. The explanation for these results could be the distant relationships between these variables that allow for the intervention of a large number of other important contextual factors. For instance, Thurston (2001) identifies the three following factors, which influence employees' satisfaction with appraisal systems. Firstly, the organisation should assign qualified raters, who have full knowledge of the implementation of the performance appraisal system, which is also reported in a number of other studies (Klasson and Sorbom, 1980; Tang and Sarsfield-Baldwin, 1996; Landy, Barnes and Murphy, 1978). Secondly, the objective setting process and the employees' participation in it also increases employees' satisfaction with the system itself (Folger and Cropanzano, 1998; Taylor, Tracy, Renard, Harrison, and Carrol, 1995). Thirdly,

the effective appeal system, indicating employees' opportunities to express their own opinions in the appraisal process, also has a positive impact on employees' satisfaction with the system (Cascio and Bernardin, 1981, Murphy and Cleveland, 1991, Leventhal, 1976, Greenberg and Tyler, 1986). Therefore, it could be concluded that the important contextual factors, which were found to be significantly related to employees' satisfaction with the system itself, mainly refer to the design and implementation of the appraisal system.

Moreover, another important factor that has impact on employees' satisfaction with the system, was found in the interviews, namely, the link between appraisal outcomes, that is the performance ratings, and other HRM consequences such as rewards, promotions or training opportunities. As Greenberg illustrates (1986), whether or not HR consequences flowing from performance ratings accurately reflect the real outcome of the performance appraisals, is positively related to employees' distributive justice. In the interviews in this study, it was found that whether or not other HR consequences, especially rewards and promotions, are linked to employees' performance ratings, also influences employees' satisfaction with the appraisal system itself. As one manager from state-owned bank A said in the interview:

Actually, I really do not know what the meaning of performance appraisal is. It is said that the implementation of a new appraisal system can lead to a more accurate evaluation of employees' performance and employees' improvement in their performance. However, I do not think the new performance appraisal system motivates the employees to improve their performance, because the appraisal outcome does not bring any benefits to employees. I have heard some complaints from my subordinates regarding the appraisal system. It is reported that the employees hope that the appraisal outcome will be linked to HR outcomes, such as bonuses or promotions, which will lead to a better motivation.

One employee from state-owned bank A made a similar statement in the interview:

“I think the new performance appraisal is just a waste of time. Both the supervisors and employees need to spend a lot of time on the appraisal process with great pressure and tension. However, the appraisal outcomes are only kept on file by the HR department and the supervisors and have no impact on our development or income. So, I do not think my colleagues and I would be motivated to positively participate in or pay more attention to the appraisal. In that situation, the supervisors do not take the appraisal seriously, because a large number of employees do not really care about the results. I suggest that the bonuses and promotion should be linked to the appraisal outcome. Thus, both employees and supervisors would take the appraisal seriously and the employees would be highly motivated to improve their performance.”

Therefore, it was found that the link between performance ratings and other HR outcomes is likely to have a positive impact on employees' satisfaction with the appraisal system, because this better motivates employees to improve their performance and take the appraisal more seriously. This relationship needs to be further explored in future research.

Employees' satisfaction with supervisors' behaviour in appraisal

The result of the model-testing failed to explain guanxi's impact on appraisal outcomes and communication and employees' satisfaction with supervisors' behaviour in appraisal respectively. This result may be explained by the distant relationships between these two variables related to guanxi's impact on appraisal and employees' satisfaction with supervisors in appraisal, which allow for the interventions of a number of other contextual factors. For instance, according to Thurston (2001), respect in supervision, sensitivity in supervision, clarifying expectationx, providing feedback and explaining and justifying the decisions are all

found to have a significant impact on employees' satisfaction with supervisors' behaviour in appraisal. Therefore, the supervisors' attitudes in the communication with subordinates and supervisors' other behaviour in the implementation of appraisal procedures have a great impact on employees' satisfaction with supervisors. Future research should be conducted to explore more reasons for this result.

6.1.5 Leader-related outcome: trust in supervisor

Consistent with the hypothesis, a negative relationship was found between guanxi's impact on appraisal outcomes and trust in a supervisor. This result echoes the findings in Chen et al's study (2004) on the negative impact of guanxi practice on trust in management. However, the results failed to support the hypothesis regarding the negative relationship between guanxi's impact on communication and trust in supervisors. Following the same line of argument made in the case of the relationship between guanxi's impact on communication and employees' perceptions of procedural justice, guanxi's impact on communication is more or less tolerated and accepted by employees, because it does not directly violate the equity principle and organisational policy. One important aim of the scale of trust in supervisors was to examine employees' faith in the integrity of their supervisors. In Chinese society, supervisors' guanxi-based HR practices are always related to corruption and bribery; while guanxi's impact on communication is regarded as more normative or even sometimes virtuous because it is not related to the outcome of HRM practices that are most valued and noted by Chinese employees. Therefore, it is possible for employees to consider the supervisors who make appraisal decisions based on guanxi as having a lower level of integrity, compared to supervisors' guanxi-based intangible benefits in appraisals.

6.1.6 Organisational outcome

Organisational commitment and Turnover intentions

This study failed to account for the negative relationship between guanxi's impact on appraisal outcomes and guanxi's impact on communication and organisational

commitment. Nor has it accounted for the relationship between guanxi's impact on appraisal outcomes and guanxi's impact on communication and turnover intentions. The result could also be explained by the distant relationships between these four variables and the involvement of other contextual factors. Previous research indicates that perceived organisational support is an important antecedent of employees' organisational commitment, because employees who receive satisfactory support from the organisation intend to repay their debt through their organisational commitment, by virtue of the reciprocity norm (Eisenberger, et al., 1986; Gouldner, 1960; Settoon et al., 1996; Vandenberghe, et al., 2004).

Besides this, two more important factors that influence Chinese employees' organisational commitment and turnover intentions, were found in the interviews. Firstly, the prospects in and reputation of the industry and organisation have a great impact on employees' organisational commitment and turnover intentions. Due to the large population of China, the competition in job hunting is quite intense. It is very difficult for fresh graduates to be recruited into a good company; therefore, graduates use all personal resources, such as personal guanxi, to help them successfully enter a satisfactory industry and organisation. After Chinese employees enter a satisfactory company, they are more inclined to remain stable within that company, because of the high costs of changing job. A supervisor from state-owned bank A said:

“To be recruited into a bank is very difficult for those graduates in China, because the banking industry is one of the best industries in China. The banking industry in China has always been very attractive to the best graduates especially in the past ten years, because of its competitive salary, high level working conditions and promising prospects. Therefore, even if the employees in the banks are not that satisfied with some aspects of the jobs, such as guanxi's impact on supervisors' behaviour, the majority of them would not consider changing their jobs, because they would have to

spend a lot of time, energy and even money to find a satisfactory job as good as the current one, because development of guanxi with managers and peers in the new companies will cost them a lot and because seniority still influences personal development within the company.”

An employee from state-owned bank A also said:

“Almost all the employees in my bank love their jobs and the bank itself. You are admired by others if they know you are working in bank A, which is the best in China. I do not think anyone would leave the bank because of the guanxi’s impact on supervisors’ behaviour. The high salary and better work conditions are more important for us. As far as I know, the turnover rate is very low in our bank and none of my peers have quit for another job.”

Secondly, the opportunity for career development also has an impact on employees’ affective organisational commitment and turnover intentions. If another company provides better opportunities for career development, such as a higher position, a higher salary and better working conditions, Chinese employees will also consider changing their jobs. As the cost of changing job is too high in China, only the opportunities that another company provides is able to compensate for the cost, and would attract Chinese employees to move to the new company. As one supervisor in city bank C said in the interview:

“One of my friends, who was a manager in my bank, resigned last year, because he found a better job in a foreign bank in my city. He was very promising because of his working ability and communication skills, which meant he gave a very good performance and contribution. The foreign bank had just established a new branch in my city last year and needed to recruit some local managers to work for the bank, in order to achieve a quick localisation and development in my city. Thus, the foreign bank contacted

my friend and offered him a high level manager position and a higher salary, in order to attract him to move to the bank. Finally, my friend quit and started to work for the foreign bank.”

In conclusion, besides the perceived organisational support, two more contextual factors, namely the prospect and reputation of the industry and organisation and the opportunities for career development can also have a great impact on employees’ affective organisational commitment and turnover intentions in China.

6.1.7 Interaction effect

The result of the model testing failed to support the moderating effect of guanxi’s impact on communication on the relationship between guanxi’s impact on appraisal outcomes and employees’ reactions. An explanation could be that Chinese people do not pay great attention to, or even do not really care, about supervisors’ guanxi-based intangible benefits in communication, compared to supervisors’ guanxi-based tangible benefits regarding the outcomes of HRM practices, which is highly valued by Chinese people and widely studied by scholars (e.g. Chen, Chen & Xin, 2004; Chen and Chen, 2009; Chen et al., 2011). Guanxi’s impact on communication, which is highly prevalent in a large number of Chinese organisations, is regarded as normative and acceptable to Chinese employees. This echoes that guanxi’s impact on communication is not found to have negative effects on employees’ attitudes and behaviours in this study. At the same time, the long-term observation of this phenomenon will also not enhance employees’ negative attitudes towards guanxi-based appraisal outcomes.

6.1.8 General trend of social norms in China

In conclusion, the findings of the model-testing indicate that although there is no relationship between guanxi’s impact on communication and any outcomes, guanxi’s impact on appraisal outcome is negatively related to employees’ perceptions of distributive justice, procedural justice, satisfaction with performance ratings and trust

in supervisors. That is to say, the guanxi's impact on supervisors' behaviour in appraisal has a negative impact on a number of employees' reactions, attitudes, justice perceptions and outcomes, which is consistent with the general trend of social norms in China. Although the particularism principle, such as guanxi practices, may be still comparatively stronger in China than in Western countries, its legitimacy and applicability in the HRM of modern companies in China has been seriously questioned and challenged by the ascending value of the performance or merit-based evaluation system, rules of law and global competitiveness (Chen, Chen & Xin, 2004). Parsons and Shils (1951) also state that particularistic rules are replaced by universalistic rules, when a traditional society is transformed into a modern society. A number of recent studies also demonstrate that the resource allocation rules in China have experienced a shift from traditional criteria, such as guanxi, equality, need or seniority, to the use of equity criteria, which is reported to have become the dominant rule in Chinese organisations (Chen et al., 2011; He, Chen, & Zheng, 2004; Bozionelos & Wang, 2007; Chen, 1995). The findings of the model-testing echo the shift of social norms in Chinese society, by showing that guanxi's impact on appraisal has a negative impact on a number of employee outcomes.

6.1.9 Control variables

Although not the central focus, the significant impact of some control variables in the survey also deserves to be mentioned and noted. Organisational ownership is found to have an impact on employees' perceptions of procedural justice, employees' satisfaction with appraisal systems and satisfaction with supervisor in appraisal. That is to say, employees in foreign bank B appeared to have higher levels of perceptions of procedural justice, satisfaction with the appraisal system and satisfaction with supervisor in appraisal than employees in state-owned bank A and city bank C. According to the survey and interviews, foreign bank B has a better objective-setting process, provides more frequent feedback to employees, has an open communication system between supervisors and employees, and more opportunities for employees to participate in the appraisal process than the other two banks. This

leads us to the main difference between foreign bank B and the other two banks, in terms of employees' procedural justice perceptions and satisfaction with the system itself. This difference and the possible reasons will be discussed in detail in chapter 8, a comparative study of the three banks.

Gender also appears to predict employees' satisfaction with performance appraisal system. That is to say, male employees appeared to have higher level of satisfaction with system than female employees. One explanation for this finding could be that the majority of supervisors in Chinese organisations are male, and have better communication with male subordinates than female subordinates. It is possible for male employees to have more opportunities for various work tasks, such as accompanying supervisors on business trips, meeting clients with supervisors or carrying out difficult tasks, than their female colleagues in the workgroup. Therefore, male employees may receive better performance ratings from supervisors in performance appraisals than female employees, because the appraisal system emphasises employees' work performance. Thus, it is also possible for female employees to regard the performance appraisal system which has performance as major criterion as unfair and unreasonable. Therefore, it is understandable that female employees have lower levels in satisfaction with appraisal system than their male peers. I should point out that this is not gender discrimination. Future research should be conducted to explore more reasons for it.

Education is also found to predict employees' satisfaction with systems and satisfaction with supervisors. The explanation for this finding could be that employees with higher level of education welcome the performance-related appraisal system, because they believe that they have the ability to perform better than others.

Outcome favourability is found to have a positive impact on employees' distributive justice perceptions, satisfaction with ratings and trust in supervisors. In other words, employees who received more benefits from the supervisor reported higher levels of

distributive justice perceptions and satisfaction with ratings and trust in supervisors. This is consistent with Chen and his colleagues' study (2004) showing that outcome favourability is positively related to employees' perceptions of procedural justice and trust in management.

6.2 Theoretical implications

The present research in the pilot study and model-testing chapter makes five major theoretical contributions.

Firstly, in this study, I developed a scale for the measurement of guanxi's impact on appraisals, taking into account two factors: guanxi's impact on appraisal outcomes and guanxi's impact on communication. Although guanxi has been reported as the most important Chinese cultural factor to have an impact on the performance appraisals in Chinese organisations (Bjorkman and Lu, 1999; Chen, Chen & Xin, 2004; Bai and Bennington, 2005; Bozionelos and Wang, 2007), no study has clearly introduced and explained how guanxi influences the performance appraisal in Chinese organisations. Two ways in which guanxi affects performance appraisals has been found and explained in the pilot study chapter. Firstly, guanxi's impact on appraisal outcomes refers to supervisors providing tangible benefits, better performance ratings to those employees with guanxi, even if their performance is not better than their peers without guanxi. Secondly, guanxi's impact on communication refers to supervisors providing more intangible benefits, such as help, direction, communication or opportunities to express views, to those employees with guanxi in the process of appraisal, compared to their peers without guanxi.

This finding has important implications. Almost all the studies regarding supervisors' guanxi practices in literature have focused just on supervisors' tangible benefits, such as more bonuses, promotion opportunities, better performance ratings or better task allocation (Chen et al., 2004; Chen et al., 2011). However, this study has identified another important aspect of guanxi's impact on supervisors' behaviour,

which has been ignored in the previous studies: supervisors' intangible benefits provided to those employees with guanxi. There is an increasing tendency for more and more supervisors to provide intangible benefits to employees with guanxi instead of direct tangible benefits, because the tangible benefits are easily observed, noticed, challenged and reported, because more and more Chinese organisations have started to adopt merit-based or performance-based HRM practices, which have severe punishment for the violation of the regulations; and because the supervision mechanism and appeal system has been established and improved in more and more Chinese organisations. Therefore, supervisors' intangible benefits for employees with guanxi should be noted by scholars and require more future research, besides the research on supervisors' tangible benefits.

Secondly, the current research also deepens our understanding of the negative impact of guanxi in Chinese organisations. As Podolny and Page (1998) point out, although the positive consequences of guanxi have attracted a large number of studies in the past twenty years, the serious negative impact of guanxi has been neglected. Two important studies in the literature (e.g. Chen et al., 2004; Chen et al., 2011) show that guanxi practices can be negatively related to both employees' perceptions of procedural justice and trust in management. This study has examined the relationship between guanxi's impact on appraisal outcome (tangible benefit) and communication (intangible benefit) and various employees' outcomes respectively. It has found that guanxi's impact on appraisal outcome was negatively related to employees' perceptions of distributive justice, procedural justice, satisfaction with performance ratings and trust in supervisors; while no significant relationship has been found in this study between guanxi's impact on communication and employees' attitudes and behaviour. This result provides additional evidence for the negative impact of guanxi on HRM practices, especially in the context of performance appraisal, and the shifting social norm from traditional Chinese principles, such as guanxi, equality, seniority and needs, towards the equity principle, which is currently more valued by both Chinese employees and organisations.

Thirdly, it was interesting to find that guanxi's impact on appraisal outcomes is significantly related to four outcomes: employees' perceptions of distributive justice, procedural justice, satisfaction with ratings and trust in supervisors, while guanxi's impact on communication does not have any significant relationship with employees' attitudes and outcomes. Two reasons were discussed above regarding this finding, including the outcome of HR practices being more valued and noticed than the process by Chinese employees and guanxi-based HR practices directly violating the equity principle and organisational policy, which cannot be tolerated and accepted by employees.

However, it does not mean that guanxi's impact on communication in appraisal does not have any negative impact on employees' attitudes and behavior, for the following two reasons. Firstly, guanxi's impact on communication could contribute to the formation and development of special guanxi between supervisors and subordinates and complicated guanxi networks within organisations, which will possibly lead to supervisors' guanxi based HR decisions in the future. Secondly, besides employees' perceptions of justice, reactions to appraisal and behavioural outcomes, it is necessary to examine the relationship between guanxi's impact on communication and some other procedural components, such as employees' citizenship behaviour and voice (e.g., Thibaut and Walker 1975) in future research.

Fourthly, the present study also enriches performance appraisal system literature by developing two guanxi-related factors that have an impact on employees' perceptions of justice and reactions toward appraisals in a Chinese context. A number of studies in the literature have discovered and developed the measurement of various factors that influence employees' attitudes and behaviour in appraisals. For instance, Thurston (2001) developed ten scales for the measurement of employees' perceptions of justice in appraisals, including accuracy of ratings and concern over ratings for distributive justice; assigning rater, setting criteria and seeking appeals for procedural

justice and respect in supervision, sensitivity in supervision, clarifying performance expectations and standards, providing feedback and explaining and justifying decisions for interactional justice. This study indicates that Chinese cultural factors such as guanxi should be taken into account when examining employees' justice perceptions and reactions toward appraisal in Chinese context. Therefore, guanxi's impact on appraisal outcomes could be considered in future research, when examining employees' justice perceptions and reactions toward appraisals in Chinese organisations. Moreover, this also implies that China, which is generally thought of as a country where particularism has greater weight than universalism, might have more and more employees who have negative attitudes toward guanxi's impact on supervisors' decisions in performance appraisals.

Fifthly, this study also deepens our understanding on justice theories. The social comparison theory (Liden, et al., 2006; Hooper & Martin, 2008; Erdogan & Bauer, 2010) is confirmed in the current study; while also providing evidence for Greenberg's argument (2001) that the justice issue becomes noticeable when there are power differences with a workgroup created by role difference. It has also been found that guanxi's impact on appraisal outcomes can lower employees' perceptions of distributive justice and procedural justice after controlling employees' outcome favourability. That is to say, the interpersonal guanxi exchange between employee and supervisor can increase employees' justice perceptions at a dyadic level between two parties. However, the impact of guanxi on appraisals can also lower employees' perceptions of justice at the group level. This result suggests an interesting finding, namely that guanxi's impact on appraisals can have a positive impact on employees' perceptions of justice at an interpersonal level and a negative impact on employees' perceptions at a group level.

6.3 Practical implications

This study has two important practical implications for Chinese managers and organisations. Firstly, Chinese managers who work in Chinese organisations should

be aware of the potential negative impact of guanxi practices on employees' justice perceptions and reactions toward performance appraisal at the group level. Chinese managers may want to consider avoiding developing special guanxi with some subordinates and not others and should be very cautious of providing better performance ratings and help or direction to those employees with guanxi, because employees' perceptions of guanxi's impact on appraisal in the workgroup can lead to a lower level of justice perceptions and satisfaction with appraisal. As Greenberg shows (1990), explicit explanation can enhance employees' perception of fairness, so it is possible for managers to provide adequate evidence and information for justification of decisions they make in appraisal, especially when employees with guanxi obtain better performance ratings. Moreover, managers might also want to consider having frequent communication with those subordinates without guanxi, because frequent information exchange via talks may also ensure that those employees without guanxi understand what happens to them and their peers.

Secondly, due to the possibility of development of special guanxi between supervisors and employees within the organisation, organisations should pay more attention to lowering the guanxi-based benefit exchange between two guanxi parties. Therefore, it is necessary for organisations to set up special policies to prevent supervisors from engaging in guanxi practices. In order to do so, organisations may want to (1) encourage both frequent communication between supervisors and subordinates and employees' participation in performance appraisals, which will bring more information through interaction to both employees and supervisors; (2) establish an effective supervision mechanism and appeal system; (3) enhance employees' organisational identity, so that employees are more willing to put organisational welfare ahead of their individual welfare (Brewer & Kramer, 1986; Chen, 1996); and (4) increase the transparency of the decisionmaking process, in order to make sure that every employee understands what decisions have been made, using what criteria and by whom (Chen and Chen, 2009).

Chapter 7: Case Study:

The Design and Implementation of Performance Appraisals Systems in Three Banks in Eastern China.

Since China's entry to WTO at the beginning of the new century, the national preferential policies have helped to ensure a boom in the development of other types of banks e.g. joint-stock banks, city commercial banks and foreign banks in China. Although the traditional state-owned commercial banks and stock-joint commercial banks dominate the market and account for around 45% and 20% of the total local assets in last century respectively, those newly established banks such as city banks and foreign banks have a more rapid development speed. Thus, the state-owned commercial banks have launched the performance appraisal system reform aimed at ensuring higher performance, higher levels of employee motivation and organisational development.

However, there are very few studies regarding the reform of the performance appraisal system in Chinese state-owned banks and the current appraisals system adopted in the Chinese banking industry (e.g. foreign banks and city banks). The third sub-research question is "How do performance appraisals work in state-owned bank A, foreign bank B and city bank C respectively?" In order to answer this question, in this chapter an in-depth case study of the performance appraisal system in three commercial banks in Eastern China will be presented, providing an insight into the design, procedures and implementation of performance appraisal systems in each bank investigated. The first section will discuss the whole process of the performance appraisal system reform in a state-owned commercial bank, including the pre-stage of the reform, the rationale and the start of the reform, design of the new appraisals system, the implementation and its evaluation of the new appraisals system. The latter two sections will discuss the current performance appraisal systems that have been adopted in a foreign bank and a city bank, respectively. All the

information and data from this chapter is summarised and derived from the interviews with two members of staff in the HR department of each bank.

7.1 Case Study A: Performance appraisals system reform in a state-owned commercial bank in Eastern China (Bank A)

The performance appraisal system reform aiming to enhance competitive advantage in the banking industry and producing higher-level performance in Chinese state-owned commercial banks started in the mid-2000s, after China had entered WTO. Since 2001, the foreign banks and city banks have experienced rapid development, due to governmental policies in China. The intense market competition requires all state-owned commercial banks in China to move towards a more performance-based HRM system. In the following section, an in-depth case study of performance appraisal reform in one state-owned commercial bank in a big city in Eastern China will be discussed, providing an insight into how appraisals have changed from a traditional system to a performance-related scheme, and will also detail the design and procedures of the system.

7.1.1 An introduction to State-owned Bank A

Bank A is one of China's 'Big Four state-owned commercial banks and one of the largest banks in the world in terms of market capitalisation and profit. It was founded last century and has had a long history of development in China. It has more than 15,000 outlets all over the world, including more than 100 overseas branches and agents globally. Since the government started to reform the banking industry for the first time in China, the commercial activities and treasury functions were given to bank A, which ensured that bank A started to change to a modern bank with independent operations. Having experienced the second banking reform in the mid-1990s and China's entry to WTO in the beginning of 2000s, bank A has developed rapidly in the last twenty years and is currently ranked in the top 15 on Forbes Global 2000-strong list of the world's biggest public companies in 2011.

In order to conduct an empirical study, I was given an opportunity to obtain access to bank A in a major city in Eastern China through personal guanxi. In this city, bank A has more than 900 employees in the headquarters and branches. The head of the HR department and one member of HR staff were interviewed, in order to obtain a thorough understanding of the reform process and the current design of the performance appraisal system in bank A. Since the Bank of China started to reform its HRM system in 2003, all the ‘big four’ state-owned commercial banks in China have followed in its footsteps and have begun to change their traditional HRM system to a modern one. Exploring the reform of performance appraisals system in bank A will provide us with an insight into how a state-owned bank deals with this issue and into its design of the new appraisals system.

7.1.2 The origin of the performance appraisals system reform in Bank A

China’s entry to WTO in 2001 was the primary reason for HRM system reform in Chinese traditional state-owned companies. China opened its doors and started to embrace the world and the Chinese government devised the preferential policy for the banking industry. Due to the effects of the national preferential policy, the foreign banks, city banks and stock-joint banks had the opportunity to develop at high speed. In such a case, the traditional state-owned banks started to feel under pressure, as the traditional HRM system, especially performance appraisals system, became incompatible with the new environment of the banking industry. It raised an important issue, which brought HRM system reform, including performance appraisal system reform, onto the agenda.

The primary problem for and reason behind the performance appraisal system reform in state-owned banks in China, was that the old appraisal system became inconsistent with the development of the bank as there was a limited link between appraisals and employees’ actual performances and contributions. The old appraisal system failed to motivate employees, especially in production-related positions such as banking section and operation sections. Due to the rapid development of other types of banks

(e.g. joint-stock and city banks), the state-owned banks were facing increasing market competition. Hence, the management team of state-owned banks intended to improve the organisational performance. An important way of doing so was to reform the old performance appraisal system to a new modern one, which could better motivate the employees, by linking the appraisals to employees' contribution and performance.

Secondly, the old appraisal system in state-owned banks was incompatible with the modern management style and the development of HRM system because it did not have clear, objective and specific measurement criteria, which made both supervisors and employees confused with appraisals. The traditional performance appraisal system in Chinese state-owned banks was normally just a brief evaluation of employees' performance conducted by the supervisor, which was quite different to the modern system and had no link with employees' 'real' performance.

For instance, before the reform of the appraisal system in bank A, the supervisors needed to provide a general evaluation of the employees' performance at the end of each year. However, there was no objective and clear criteria for the employees' performance. Therefore, some other factors, such as the employees' political status, seniority, the *guanxi* with supervisor and communication skills, all has the potential to influence the supervisors' judgment. It was found in the interviews that the supervisor did not have specific criteria to follow in appraisal. The vague criteria of the appraisal system made it very difficult to provide a just, fair and accurate performance evaluation.

On the other hand, the employees were also quite confused as to how to improve their performances in order to obtain a good evaluation from the supervisors. As many other factors had an impact on evaluation, the employees ignored the improvement of performance and paid more attention to other aspects, such as developing *guanxi* with supervisor. Moreover, with the development of

management in state-owned banks, more HRM aspects started to be reformed, in such ways as job enlargement and job enrichment. Consequently, the old appraisal system did not provide a clear picture of the responsibilities and obligations to employees and could not direct and help employees to improve their 'real' performance and align their performance to organisational goals and objectives. As a result of the above, the state-owned banks started to propose a performance appraisal system reform, which aimed to change the old inflexible system with vague criteria into a new one, which they expected to be more systematic, have clear, objective and specific criteria and give direction to both supervisors' evaluations and employees' improvement of 'real' performance. Hence, the next section will demonstrate how the performance appraisal system reform was launched in bank A.

7.1.3 The performance appraisals system reform process

Based on the above reasons and the national policy and environment of the banking industry after China's entry to WTO in 2001, the state-owned banks started to consider the reform of the HRM system, which included one important aspect: the performance appraisal system. The Bank of China, as a pioneer of HRM system reform, was the first state-owned bank to begin to promote the reform of the performance appraisal system in 2003. The reform started in 2003 within the headquarters of the bank in Beijing as a pilot experiment and then was extended to all branches across China. The reform of the performance appraisal system in the Bank of China provided a very good example to the 'Big Four' state-owned banks.

The reform of the performance appraisal system in bank A also started within the headquarters of the bank in Beijing, as the highest level policymaker of the bank thought that the old appraisal system was no longer consistent with the development of the bank for the future. Therefore, the headquarters of bank A decided to carry out a top down processing reform of the appraisal system within bank A across all branches in China. In 2005, the headquarters of the bank hired a famous American consultancy firm to help them with the reform of the headquarters. After careful and

deliberate consideration and an adequate amount of research regarding the pre-reform appraisals system the original specific reform plan was worked out. The subsequent repeated augmentation and revision led to a final formal reform plan, which was first implemented in the headquarters of bank A. In 2006, several province headquarters and branches of bank A were selected for reform experimentation; and in 2007 the reform was conducted in all branches of bank A across China.

The province headquarters of bank A, in which I had the opportunity to conduct the empirical study, was listed in the pilot experimental reform, as it is located in one of the most developed provinces of China. The relevant documents, materials and information regarding the policy and design of the new performance appraisal system and the procedures of reform implementation were provided to the province headquarters of bank A by the state headquarters of bank A in Beijing. The province headquarters of bank A was required to carry out the performance appraisal system in all sub-branches in this province. However, the province headquarters was not asked to copy the designed appraisal system provided by the state headquarters without any changes. The province headquarters, it was suggested, should consider its actual situation and local experience and design a localised reform plan for its own province by using the documents provided by state headquarters for reference. Therefore, the province headquarters of bank A formed a performance appraisal system reform committee made up of high-level managers, department directors and HRM department staff to carry out the reform.

For the committee, the appraisal system reform committee had four main goals: to design a new performance appraisal system by localising the system recommended by the state headquarters in Beijing; to make clear, objective and specific performance criteria for appraisal, in order to ensure that the appraisals were linked to employees' 'real' performances; to design a proper process for the implementation in order to minimise any negative impact on the bank; to link the employees' individual objectives to organisational objectives in order to motivate employees; to encourage

high production levels and gain competitive advantage in market competition. To achieve these goals, a three-step strategy was adopted by the reform committee, including the design of a new performance appraisal system, its implementation and its evaluation.

7.1.3.1 The design of new performance appraisals system

Although the performance appraisals system recommended by state headquarters in Beijing acted as a basic reference point for the design of a performance appraisal system in province headquarters of bank A, the information from other banks, such as foreign banks or city commercial banks, was also considered by the policymakers, in order to make their new performance appraisals system more competitive in the local labour market. Taking into consideration the old performance appraisal system, its organisational structure and the historical and cultural heritage, the province headquarters made a new appropriate performance appraisal system for the branches of bank A across the province.

The reform committee decided that the new performance appraisal system should fulfill the following three criteria. Firstly, the design of the system should be a systematic modern style, with objective and specific performance criteria for both employees and supervisors, in order to provide a clear picture of how the performance is measured and what the employees are expected to achieve. Secondly, the procedures of appraisals should not be very complicated, involving the participation of both supervisors and HR department staff. Thirdly, the responsibilities of supervisors and HR department staff during the whole appraisal period should be very clearly documented in the regulations, in order to make sure everyone has a clear understanding of the duties. Based on the above criteria, the information provided by state headquarters and collected during the preparation stage and the guidance of the reform committee, the HR department of the province headquarters of bank A developed a new performance appraisal system in 2006, with the following features.

The design and the format of the performance appraisal system

Key performance indicator (KPI) was adopted as the appraisal format for bank A. The design of the KPI, which is used to measure the performance of employees, is vital to the success of the appraisal system. Choosing appropriate KPI for different employees should be reliant upon the clear and thorough understanding of what kind of employee performance is important to the organisational performance and success. Therefore, the KPI for employees in various departments with diverse responsibilities should be quite different. For instance, the KPI for sales staff in the banking section would be quite different to the KPI assigned to employees in human resources, operations or IT.

The province headquarter of Bank A designed detailed, clear and specific KPI for employees in different departments, sections and positions, in order to make sure that the employees' performance was rated based on objective, appropriate and job-relevant performance dimensions. Performance criteria are generally divided into two types: quantitative job performance-related criteria and non-quantitative ability and behaviour criteria. The proportional weight of these two types of criteria in total varies for different departments. For a production section, such as the banking department, the quantitative job performance-related criteria accounts for 70%, while non-quantitative ability and behaviour criteria accounts for 30%. However, for an operations department, the weight of both quantitative job performance related criteria and non-quantitative ability and behaviour criteria is 50%.

These two criteria are measured by several sub-dimensions with detailed and specific points, which are also specially designed for different departments. For example, quantitative job performance-related criteria includes the measurement of development of new customers, business activities, and referral of customers; and the section weight for financial KPI is 70% in the total appraisal. On the other hand, the

non-quantitative ability and behaviour criteria have the following five parts: diligence and devotion, open-minded and innovation, research and analysis, team work and cooperation, knowledge and skills, and the section weight is 30%. No 360 degree appraisal element was found in state-owned bank A. That is to say, the employees do not have the opportunity to evaluate the performance of their peers; while they do not need to obtain the comments on their services from customers either. Their performance ratings are 100 percent based on supervisors' top-down evaluation.

The KPI is clearly described in terms of title of sub-dimension, description of each item for measurement and proportion. Therefore, the employees are able to easily understand the measurement criteria and what kind of achievement and performance will lead to good outcomes and benefits from the bank; while the supervisors can clearly and properly distribute performance ratings among the subordinates, by the guidance of KPI. Although I obtained a copy of the sample of KPI from the state-owned bank A in the empirical study, I could not attach it to the Appendix, because I received a call from the CEO of state-owned bank A, who told me that the document could be only used for research but could not be published in my thesis. In order not to create any risk for the CEO, who helped me to a large degree in the empirical study in state-owned bank A, I finally decided not to include the copy of KPI in the appendix of my thesis.

For the distribution of performance ratings among employees, five evaluation benchmarks and a strict fixed quota were developed for the appraisal system. 'Excellence', 'merit', 'eligibility', 'just qualified', and 'fail' were adopted as the benchmarks for performance ratings. According to the regulations, 20% of employees are able to obtain the 'excellence' performance ratings, while 30% can be awarded 'merit'. The employees awarded 'eligibility', 'just qualified' and 'fail' accounted for 50%, the largest proportion. The employees who obtained 'just qualified' and 'fail' are regarded as those who performed poorly in the past year. The supervisor will hold a special warning one-to-one with these employees; while

the 'fail' performance rating also has a negative impact on employee career prospects. Therefore, the supervisors allocate performance ratings among subordinates every time, based on the benchmarks and the fixed quota.

The performance appraisal is conducted once per year. The supervisors normally make the decisions about performance ratings for subordinates at the end of the Chinese year, normally in January or February. It was found in the interviews of HR staff that performance rating is not linked to bonus and promotion. As employees of state-owned bank A reported, the performance ratings have a very weak impact on the supervisors' promotion decisions and on bonus allocation, because other factors, such as seniority, employees' *guanxi* with supervisors or harmony also influence the outcomes of promotion and bonus allocation. More specifically, when supervisors make decisions for promotion or bonus allocation, they are likely to consider a number of other factors rather than the real performance and merit. For instance, according to the interviews of employees in bank A, supervisors are inclined to promote those employees, with whom they have good *guanxi*, because the supervisor wants to reciprocate this employee's development of *guanxi* and the benefits he received from the employee. Another interviewee in bank A reported that the supervisor sometimes divides and distributes the bonus of the whole workgroup equally to each subordinate, in order to maintain the harmony within the workgroup.

The new appraisal system is conducted manually by relevant staff and Bank A designed necessary forms for the implementation of the new appraisal system, in order to make the procedures formal and normative. The personal objective contract form and outcome and interview form is provided to supervisors, while the appeal form is available to employees if needed. Three copies of each completed form are stored by supervisor, employee and the HR department respectively. The HR department takes responsibility for collecting relevant forms from both supervisors and employees, for passing the supervisors' completed forms to employees and for solving problems caused by the appraisal process, and to keep one copy of each form

on file for further use.

According to the interviews, although the bank encourages frequent communication between supervisors and subordinates, there is actually a closed one-way communication system between supervisor and employee in appraisals. There is almost no direct contact required between supervisor and employee in appraisals, and there is not even communication in performance objective setting. The decision-making procedure in appraisals is normally a top-down process, which means that the supervisor makes decisions and the employees passively accept the outcomes (e.g. performance objectives and performance ratings) that are provided by the supervisor.

The procedures of appraisals system

In order to make the supervisors and employees familiar with the procedures of the new appraisal system and gain a thorough understanding of every detailed step, the province bank developed a policy for appraisals with specific explanations of every step and all the elements. The instructions of procedures include two aspects: the performance criteria, which explains the measurement criteria in detail and the procedures of appraisal, which consist of objective setting and contract signing at the beginning of the year, the supervisors' decisions and distribution of performance ratings at the end of the year, the formal interview regarding the announcement of outcomes and feedback, and other important elements e.g. appeal and training. The performance criteria for evaluation have been discussed above, therefore; the procedural steps of appraisals will be explained in detail in the following section.

The performance objective setting process at the beginning of the year was introduced as the first core part of the new appraisals system, which requires each employee to sign an internal contract on the performance target they intend to complete by the end of the year. The procedure of objective setting in Bank A has the following three steps. Firstly, the supervisor will make the original performance targets for each

subordinate, by considering the performance target of the whole workgroup, the ability of the subordinate, and the previous individual performance target of each subordinate in the last year. Secondly, the original completed performance targets forms will be passed to the HRM department; and subsequently, the HR staff will distribute these target forms to each employee.

Thirdly, the subordinate passively accepts the performance target form and then signs the internal contract showing that they are willing to achieve these goals by the end of the year. The internal contract will act as the primary gauge of the performance and contribution in the appraisal at the end of the year. It is found that the employees do not have any opportunity to participate in the performance target setting process, and not even have any direct communication with their supervisors, because the HR department will act as the mediator between supervisors and employees. The employees are only able to accept the performance target and sign the agreement, even if they do not really agree with the original objective, and no further adjustment or change to the target can be made.

The second core part of the new performance appraisals system in Bank A is that supervisors make decisions regarding performance ratings and distribute the results to each subordinate in a face-to-face formal review meeting at the end of the year. According to the regulations, the supervisors should determine what level of performance rating each subordinate obtains based on each subordinate's actual performance, contribution and the completion of the performance target. At the same time, the supervisors are required to complete a result review form, to state clearly the results of the appraisal, a brief summary, review and feedback of the employee's performance, whether they have achieved the performance target, suggestions on how to improve in future, and expectations for the following year. Then, a formal face-to-face review interview will be held by supervisors with each subordinate individually. The formal conversation between supervisors with each subordinate regarding the results of the performance appraisals provides an

opportunity for supervisors to explain the performance ratings and obtain the subordinates' feedback and reactions toward the appraisal. According to the regulation, no other formal feedback is required to be provided to subordinates, during the year. Therefore, the feedback and suggestions in the formal review meeting at the end of the year is employees' sole opportunity to obtain comments, direction and help from the supervisors.

It has been found that the employees do not have any opportunity to participate in the process of performance appraisal. Due to the closed communication system and hierarchical relationship between supervisors and subordinates, the employees do not have an open way of expressing their opinions in appraisals. The new appraisals system does not have a post-appraisal survey to collect information about employees' reactions and attitudes toward the appraisals system, the behaviour of employees in appraisals and performance ratings. In the performance target setting process, the employees is able only to passively accept the performance target the supervisors set for them, and can hardly change it. Moreover, the employees do not have the opportunity for self-appraisal to self-comment on the performance and explain their contribution to either supervisors or the organisation.

Nonetheless, the new performance appraisal system provides the opportunity to appeal to employees when they are not satisfied with the results or consider the results unfair. The appeal form is provided to each employee by the HR department. It is reported in the interviews that the HR department will arrange the relevant managers, e.g. the relevant supervisor and the head of the department, to deal with the appeal if they receive any appeal from the employee. When the relevant managers reach a mutual solution to the appeal, the results will then be provided to the employee by the HR department. It is observed that employees are not able to attend the appeal system either and do not have the opportunity to express their opinions and influence decisions. According to the interviews, there has been no appeal regarding appraisals in the past four years.

Supervisors' and employees' responsibilities in appraisals

The number of subordinates that each supervisor has to appraise depends on how many employees there are in the workgroup who have been working for at least one year, as those employees who have worked in the workgroup less than one year will not attend the next appraisal. It is reported that the number of subordinates varies significantly, ranging from 4-6 employees to more than 10 employees, with an average number of 7-8 employees. The supervisors are responsible for the appraisals of all qualified employees within the workgroup, all across the year. The supervisors are required to be aware of each subordinate's work for a thorough understanding of subordinates' real performance, in order to make a correct decision when distributing performance ratings among employees. Moreover, the supervisors should also be responsible for providing necessary suggestions and direction to each subordinate, in order to help them to improve their performance and achieve their targets.

It is important to make sure that supervisors' decisions are made based on the employees' performance rather than other factors, without any bias or favoritism toward any particular subordinate. After supervisors have made decisions regarding appraisals at the end of the year, they should submit the results to their line managers of supervisors (e.g. the head of the department), who are required to double-check the supervisors' final decisions, especially the 'excellent' and 'fail' ratings. After these checking processes, the final performance ratings are returned to supervisors, who will subsequently distribute the results to each subordinate. This double-checking process by both supervisors and their line managers is regarded as an effective way of ensuring supervisors determine scores in a neutral way.

In conclusion, the responsibilities of supervisors in appraisals include setting proper performance targets for each subordinate in the workgroup at the beginning of the year, making decisions regarding the distribution of performance ratings among the

subordinates, holding a face-to-face formal interview with each subordinate individually to announce the results and provide feedback and comments and being aware of subordinates' performance levels and being ready to provide help and direction to subordinates. On the other hand, the employees are responsible for signing an internal contract regarding their performance targets that need to be achieved within the year, working hard to complete the objectives and appeal the results if necessary. A brief summary of the design and implementation of new performance appraisal system in bank A is presented in the table 7-1 below.

Table 7-1: Summary of the interviews feedback in Bank A (Interviewees: two staffs in HR department of Bank A)

Research Objective	Performance appraisal system features	Summary of feedback
Design of the appraisal system	Appraisal format	(1) Key Performance Indicator (KPI): Clearly and specifically designed KPIs for employees in different departments, sections and positions. (2) Manually done
	Evaluation Benchmark	“excellence”(20%); “Merit”(30%); “eligibility,” “just qualified,” and “fail”(50%)
	Performance criteria	“quantitative job performance related criteria” and “non-quantitative ability and behavior criteria”
	Appraisal purposes	Promotion and bonus (no link); Training and development (partially linked)
	Communication	Closed system. One way communication. Top-down process.
	Frequency of appraisal	Annually
The procedures of performance appraisal system	Performance Objective setting process	In the beginning of the year (1) Supervisor makes the original performance targets for each subordinate. (2) subordinate receives the performance target form from HR department and signs the internal contract

	Distribution of performance rating	At the end of the year. Supervisor makes decisions regarding the distribution of performance ratings among subordinates, based on the employees' performance
	Face to face formal review interview between supervisor and subordinates	To state clearly the results of the appraisal, a brief summary, review and feedback of the employee's performance, to explain whether they have achieved the performance target, to give suggestion on how to improve in the future, and the expectation for the following year.
	Employees' participation	Almost no participation in the appraisal. No self-appraisal
	Appeal system	Employees could appeal the results, if they are not satisfied.
	Post-appraisal attitude survey	No
Supervisors' and employees' responsibilities in appraisal	Supervisors' responsibilities	setting proper performance target for each subordinate in the workgroup at the beginning of the year, making decisions regarding the distribution of performance ratings among the subordinates, holding a face-to-face formal interview with each subordinates respectively to announce the results and provide the feedback and comments and being aware of subordinates' performance and being ready to provide help and direction to subordinates.
	The way of reducing supervisors' bias in appraisal	The line managers of supervisors (e.g. the head of the department), who are required to double check the supervisors' final decisions, especially those "excellent" and "fail" ratings.
	Employees' responsibilities	signing an internal contract regarding the performance target which need to be achieved within the year, working hard to complete the objective and appeal the results if needed

7.1.3.2 Introduction of the new performance appraisals system in Bank A

After the HR department of the province headquarter of Bank A completed the original version of the new performance appraisal system, by localising the headquarters' recommended system and considering the information from other banks, the reform committee started to review and discuss the new system. Although the HR department followed the guidelines and requests from the reform committee and carried out some necessary research in the preparation stage, there was still some argument about the new system among the members of the reform committee. One issue concerned the KPI designed for different departments. As the KPI for all departments and job positions were developed by the HR department, using the KPI in headquarters and other banks as a reference point, the department heads, who were also members of the reform committee, raised some doubts regarding the KPI for their own departments. After repeated arguments, discussions and revisions, the final version of the new performance appraisal system was determined.

Following the final confirmation by the reform committee in the province headquarter, the new performance appraisal system was released to all branches of Bank A in this province, from the top province headquarter to all sub-branches across the province. All the branches then started to implement the new appraisals system. In the city headquarter of Bank A, in which I conducted the empirical study, the new appraisal system was announced and explained in detail to all employees at an internal staff meeting. This signaled that the new system was formally implemented in Bank A.

The most important part of the introduction of the new appraisal system to all the employees in bank A was a training session, referred to as 'study' session by themselves. All employees were required to attend the department-based training course, which is organised by the department managers and HR department. All the supervisors learnt their responsibilities and the procedures of appraisals and that they are required to pay more attention to employees' work and have a clear understanding of employees' performance when conducting the appraisals at the end of the year.

On the other hand, employees also had their own study session, in which the most important step was the specific explanation to employees of the performance criteria. During the training session, the HR department played an important role, as they provided all relevant documents and the staff to participate as trainers in the training session. Then, in the beginning of 2007, each employee signed an internal contract stating the performance targets which they were committed to achieving, and the new appraisals system took effect at the same time.

7.1.3.3 The significance of the new performance appraisals system in Bank A

The new performance appraisals system, which was significantly different from the previous one, brought about a lot of changes to both employees and the organisation. It was the first time that the individuals' appraisals had been linked to the employees' 'real' performance and contribution, and to the development of the whole organisation. Two major significances regarding its impact are summarised below.

First of all, the clear, detailed and specific performance criteria (KPI), designed for different departments, position and type of work, ensures that employees have a clear understanding of what performance is expected and valued by the company and can lead to a good evaluation. The previous appraisals system did not have clear and detailed criteria, which the employees were always very confused about. However, the new appraisals system provides very clear criteria to employees, who can now concentrate their efforts on the important aspects, which in turn leads to good performance ratings and positive supervisors' evaluation. Moreover, the clear criteria can also help the supervisors to make fair and quantifiable decisions of appraisal, which leads to fewer disputes.

Secondly, the annual internal contract employees signed at the beginning of the year helps to clarify the performance objectives of each employee, and also to predict the output of each workgroup and even the whole bank through the year. When the supervisors set the performance targets for each employee, the performance of

employees in the previous year are considered. Based on the individual performance target for each employee, the managers can easily have an overview of the predicted performance of both workgroup and organisation. Moreover, the performance objective setting could also align the employees' individual interest and goals with those of the whole organisation.

Thirdly, the performance appraisal system reform, can also affect the employees' motivation to some extent. From employees' perspectives, the achievement of performance targets is fully linked to the performance rating the employee obtains by the end of the year; while a failure to fulfill the objective leads to a poor rating and even negative effects, such as a warning from the supervisor. Thus, the employees are motivated to work hard after the implementation of the new system. For instance, as the measurement of quantitative job performance accounted for 70% in total appraisals for the production employees (e.g. banking section), the job performance of production employees are highly and positively related to the performance ratings, which improve their motivation. According to the interviews, it is found that the policy makers of Bank A expect that the new system could increase the employees' motivation, although the motivation effect is not that good, something that will be explained in detail in next chapter.

7.2 Case study B: the design and implementation of performance appraisals system in a foreign commercial bank in Eastern China

The foreign bank B is a well-known multinational banking and financial services company, which is one of the largest banking and financial group in the world. It has over 7000 offices in more than 75 countries, with the business across Africa, Asia, Europe, North America and South America. This bank B is also in the first batch of foreign banks, which entered Chinese banking industry and had business in China. Currently, this bank had opened over 85 offices in over 20 cities in the mainland of China. I had the opportunity to get access to this bank in one major city in Eastern China for empirical study through personal guanxi. In this city, the bank B has

totally over 2000 employees in its headquarters and around 10 branches. Two employees in the department of human resource of the bank B in this city was interviewed, in order to get the relevant information about the design and procedures of current performance appraisals system of the bank.

7.2.1 Design and format of performance appraisals system

Key performance indicators (KPI) are adopted as the appraisals format for the bank B. Bank B has designed very detailed, clear and specific KPI for employees in different departments, sections and positions, in order to make sure that the employees' performance is rated based on objective, appropriate and job-relevant performance dimensions. For example, the KPI for employees in the banking section has two parts: financial objectives and non-financial objectives. The financial KPI includes the measurement of development of new customers, business activities, deposit balance, and referral of customers; and the section weight for financial KPI is 60% of the total appraisal. On the other hand, the non-financial KPI has the following six parts: customer service, audit and compliance, quality of work, collective management/ team work, non-financial internal control standards and non-financial-internal & external compliance; and the section weight for this is 40%. The KPI is very clearly described in terms of measurement title, description of the measurement, measurement criteria, target, stretch target and due date (a copy of the KPI for employees in the banking section is provided as an example in the Appendix 6). Therefore, the employees are able to easily understand the measurement criteria and what kind of achievement and performance will lead to good outcomes and benefits from the bank; while the supervisors are able to clearly make the proper distribution of performance ratings among the employees according to the direction of KPI. With respect to 360 degree appraisal, the appraisal from customers and peers are also included in the current performance appraisal system in bank B, although both of them account for only 5% respectively in total appraisal. The other 90% of the appraisal are conducted by their supervisors, based on employees' work performance.

For the allocation of performance ratings to individual employees, five evaluation benchmarks are adopted in bank B: ‘excellence’, ‘merit’, ‘eligibility’, ‘just qualified’, and ‘fail’. There is a strict fixed quota for the results of employees’ performance ratings. Only 20% of employees can be given an ‘excellence’ and ‘merit’ performance rating. 70% of the employees are awarded the level of ‘eligibility,’ which is considered the normal level, as the majority of employees will obtain this rating. The remaining 10% of the employees will be given a ‘just qualified’ and ‘fail’ performance rating. Being awarded a ‘fail’ performance rating is very rare in bank B, and then only if the employee fails to achieve the performance objective which has been set at the beginning of the year. The performance ratings are always allocated among different employees, according to these five levels.

The appraisals are conducted twice per year. The first appraisals will be conducted in early July. The supervisor provides the first performance rating to each employee. This performance rating is not related to any outcomes in the end of the year (e.g. bonus or promotion), because it is just a ‘mock’ performance rating. However, the employees are able to gain an understanding of their performance and contribution in the first half of the year and it can help them improve their performance toward the achievement of the objective the rest of the year. In the following January, a final performance rating is distributed to employees. This performance rating represents the employees’ performance in the entire past year and will be linked to the following HR outcomes.

Normally, the second performance rating is fully linked to the bonus distributed to employees in the following February. The employee who obtains a better performance rating will be allocated a better bonus than their colleagues. Moreover, the performance rating is also partially linked to both promotion and training. When the managers consider which employee should be promoted to a higher position, the previous performance ratings provide important clues and references. Nonetheless,

the performance ratings are not decisive, because there are other important factors that influence the managers' decisions as well, e.g. the employees' personality, the leadership of the employee and communication skills. The performance ratings will also partially influence the employees' opportunities for training. The bank organises several types of training for the employees and chooses the employees for training based partially on the employees' performance ratings.

Bank B has an advanced online system, which is designed particularly for performance appraisal. This online system is a good place to store and document the relevant materials and information for appraisals and is a platform for communication between supervisors and subordinates. Each employee has a private space for appraisals in this system and the supervisor can also gain access to this space. The relevant materials, such as the performance objectives which are set in the beginning of the year, the appraisal ratings the employees obtain, and the supervisors' comments regarding the final appraisal ratings, are all stored and can be easily viewed on this online system by both employees and supervisors. Employees and their supervisors can also communicate via this online system, in terms of objective setting, comments and so on, and all the information is saved and kept on the system. All the clear and well-documented materials in this online system can be viewed as proof in the future and can be prepared as reference for other HR practices, such as bonus allocation, training and promotion.

It is found that the appraisals system in Bank B provides an open two-way communication to employees and supervisors. As there is not a highly hierarchical relationship between supervisor and subordinates, the employees are always able to easily and smoothly communicate with their supervisors. Although the supervisor still needs to direct and lead the subordinates through the procedure of appraisal, the employees are encouraged to communicate with their supervisors and the HR department and express their own opinion regarding any step in the appraisal. Supervisors are open to any employees' reports and comments, while the company

attaches great importance to employees' feedback regarding the process of appraisal.

7.2.2 The procedures of the appraisals system

The policy for the performance appraisals system of Bank B provides a detailed instruction of the whole procedure and each step of appraisals throughout the whole year. The appraisal involves an integrated process including the following steps or elements: performance objective setting in the beginning of the year, the first performance ratings distribution in the middle of the year (in mid July), the final performance ratings distribution at the end of the year (in the following February), a formal review regarding the performance ratings, employee participation, appeal process, supervisor neutrality and training of both employees and supervisors.

The performance objective setting, the important start of appraisals system, is conducted at the beginning of one year in bank B (normally in February, the time after Chinese New Year). It normally includes the following three steps. Firstly, considering the subordinates' performance objectives in the last year and the group goal in the current year, the supervisor will determine an original performance objective for each subordinate and upload the objectives onto the online system. The second step is that each subordinate views the objective online and puts forward their own opinion on the original objective and their own objective. Thirdly, the supervisor and the subordinates reach a mutual agreement and a final performance objective for each subordinate is decided for the following year. Finally, each employee signs an annual appraisals contract, which explains the specific performance objective the employee commits to achieve by the end of the year.

Bank B encourages the employees' participation in the objective setting process, by which the employees could express their own opinion on the adjustment of the original objective decided by supervisors, because participation can increase the employees' acceptance of objectives and their motivation to achieve the objectives in the following year. As objective setting is the start of the appraisals and has a great

impact on the following steps of the appraisal, the bank pays it great attention and makes sure that the supervisor and subordinates have good communication so as to reach a consensus on objectives.

In early July, the first performance rating of the year will be allocated to each subordinate by the supervisor and a formal review will also be held for the supervisor to explain of the performance rating as well as feedback toward the subordinates' performance in the past half year. As mentioned before, the first performance rating is not linked to other HR practices (e.g. bonus allocation at the end of the year), but it can be regarded as supervisor feedback, which directs subordinates' subsequent performance and helps them to adjust their current work in order to achieve the goal for the whole year. Moreover, it is found that no other formal feedback is provided to employees. However, the employees are able to contact their supervisors easily for feedback and direction under the open two-way communication system, which is encouraged by the bank.

In the following February, which is the end of the last appraisal period, the supervisors evaluate the employees' performance in the entire past year and give a final performance rating to each subordinate, which is linked to other HR practices (e.g. bonus allocation, promotion or training). Another formal review is held for the supervisor to have a face to face meeting with each subordinate and explain the performance rating and the reasons why the rating has been given to the subordinate. The performance rating and the comments is also inputted into the online system for future documentation.

Employees' participation is encouraged in terms of performance objective setting and open two-way communication with supervisors. For example, the employees have opportunity to communicate with supervisors for timely direction and feedback and also have the chance to express their own opinion on any step of the appraisal process and explain their performance, contribution and endeavours to their supervisors.

The employees do not have self-appraisal, which requires the employees to give a proper performance rating and to comment on their own contribution in the past year.

However, the bank has a robust appeal system, which provides the employees with the opportunity to appeal against their performance rating, if they have any doubts about the results. The appeal form can be easily downloaded from the online system or provided by the HR department. If the employee needs to challenge their appraisal-related ratings, they can complete the appeal form and submit it to the HR department. The HR department will then start to deal with this, normally by arrangement of a tripartite meeting involving the supervisor, the subordinate who has appealed and the HR staff, in order to achieve reconciliation and a mutual agreement about the performance rating. However, it has been found that no appeal has taken place in Bank B in the past five years.

The bank does not have a post-appraisals attitude survey. However, in order to have an understanding of employees' attitudes and reactions toward the HR practices, such as performance appraisals, the training system and the payment system, the bank has a general employee attitude survey. This survey, which is conducted yearly by a famous multinational consultancy firm, includes several sections related to the performance appraisal system in the bank. According to the interviews, it is reported that employees' satisfaction with the HR practices in Bank B has been on the increase in the past several years, as the bank had improved the HR practices in every detail.

Training is a very important dimension of the performance appraisal system in Bank B. The bank provides a training programme for the employees, especially new employees, in order to help them to have a clear understanding of the procedures of the appraisals system. For instance, performance standards will be clearly explained to ensure that every employee is aware of each performance criterion, on which the evaluation of their performance is based. Moreover, performance standards are also presented in other ways to attract employees' attention, such as in organisational

publications. On the other hand, supervisors' training is another aspect that the bank pays more attention to. The aim of the training for supervisors is to help each supervisor understand every step of the procedures and their responsibilities within the whole process.

7.2.3 The supervisors' and employees' responsibilities

In Bank B, supervisors have differing numbers of subordinates for performance appraisals. Normally, the numbers of subordinates range from 2 to more than 10, with the majority of supervisors having 6-7 subordinates. Therefore, the most important element in training for supervisors is to make sure that supervisors pay more attention to each subordinate's job-relevant performance and contribution. The supervisors are required to have frequent communication with each subordinate, be ready to provide direction and feedback to subordinates when required, and have face-to-face discussion with subordinates by appointment. The aim of all these is to help supervisors acquire full knowledge of each subordinate's performance at work. Moreover, the training also includes the explanation of some important steps in appraisals, such as how to set a proper performance rating for each subordinate, how to hold a formal review to justify the performance ratings distributed to each subordinate, how to use the online system, and so on.

Another important element regarding supervisors' behaviour in the appraisal system is to ensure the supervisor distributes performance ratings in a neutral way. In order to reduce the supervisor's bias toward any particular subordinate, there is a meeting at the end of the year for all the supervisors within a department responsible for appraisals and their line managers. After the supervisors work out the performance ratings for each subordinate in their own workgroup, the supervisors have a face to face meeting with their line managers. In this meeting, the supervisor reports the results of the performance appraisals to his workgroup and explains the reasons for the ratings, especially those with 'excellent', 'merit', 'just qualified' and 'fail' ratings. After all the supervisors have reported back, the line manager double checks the

performance ratings in each workgroup, make a horizontal comparison between the employees in different workgroups and adjusts performance ratings for employees, if needed. This meeting ensures that the supervisors' judgments regarding performance ratings have no bias.

Based on the above discussion, it is easy to conclude the responsibilities and duties of both supervisors and employees in appraisal. The supervisors are responsible for setting performance objectives for each subordinate, distributing the first performance ratings to each subordinate in early July, distributing the final performance ratings to each subordinate in early February, holding a face to face formal review with each subordinate to provide feedback regarding the performance rating and explain the reason for the rating, attending a face to face meeting with their own line manager to justify the distribution of performance ratings within the workgroup, and always being ready to help and direct subordinates and provide feedback to them, if required. On the other hand, employees are required to set the performance objectives with their supervisors, be active in communicating with supervisor for direction, always performing well in order to achieve the objectives, and appealing the performance rating, if needed. A brief summary of the current performance appraisal system and its design and procedures in bank B is presented in the table 7-2 below.

Table 7-2: Summary of the interviews feedback in Bank B (Interviewees: two staff in HR department of Bank B)

Research Objective	Performance appraisal system features	Summary of feedback
Design of the appraisal system	Appraisal format	(1) Key Performance Indicator (KPI): Clearly and specifically designed KPIs for employees in different departments, sections and positions. (2) Online system
	Evaluation Benchmark	“excellence” and “merit” (20%); “eligibility” (70%); “just qualified” and “fail” (10%)
	Performance criteria	“financial objectives” and “non-financial objectives”

	Appraisal purposes	Bonus (Fully linked) Promotion, Training and development (Partially linked)
	Communication	Open system; open two way communication
	Frequency of appraisal	Biannually
The procedures of performance appraisal system	Performance Objective setting process	In the beginning of the year (1) Supervisor determines an original performance objective for each subordinate and upload the objectives to online system (2) Each subordinate views the objective online and put forward their own opinion on the original objective and their own objective (3) The supervisor and the subordinates should reach to a mutual agreement and a final performance objective for each subordinate for the following year
	Distribution of performance rating	Twice: (1) The first performance rating was distributed in the early July, which is considered as the “Mock” rating and not linked to any outcomes (e.g. bonus) (2) The final performance rating was distributed in next February, which is fully linked to the outcomes (e.g. bonus and promotion)
	Face to face formal review interview between supervisor and subordinates	Twice: To announce the results, to explain the reasons for performance rating, to provide feedback, comments and suggestions, to provide expectation for employees’ future work, to provide help and direction, if the employees have problems.
	Employees’ participation	performance objective setting and open two-way communication with supervisors No self-appraisal
	Appeal system	Robust appeal system, employees may challenge and appeal their appraisal ratings, if needed

	Post-appraisal attitude survey	No
Supervisors' and employees' responsibilities in appraisal	Supervisors' responsibilities	Setting performance objective with each subordinate, distributing the first performance ratings to each subordinate in early July, distributing the final performance ratings to each subordinate in early February, holding a face to face formal review with each subordinate to provide feedback regarding performance rating and explain the reason for rating, attending a face to face meeting with line manager to justify the distribution of performance ratings within the workgroup, and always being ready to help and direct subordinates and provide feedback to them, if required.
	The way of reducing supervisors' bias in appraisal	(1) The supervisors will have a face to face meeting with their line managers respectively, to report the results of the performance appraisal in his workgroup. (2) the line manager could double check the performance ratings, make a horizontal comparativeness between the employees in different workgroup and adjust some performance ratings for some employees, if needed
	Employees' responsibilities	Set the performance objective with supervisor, be active to communicate with supervisor for direction, always perform well in order to achieve the objective, and appeal the performance rating, if needed.

7.3 Case study C: the design and implementation of performance appraisals system in a city commercial bank in Eastern China

City commercial Bank C is one of the biggest city commercial banks in China. It was founded in a big city in Eastern China between 1996 and 1997, on the basis of an urban credit cooperative. During the initial stage of the bank being established, Bank C still had strong ties to local government and was wholly state-owned.

Since 2005, Bank C started to diversify the shareholders by inviting international banks and private funds and companies to take minority shares, cross-shareholding and merging. Therefore, it has experienced rapid development and extension since 2005, because of the various funding sources from the shareholders and strategic alliance and cooperation with foreign investors and banks.

The aim of the city commercial banks in China is mainly to support regional economy development, financing local infrastructure and other types of government projects. Since 2007, the trend for city commercial banks in China is to extend their business beyond the home regions to other cities or provinces. Hence, Bank C has also established branch banks in some other economically-developed cities in past several years. Currently Bank C is already a top city commercial stock-joint bank with headquarters in a major city in Eastern China, around 10 province or city headquarters in other Chinese developed cities and around 160 sub-branch banks all over China.

With the help of personal *guanxi*, I gained the opportunity to conduct empirical studies and data collection in the headquarters and sub-branches of Bank C in a major city in Eastern China. Bank C in this city has around 1000 employees in its headquarters and 8 sub-branches. I interviewed two employees in the HR department of Bank C to obtain a thorough understanding of the design and procedures of their performance appraisals system.

7.3.1 The design and format of performance appraisals system

Key performance indicators (KPI) are also adopted in Bank C as the format for its performance appraisal system. Based on the nature of the work and the types of employee in different departments and positions, the bank has developed specific and clear performance criteria for different employees. Generally speaking, the performance criteria for all employees are divided into two parts: quantitative and non-quantitative. The quantitative part is mainly measured based on the work performance of each employee. Because of the different nature of the work, the

employees in different work sections have their own quantitative performance criteria. For instance, the performance criteria for the banking section include the following elements: business activities, deposit and development of new customers. The non-quantitative part of the appraisals criteria, which is designed to measure the other aspects of each employee, consists of these elements: team work, work quality, communication, and internal control standard. The quantitative criteria normally accounts for a larger percentage of the total appraisal. For example, the quantitative part accounts for 60% of the total in the banking section and IT department; while it accounts for 50% in the HR department. The KPI for each employee clearly explains each criterion, the description of the criterion and how to measure this criterion. The detailed KPI, which is provided to each employee, ensures that employees can easily understand the criteria and strive to achieve the performance objective.

In terms of the distribution of the performance ratings, Bank C adopts the following four evaluation benchmarks: excellent, merit, eligible and fail. There is also a strict fixed quota for performance ratings in each workgroup and department. Normally, only 15% of the employees can obtain an 'excellent' rating; while 25% of the employees can be awarded a 'merit' rating. The remaining 60% of employees will be given an 'eligibility' or a 'fail' rating. There is no required percentage for fail ratings. There will be a 'fail' rating, only if an employee does not achieve the original performance objective in the workgroup. Otherwise, all the remaining 50% of employees obtain an 'eligibility' rating.

Bank C has two appraisals within one year. In August, the supervisor will conduct the first appraisals for the year. The first performance rating will be provided to each subordinate. The first performance ratings reflect the performance and contribution of employees in the first half of the year. The employee then knows where he is in terms of achievement of the performance objective from this first performance rating. The employee can then adjust their work pace, in order to achieve the initial

performance objective and complete the work in a better way. In the following February, the second appraisals will be conducted by the supervisor and the second performance rating will be distributed to each employee. This second performance rating represents the employees' performance in the latter half of the year after the first appraisal. The first performance rating is equivalent to the second rating, because they both reflect the employee's performance in half a year. Hence, these two performance ratings together reflect the performance level of each employee throughout the whole year.

The employees' performance ratings are partially linked to employees' opportunities for promotion. The employees' performance is an important criterion for promotion in Bank C, compared to Bank A, at which other factors, such as employees' *guanxi* will have more of an impact on promotion than employees' real performance. Normally, the employees with good performance in the past year could be considered as a priority. However, other important factors, such as employee's leadership and the relationship between the employee and the managers, will also influence the promotion. Moreover, the employee's performance rating is also partially linked to the employee bonus. However, it was found that performance rating is not the sole criterion for bonus allocation, because some other factors, such as seniority and equality, will also be considered by supervisors when distributing bonus.

Bank C does not have an online system designed for the performance appraisal system. Instead, all the steps of the performance appraisals procedure are conducted manually by supervisors, employees and the HR department. The bank has developed different forms for every step of the appraisal, including the performance objective form, appraisals result form, formal review and feedback form and appeal form. Normally, the form is completed by either supervisor (e.g. performance objective form, appraisals result form, formal review and feedback form) or employee (e.g. appeal form). The supervisors complete these forms and then give them to employees in face-to-face meetings. For instance, the original appraisals result form

is given to subordinates by their supervisor in the formal review meeting. Moreover, the copies of the original version are sent to the HR department to be kept on file, so they can be used for further reference and usage for other HR practices, such as promotion or training.

According to the interviews of two staff in the HR department of bank C, it is found that Bank C encourages open two-way communication between employees and their supervisors. The bank provides a good environment for employees to communicate with supervisors and participate in HR practices. For instance, employees can have a face to face meeting with their supervisors to discuss the performance goal for appraisal. The supervisors are required to provide help and suggestions to their subordinates and be ready for any of their subordinates' enquiries and comments, in order to ensure that the employees can obtain adequate direction and feedback.

7.3.2 The procedures of the performance appraisals system

It is reported that the regulations of appraisals in Bank C explain explicitly each step of the whole process and the responsibilities of supervisors, employees and the HR department respectively. However, I failed to obtain a copy of the regulation of appraisals from the bank. As for the information I obtained from the interviews, the whole process of appraisals consists of the following four major elements: the performance objectives set by supervisors and their subordinates together at the beginning of the year, the first performance rating distribution in August by supervisors and a face to face formal review regarding the performance ratings between supervisor and each subordinate, the second performance ratings distribution the following February followed by another face to face formal review between supervisor and each subordinate. Next, the four main elements of appraisals in Bank C will be discussed in detail.

The employees' performance objective, which is conducted by both supervisors and their subordinates, is normally set at the beginning of a year after the Chinese New

Year vacation. The following two important steps will lead to an agreement on the performance objectives between supervisor and their subordinates. Firstly, the supervisor should set up an original performance objective for each subordinate, considering their previous performance objective and ultimate performance in the last year and the performance goal of the workgroup in the following year. The original performance objective will then be printed on the performance objective form and distributed to each subordinate. Secondly, a face-to-face meeting between supervisor and each subordinate will be held to discuss the original objective. At this stage, the subordinate can raise their own opinions on the objective and finally reach a mutual agreement. Thirdly, each employee signs an annual contract, which clarifies the detailed performance objective they intend to achieve within this year. Fourthly, the HR department will collect the copies of performance objective contracts from each supervisor and keep them on file, while the supervisor and their subordinates both have their own copy of the contract.

The first appraisal in Bank C is normally conducted in August. When the first performance rating is ready to be distributed to each employee, the supervisor will hold a face to face meeting with each subordinate individually. In the meeting, the supervisor mainly announces the result to each subordinate, explains the reasons for the performance rating and also some suggestion as to how to improve performance and achieve the objective in the second half of the year. The following February, the second performance rating for each subordinate is determined by the supervisor and is distributed to each subordinate in another face-to-face meeting. The supervisor will also summarise the performance of employees and give the reasons for the performance ratings. These two performance ratings, which present the employees' performance for half a year respectively, will reflect the employees' contribution and achievement of the performance objective for the entire year. The two comments given to each employee after the distribution of performance ratings constitutes the only feedback regarding appraisals in Bank C. No other feedback is provided to the employee.

Employees' participation in appraisals is also encouraged in Bank C. However, the employees are only able to participate in performance objective setting and have the right to appeal when they receive their performance ratings. In terms of objective setting, the employee cannot set up their own performance objectives, because they are expected to accept the objective already set up by the supervisor and are only able to express opinions toward the objective in a meeting, which is unlikely to influence the supervisor's decision. The employees' self-appraisal is also not adopted by Bank C. And similarly, the employees have the appeal opportunity if they are not satisfied with the performance rating. The employees should complete the form with adequate and relevant reasons and submit it to the HR department. The HR department will then contact the employee's supervisor for solutions. However, it is reported in the interviews of HR staff that there has been no case for appeal in the past three years in Bank C.

The post-attitude survey regarding appraisals is not adopted in Bank C. It is also found that the bank does not have a way of obtaining employees' attitudes toward the appraisals system. The bank did not have a thorough understanding of whether employees were satisfied with appraisals and which element of the appraisals required improvement in the employees' opinions. Therefore, there has been almost no reform of or improvement in of the appraisal system in the last several years. In terms of training, the employees and supervisors normally just have one training session regarding the appraisal when they attend the appraisals for the first time. For example, new employees receive an entry training session including a specific introduction to appraisals at the beginning of their career at the bank. On the other hand, all the supervisors have their own training session regarding how to conduct appraisals and the responsibilities of supervisors in appraisals.

7.3.3 Supervisors' and employees' responsibilities in appraisal

Normally, the numbers of subordinates a supervisor has in appraisals ranges from five to more than ten. The number of subordinates per supervisor depends on the size of the work group. The training session for supervisors in Bank C provides a thorough introduction to every step of appraisals and their own responsibilities. The supervisors are required to monitor the work performance of each employee regularly and thence have a clear understanding of each employee's contribution when they conduct the appraisals and distribution of ratings. Moreover, the supervisors should provide help and direction to the subordinates when they request help.

It is found that the reduction of supervisors' bias in appraisals also draws attention from the policymakers in Bank C. The supervisors are required to provide a clear description of each employee's performance on a form, and the reasons for the performance ratings the employee has been given. The form is given to the head of the department, who has a final check and decides the performance ratings for each workgroup. It is reported that the head of the department checks all the employees' performance ratings, especially those with the best ratings (e.g. excellent) and the worst ratings (e.g. fail). Theoretically, if they find any improper performance ratings, they will make an adjustment and inform the relevant supervisors about this.

In conclusion, the supervisors and employees have the following responsibilities in appraisals: The responsibilities for supervisors in appraisals include setting a performance objective for each subordinate, distributing performance ratings twice a year (the first rating in August and the second rating in the following February), holding a face to face meeting with each subordinate after the deciding the ratings to explain reasons and to give feedback to each subordinate, submitting the performance ratings and the explanation of the reasons to their own line manager, normally the head of the department for a final check and adjustment of performance ratings and being required to provide help and direction to subordinates regarding performance improvement and feedback. On the other hand, the employees have the opportunity

to discuss the performance objective which the supervisor has set for them in a face to face meeting and appeal the decision of the performance rating they have received if they are not satisfied. A brief summary of the design and procedures of current performance appraisal system in bank C is presented in the table 7-3 below.

Table 7-3: Summary of the interviews feedback in Bank C (Interviewees: two staffs in HR department of Bank C)

Research Objective	Performance appraisal system features	Summary of feedback
Design of the appraisal system	Appraisal format	(1) Key Performance Indicator (KPI): Clearly and specifically designed KPIs for employees in different departments, sections and positions. (2) Manually done
	Evaluation Benchmark	“excellence” (15%); “merit” (25%); “eligibility” and “fail” (60%)
	Performance criteria	“quantitative part” and “non-quantitative part”
	Appraisal purposes	bonus and promotion (Partially linked) Training and development (Partially linked)
	Communication	Open system; open two way communication
	Frequency of appraisal	Biannually
The procedures of performance appraisal system	Performance Objective setting process	In the beginning of the year: (1) The supervisor should set up an original performance objective for each subordinate. (2) a face-to-face meeting between supervisor and each subordinate will be held to discuss the original objective (3) Each employee would sign an annual contract, which clarifies the detailed performance objective they intend to achieve within this year.
	Distribution of performance rating	Twice: (3) The first performance rating was distributed in August. (4) The final performance rating was distributed in next February

		(5) These two performance ratings, which present the employees' performance for half a year respectively, will reflect the employees' contribution and achievement of performance objective of the whole year together.
	Face to face formal review interview between supervisor and subordinates	Twice: To announce the results, to provide feedback, comments and suggestions, to provide help and direction, if the employees have problems.
	Employees' participation	Participation in performance objective setting, two-way communication and appeal opportunity. No self-appraisal.
	Appeal system	Robust appeal system, employees have the appeal opportunity
	Post-appraisal attitude survey	No
Supervisors' and employees' responsibilities in appraisal	Supervisors' responsibilities	setting a performance objective for each subordinate, distributing performance ratings twice in the year (the first rating in August and the second rating in next February), holding a face to face meeting with each subordinate after the decision of ratings to explain the reasons and give feedback to each subordinate, submitting the performance ratings and the explanation of the reasons to their line manager, normally the head of the department for a final check and adjustment of performance ratings and being required to provide help and direction to subordinates regarding the performance improvement and feedback.
	The way of reducing supervisors' bias in appraisal	The head of the department will check all the employees' performance ratings, especially those best ratings (e.g. excellent) and worst ratings (e.g. fail) and make an adjustment and inform the relevant supervisors about this, if needed.

	Employees' responsibilities	having an opportunity to discuss the performance objective which the supervisor set for them in a face to face meeting and appealing the decision of performance rating they receive if they are not satisfied with it.
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7.4 Chapter summary

In conclusion, this chapter has provided an in-depth case study of the performance appraisals system of three banks with different ownerships in Eastern China, indicating how the appraisals system is implemented in each bank, based on the interviews of two HR department staff in each bank. Firstly, the whole process of performance appraisals system reform in the state-owned commercial bank (Bank A) was introduced, with emphasis on the origins of the reform, the preparation stage of the reform, the process of the reform, the design of the new appraisals system, the implementation and the evaluations of the new system. Secondly, as the foreign commercial bank (Bank B) and the city commercial bank (Bank C) did not reform the appraisals system, this chapter provided a thorough description of their current performance appraisals system, focusing on these three aspects: the format of the appraisals system, the procedures for appraisals and the supervisors' and employees' responsibilities. I have not yet been able to make comments as whether the performance appraisals system in each bank is successful based on the above information, because there is no record of employees' reactions and attitudes. Therefore, the following chapters will present a cross-case analysis of performance appraisals system in each bank, the aim being to provide a comparative investigation into how performance appraisals systems differ in banks with different ownerships in China.

Chapter 8: A Comparative Study of Guanxi in Performance Appraisal and Employees' Reactions to Appraisals among Three Banks

The previous chapter introduced the design of and procedures for performance appraisal systems in state-owned bank A, foreign bank B and city bank C respectively. The state-owned bank A reformed the traditional performance appraisal system to a western style modern one five years ago with the help of a foreign consultancy firm. It is interesting to examine how the new appraisal system works in state-owned bank A, which has great cultural and institutional heritage. A comparative study between state-owned bank A and the other two banks will help to explore the success and shortcomings of the implementation of the new appraisal system in state-owned bank A, and this experience will be helpful for the future reform or improvement of performance appraisal systems in state-owned banks in China. Thus, this chapter has the following three objectives: firstly, the impact of guanxi on appraisal will be compared among these three banks; secondly, a detailed comparative study of employees' perceptions of justice, (i.e. distributive justice, procedural justice and interactional justice) and employees' affective reactions toward appraisals (i.e. satisfaction with performance ratings, satisfaction with appraisal system, and satisfaction with supervisor in appraisal) will be conducted among these three banks; thirdly, the impact of two important cultural factors, (i.e. collectivism versus individualism and power distance) on the design of appraisal system, and supervisors' and employees' attitudes and behaviour will also be compared. Finally, the achievements and limitations of the performance appraisal system in each bank will be discussed and some practical suggestions will be provided.

8.1 Analysis strategy

In order to obtain a thorough understanding of the design of performance appraisal systems in three banks and the employees' and managers' reactions toward the

appraisals, both qualitative and quantitative research methodologies were adopted to collect relevant data in these three banks. In this section, both of these types of data will be used to conduct a multiple comparison among these three banks and the analysis strategy for both of them will be discussed below.

8.1.1 Qualitative method: employee survey

The carefully designed employee survey was distributed in these three banks to test the employees' attitudes toward appraisal. The sample consisted of a total of 308 bank employees, with 108 valid samples in state-owned bank A, 100 in foreign bank B and 100 in city bank C. Among the variables in the survey, two scales, including 'guanxi's impact on appraisal outcome' and 'guanxi's impact on communication' are used to examine how guanxi influences appraisals in the banks. Moreover, two scales – 'employees' satisfaction with performance ratings' and 'employees' perceptions of distributive justice' - were adopted to examine the how employees perceive the distribution of outcomes in appraisals. In order to explore the employees' attitudes toward the design and the whole procedures of the system itself, two scales – 'employees' satisfaction with appraisal system' and 'employees' perceptions of procedural justice' - were also included in the survey. Finally, two scales – 'employees' satisfaction with supervisors in appraisal' and 'employees' perceptions of interactional justice' were also included to test what employees thought about the supervisors' behaviour in appraisal. In the comparative study, these eight scales will be used to compare the difference among three banks.

Normally, both the independent sample *t*-test and one way ANOVA are suitable for computing and testing the mean difference between different groups. The independent sample *t*-test can only be used for comparison between no more than two groups of the variable; on the other hand, the one way ANOVA can be adopted to test the difference between more than two groups. Therefore, in order to make comparative study of three banks in this case, the one way ANOVA was selected for testing the difference. Moreover, the Levene's test, which is used to assess the

equality of variance in different samples, was also chosen, in order to examine whether there is a significant difference between the variances in the population.

8.1.2 Qualitative method: interviews

Besides the employee survey, information about the performance appraisal practices in each bank was collected by the interviews with two HR staff members in each bank. Moreover, in order to explore what factors influence the employees' reactions to appraisals, the interviews with selected employees and managers were also conducted, with a sample of 2 supervisors and 4 employees in state-owned bank A and 2 supervisors and 3 employees for both foreign bank B and city bank C. The interview questions were specially designed to test employees' and supervisors' attitudes to the impact of *guanxi* on appraisals and the performance appraisal itself.

In interviews, when asked the question "what do you think of the performance appraisal system?", all of the interviewees, including employees, supervisors as well as HR staff, agreed with the idea that the fairness and employees' satisfaction are most important aspects of appraisals in China. However, due to the different ownership and great diversity of organisational characteristics of these three banks, significant differences in the design and implementation of the performance appraisal system and employees' attitudes and reactions toward the appraisals were observed in these three banks.

To investigate the application of the performance appraisal system in these three banks in China, three important justice theories related to appraisal, including Greenberg's two factors for distributive justice of appraisal (1986), due process model for procedural justice of appraisal system (1992) and Bies's four factors for interactional justice (2001), were specifically discussed in the literature review. Based on these three justice theories, a list of research objectives will be proposed in this chapter which aims to explore both the fairness of the current performance appraisal system in the three banks and what aspect of the performance appraisal in

each bank should be noted and improved. Therefore, besides the results of employee surveys, the findings from the interviews drawn from these three justice theories will be discussed relating to all these three banks, revealing which aspects of the appraisal outcomes, appraisal procedures and the supervisors' interpersonal treatment in appraisals in each bank are unfair.

Thus, in this chapter, a strategy consisting of two steps will be adopted in the analysis of each aspect: the multiple comparison of mean difference of relevant scales by using one-way ANOVA and Levene's test, and then the discussion of possible reasons for the difference in employees' attitudes by drawing the relevant findings from the interviews with managers, employees and HR staff.

8.2 Guanxi's impact on appraisal

In Chapter 4 of the pilot study, it was found that the impact of guanxi on performance appraisals includes the following two features: firstly, the employees' guanxi influences supervisors' decision in appraisals, which means that the performance ratings are distributed based on guanxi rather than performance. Secondly, the employees' guanxi has an impact on the communication between supervisors and subordinates, in such a way that supervisors provide more help or direction to, have more workplace and non-workplace communication with, and provide more voice opportunities to those employees with guanxi. It is widely reported that the state-owned enterprises in China has more historical, institutional and cultural heritage, which has a greater impact on the implementation of HRM practices than enterprises with other ownerships, such as foreign invested enterprises or private companies (Ding and Akhtar, 2001; Braun and Warner, 2002; Ngo, et al., 2008; Huang and Gamble, 2011). Thus, given the different ownerships of these three banks, it could be hypothesised that:

Hypothesis 10a: *Guanxi has a significant stronger impact on the appraisal outcome in state-owned bank A than the other two banks.*

Hypothesis 10b: *Guanxi has a significant stronger impact on communication in state-owned bank A than the other two banks.*

The first aim of this section is to conduct a comparative study of guanxi's impact on appraisal outcomes and communication between three banks, by using the results from the employee survey and the evidence from employees' and managers interviews. Moreover, the second aim is to discuss the antecedents of the guanxi in appraisal, by analysing and summarising the employees' and managers' statements and the HR staff's descriptions of appraisal system in the interviews.

8.2.1 Quantitative analysis of survey results

In the survey, there are two scales relating to the impact of guanxi on performance appraisals, including 'guanxi's impact on appraisal outcome' and 'guanxi's impact on communication'. The one way ANOVA for the data from the three banks was computed to compare the mean difference in these two scales, while the Levene's test was adopted to assess the equality of variance in the samples from three banks (see table below 8-1, 8-2).

8.2.1.1 The impact of guanxi on the outcome of appraisals

The first scale, guanxi's impact on appraisal outcome, was calculated by one way ANOVA and Levene's test, and the results are given in the four tables below. The mean of the scale in bank A is 3.6728, which is computed by 108 valid responses, while the mean for bank B and bank C is 2.9500 and 3.2533 respectively, and the number of responses for both of these two banks is 100. According to the following four tables, the findings indicate that there are significant mean differences among these three banks. The resulting *p*-value of Levene's test is 0.000 (less than critical value, e.g. 0.05), which means that there is a significant difference between the variances in the population. According to the multiple comparisons, significant differences were observed among these three banks. The findings indicate that guanxi has a greater impact on the appraisal outcomes in state-owned bank A than

both of foreign bank B and city bank C, while guanxi's impact on appraisal outcomes in city bank C is also stronger than foreign bank B. Therefore, the state-owned bank A has the strongest guanxi network and guanxi has a greater impact on appraisal outcomes. However, the impact of guanxi on appraisal outcomes in foreign bank B was the weakest of the three banks, while city bank C was in between.

Table 8-1: One way ANOVA test, Levene's test and multiple comparisons for guanxi's impact on appraisal outcome

Descriptive statistics								
Scale: guanxi's impact on appraisal outcome								
	N	Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Higher Bound		
Bank A	108	3.6728	0.72628	0.06989	3.5343	3.8114	2.00	5.33
Bank B	100	2.9500	1.00210	0.10021	2.7512	3.1488	1.33	5.00
Bank C	100	3.2533	0.78442	0.07844	3.0977	3.4090	1.33	5.67
Total	308	3.3019	0.89197	0.05082	3.2019	3.4020	1.33	5.67

Test of Homogeneity of Variances			
Scale: guanxi's impact on appraisal outcome			
Levene Statistic	df1	df2	Significance
14.692	2	305	0.000

ANOVA					
Scale: guanxi's impact on appraisal outcome					
	Sum of squares	df	Mean square	F	Significance
Between groups	27.480	2	13.740	19.332	0.000
Within groups	216.773	305	0.711		
Total	244.252	307			

Multiple Comparisons between Three Banks					
Scale: guanxi's impact on appraisal outcome					
LSD Test	Mean Difference	Standard Error	Significance	95% Confidence Interval	
				Lower Bound	Upper Bound
Bank A VS Bank B	0.72284*	0.11700	0.000	0.4926	0.9531
Bank A VS Bank C	0.41951*	0.11700	0.000	0.1893	0.6497
Bank B VS Bank C	-0.30333*	0.11922	0.011	-0.5379	-0.0687

*The mean difference is significant at the 0.05 level.

8.2.1.2 Guanxi's impact on communication

Moreover, the second guanxi-related scale, guanxi's impact on communication, was computed using one way ANOVA and Levene's test, the results of which are presented in the following four tables (table 8-2). The mean of the scale for these three banks is 4.4537, 3.9175 and 4.2975 respectively, calculated by 108 samples in the state-owned bank A and 100 samples in both foreign bank B and city bank C. The tables below indicate significant differences between these three banks, in terms of the impact of guanxi on communication in appraisal. It is found that the state-owned bank A has the strongest guanxi network, which in turn has a greater impact on communication than foreign bank B and city bank C. On the other hand, foreign bank B has the weakest guanxi network, which in turn has the weakest effect on communication in appraisals. It was also found that the mean of state-owned bank A is bigger than the mean of city bank C, although there is no statistically significant difference between these two.

Table 8-2: One way ANOVA test, Levene's test and multiple comparison for guanxi's impact on communication

Descriptive statistics								
Scale: guanxi's impact on communication								
	N	Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Higher Bound		
Bank A	108	4.4537	0.60290	0.05801	4.3387	4.5687	3.25	5.50
Bank B	100	3.9175	0.55625	0.05562	3.8071	4.0279	2.75	5.00
Bank C	100	4.2975	0.62229	0.06223	4.1740	4.4210	2.75	5.50
Total	308	4.2289	0.63422	0.03614	4.1578	4.3000	2.75	5.50

Test of Homogeneity of Variances			
Scale: guanxi's impact on communication			
Levene Statistic	df1	df2	Significance
1.395	2	305	0.249

ANOVA					
Scale: guanxi's impact on communication					
	Sum of squares	df	Mean square	F	Significance
Between groups	15.626	2	7.813	22.092	0.000
Within groups	107.862	305	0.354		
Total	123.488	307			

Multiple Comparisons between Three Banks					
Scale: guanxi's impact on communication					
LSD Test	Mean Difference	Standard Error	Significance	95% Confidence Interval	
				Lower Bound	Upper Bound
Bank A VS Bank B	0.53620*	0.08253	0.000	0.3738	0.6986
Bank A VS Bank C	0.15620	0.08253	0.059	-0.0062	0.3186
Bank B VS Bank C	-0.38000*	0.08410	0.000	-0.5455	-0.2145

*The mean difference is significant at the 0.05 level.

To summarise, the survey findings indicated that there are significant differences between these three banks, in terms of both guanxi's impact on appraisal outcome and guanxi's impact on communication. Among these three banks, guanxi in state-owned bank A has the strongest impact on both appraisal outcome and communication; while the impact of guanxi in foreign bank B is weakest and the city bank C is in the middle of these two banks. Thus, both H10a and H10b were supported.

8.2.2 Qualitative analysis of interview results

Besides the results of the employee survey, I also obtained relevant information from the interviews of both employees and managers, which was highly consistent with the survey. It has been observed that employees in state-owned bank A believed guanxi's impact on appraisal to be prevalent, in terms of both outcome and communication. On the other hand, the foreign bank B employees reported that their guanxi network is not complex and will have little impact on appraisal, while city bank C employees suggested that some supervisors are affected by employees' guanxi in appraisals, but that this is not a common phenomenon. The detailed findings in each bank will be specifically explained in the following sections.

8.2.2.1 Findings from interviews in state-owned bank A

In the interview, all four employees of state-owned bank A strongly believed that guanxi has an impact on both the appraisal outcome and communication in appraisals. Guanxi is very important in state-owned bank A, influencing almost all HR practices, such as performance appraisal, promotion, career development and recruitment within state-owned bank A. Those employees who do not have any guanxi or do not have the ability to develop guanxi with supervisors and high level managers in the bank, would be likely to find it more difficult to be successful than the employees who have guanxi and have the ability for guanxi development.

As reported in the interviews with employees in bank A, it was found that

non-workplace interaction is an effective way for employees to influence supervisors' decisions in appraisal. For example, as two interviewees pointed out, it is very useful to have non-workplace interactions with supervisors, such as home visits, gift-giving or treating supervisors to dinner, if you want to 'negotiate' with the supervisor, influence him/her and be awarded a satisfactory performance rating in your appraisal. The employees' active development of guanxi with supervisors brings more opportunities for them to communicate with supervisors, and thus directly influences supervisors' decisions in appraisal.

Supervisors' tangible benefits and intangible benefits in appraisal

Generally speaking, the supervisors' benefits distributed in the process of performance appraisals can be divided into two types: tangible benefits (performance ratings) and intangible benefits (help, direction, communication and opportunity to express opinions). As reported by one older interviewee in state-owned bank A, who has been working there for more than 10 years and experienced the whole appraisal system reform process, before the reform it was common for supervisors to provide both tangible and intangible benefits to those employees who had guanxi in performance appraisals.

However, the reform of the performance appraisals in bank A reduced and restricted guanxi's impact on supervisors' distribution of ratings. That is to say, after the reform, some supervisors who used to make evaluations based on employees' guanxi, started to make comparatively fair decisions in appraisals based on the employees' real performances. This could be because decisions based on employees' guanxi, which apparently violate the policy of new performance appraisals, could be easily observed and challenged by employees.

On the other hand, even after the reform, the majority of supervisors still provide more intangible benefits such as help and direction to those employees who have guanxi, than employees without guanxi. That is to say, the appraisal reform had very

little impact on supervisors' distribution of intangible benefits to different employees. One important reason for this phenomenon could be that intangible benefits are invisible and cannot be correctly measured, observed and judged; hence, it may not be doubted, complained about or even challenged and appealed by employees or noticed and punished by the organisation. Therefore, although the reform of the performance appraisal system in state-owned bank A reduced the proportion of supervisors' guanxi-based decisions in appraisal, the phenomenon of supervisors providing more intangible benefits to those employees who have guanxi is still prevalent and is not constrained or limited by the reform.

Supervisors' attitudes in interviews

Besides the information from the interviews of employees in state-owned bank A, the managers in interviews also unequivocally revealed that subordinates' guanxi would be taken into account, when performance appraisals are conducted. It is very difficult for supervisors to avoid guanxi's impact on their decisions and behaviour in state-owned bank A, because the guanxi network within the bank is very complicated and tangled. According to the interviews of supervisors in bank A, employees' guanxi with high-level managers in the bank or even important people outside the bank e.g. officials in the government, can influence supervisors' decisions and behaviour in appraisal, because supervisors do not want to offend those higher level managers, and need to give *mianzi* (face) to them. As one supervisor said in the interview, he tries to act as impartially and fairly as possible, but eventually the employees' guanxi still colours their results and behaviour in appraisal.

Another supervisor pointed out that it is necessary for him to take care of those employees who have guanxi, because not taking guanxi into account in appraisals would have negative consequences for him. For instance, a lower performance rating would not only disappoint the subordinate who has guanxi, but would also offend the important person with whom this subordinate has guanxi, such as a higher level manager within the bank. However, he understands that performance

appraisals should not be biased, and he really does not want to frustrate those subordinates who do not have guanxi. After balancing these two points, this supervisor decided to make fair decisions in appraisals and distribute ratings based on employees' real performance. Moreover, he would provide more help, direction and voice opportunities to those employees who have guanxi instead, in order to satisfy those employees and their important guanxi people.

8.2.2.2 Interviews in Bank B

Meanwhile, in foreign bank B, the situation is quite different from the state-owned bank A. In the interviews, all three employees from foreign bank B reported that the guanxi network in bank B is not complicated and does not have a strong influence on supervisors' decisions and behaviour in appraisal. Bank B has a short history in China and does not have great historical institutional and cultural heritage. The culture of bank B is very performance-oriented, which ensures that the majority of supervisors and employees in bank B focus on work performance. Moreover, it is not common for the employees in bank B to have non-workplace interactions with their supervisors, e.g. having dinner together or gift-giving. This means that there is no platform or channel for employees to develop special guanxi with supervisors.

The managers' interviews also provided the same information, that employees' guanxi does not really influence the appraisal in terms of decisions and communication. As one manager said, supervisors' yearly bonuses are fully linked to the performance of the whole workgroup; as a result, almost all supervisors in bank B are quite performance-oriented. Supervisors do not make decisions or provide directions based on employees' guanxi in appraisal, because they need to retain the able subordinates to stay for work in their own group, in order to achieve a better group performance. Therefore, the performance-oriented culture in bank B affects supervisors' decisions and behaviour in appraisals; in the way that supervisors pay great attention to the performance of each subordinate and regard the development of special and complicated guanxi annoying and counter-productive.

8.2.2.3 Interviews in Bank C

The situation of guanxi's impact on performance appraisals in city bank C is different from both state-owned bank A and foreign bank B. Bank C has a very short history, which means that it has no historical cultural heritage or complex guanxi network; therefore, the guanxi between employees and supervisors in Bank C is less complicated than Bank A, and guanxi's impact on appraisals is weaker than in Bank A. However, Bank C is still a typical traditional Chinese firm, in which employees are all Chinese. And it is not surprising that a proportion of employees have developed a good guanxi network with supervisors, which possibly leads to an exchange of benefits in HRM practices, e.g. performance appraisals. Therefore, although the organisational culture of Bank C is very performance-oriented, it was still found that employees' guanxi has a great impact on a proportion of supervisors' decisions and behaviour in appraisal.

According to the interviews of employees in city bank C, whether the employees' guanxi will influence supervisors' decisions and behaviour in appraisals depends on the supervisors' own personality, that is, the supervisors with more traditional Chinese characteristics will be more involved in guanxi-based benefits exchange with employees in HRM practices than those with fewer traditional Chinese characteristics. As one interviewee said, a large number of supervisors in Bank C have a strong sense of integrity and will not be influenced by employees' guanxi, while to a large extent, a small proportion of supervisors still make HRM decisions and treat employees differently based on guanxi. All of the employees in the interviews agreed that guanxi is not decisive in appraisals, because performance is still the primary criterion for evaluation; however, the employees who have guanxi will have more opportunities to obtain better results and treatment from supervisors in appraisals.

The interviews of the managers in Bank C also expressed similar sentiments regarding guanxi's impact on appraisals. As one manager said, the performance objective appraisal of the whole workgroup makes the managers feel very pressurised in a

within a performance-oriented culture and in intensive competition for benefits (e.g. bonus or promotion) among colleagues. Therefore, employees' performance, rather than guanxi, is always the priority for the majority of managers in Bank C,. However, they do observe and note that some supervisors are still subjectively and objectively involved in the development of special guanxi with subordinates, and thus make guanxi-based HR decisions.

8.2.3 Cultural perspective vs. institutional perspective

The issue of guanxi as a uniquely Chinese phenomenon has been widely debated in recent years. Gold et al (2002) provided some crucial suggestions for the direction of further research. One important direction is that scholars could collect and analyse new data from different contextual settings in China. The P.R.China provides good cases for scholars to study the complex dynamic interactions between institutional settings and cultural traits surrounding guanxi. The in-depth analysis of new cases and sites could help to explain the persistence of guanxi in practices and the ways that guanxi matters in current China. I will now address the role of guanxi in performance appraisals from both of an institutional and cultural perspective.

Firstly, before the reform of the appraisal system in state-owned Bank A, the lack of scientific evaluation criteria and procedures is an important institutional factor, which led to the prevalence of guanxi practices during appraisals. It is found that there were no clear and objective performance criteria for appraisal, and supervisors were only required to provide a general evaluation of each employee's performance without any specific criteria to follow. Therefore, guanxi could play an important role in appraisal at that time. One employee in state-owned Bank A said:

“It was very easy for those employees who had guanxi to obtain a better performance evaluation than those without guanxi, before the appraisal reform. For example, if the employee had a good guanxi with the supervisor, e.g. he gave the gifts to the supervisor on occasions, the

supervisors would provide a good performance evaluation to these employees for exchange. Moreover, if the employee had a good guanxi with some important persons in the company, the supervisors would also provide good evaluation to him, in order to satisfy and develop a good guanxi with those important persons for other purposes in the future. At that time, supervisors could arbitrarily provide evaluation toward employees' performance, and could still provide some reasons to justify their decisions, such as good teamwork and good communication, etc. Performance is not the most important criterion for evaluation, even not an important criterion, at that time. If the employee wanted to obtain a good appraisal, development of a good guanxi with supervisor is sometimes more effective than performing well."

Compared to state-owned Bank A, since their establishment in China, the other two banks had a more advanced appraisal system with objective performance criteria, which effectively helped to restrict and reduce the influence of guanxi practices in performance appraisal. One employee in foreign Bank B said:

"The decision-making process for performance appraisal in my bank is transparent. Normally, my supervisor explains the result to me in the interview. Sometimes, he mentions the performance ratings for my colleagues. I can understand why my supervisor provides such performance rating to me and my colleagues. Actually, I do not think guanxi will have a big impact on supervisor's decision in appraisal. The department head will check the result for every employee in every workgroup in the department. The head can clearly see each employee's performance in terms of every criterion aspect in the report. This monitoring helps to reduce the unfairness and bias in the appraisal result. Thus, guanxi can have very little effect on my supervisor's appraisal decision. Actually, to my opinion, the employees' real performance

matters a lot in supervisors' distribution of performance ratings; while guanxi is not important at all here."

It is also found that an objective appraisal system in city Bank C limits supervisors' guanxi practices. Therefore, comparing these three banks, the evidence indicated that lack of scientific appraisal system with objective and clear criteria, procedures and regulations could lead to supervisors' guanxi practices in performance appraisal. This is consistent with the institutionalists' view that a weak legal or regulatory system produces guanxi practices in China (e.g. Guthrie, 1998; Oi, 1989).

Secondly, the implementation of new performance appraisal systems had helped to diminish supervisors' guanxi practices in appraisal to some extent. The new appraisal system in state-owned bank A established procedures and criteria for the supervisors to comply with. These regulations formed an obstacle to some supervisors' willingness to benefit those employees who have guanxi but do not perform well in appraisal. It is found that some supervisors started to comply with the regulations and make appraisal decisions based on employees' performance, although those supervisors who have a higher level of relationalism still take guanxi into consideration when making decisions in appraisal. However, it is observed that the prevalence of guanxi practices in appraisal in state-owned Bank A had been reduced by the new system. One employee in Bank A said:

"I know that the new appraisal system had a big impact on some supervisors. They strictly abide by the new policy. I think the employees in their workgroup are lucky. However, for my supervisor, I do not think he had realised the new policy. He still does what he did before in appraisal. "

One supervisor in Bank A also said:

"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 and can use the new regulation as a strong excuse to explain this to employees.”

Therefore, it could be concluded that the reform of appraisal system had generally reduced the guanxi practices in evaluation to some extent in state-owned Bank A. It indicated that the improvement of the regulations and policies in organisations could help to diminish the supervisors’ HR decisions based on guanxi. This echoes Guthrie’s (1998) idea that the art of guanxi is decreasing in China, with the construction of legal system by government.

However, according these findings, guanxi practices in performance appraisal are still more prevalent in state-owned Bank A than both of foreign Bank B and city Bank C, even though state-owned Bank A had implemented a modern appraisal system in reform process. Therefore, we must consider why guanxi still matters in performance evaluation in Bank A, even after the reform of appraisal system, from both an institutional and cultural perspective.

8.2.3.1 Institutional and cultural heritage: complex guanxi network

It is observed that the complex guanxi networks in state-owned Bank A still has a great impact on the new performance appraisal system after the reform in that the complex guanxi network continues to influence supervisors’ guanxi practices in appraisal. All of the interviewees in the state-owned Bank A claimed that the existing and complex guanxi networks within the bank still greatly influence the modern style appraisal system, even after the introduction of the new regulation, which is designed to reduce the impact of guanxi on appraisals. The reform of performance appraisal systems has not led to an immediate change in supervisors’ guanxi-based behaviour and opinions, or eliminated guanxi’s impact on supervisors’ decisions. Therefore, it was found in the interviews that although some managers

started to abide strictly by the principle of equity, a large number of supervisors in Bank A are still strongly affected by employees' guanxi in performance appraisals.

It is found that supervisors are either actively or passively treat employees with or without guanxi differently in appraisal, because of the impact of the complex guanxi network. Some supervisors actively allocate better performance ratings or provide more help toward those subordinates with whom they have good guanxi than others, even if they do not perform better. On the other hand, some supervisors passively make appraisal decisions based on guanxi; because of those subordinates' guanxi with some other important persons in Bank A (e.g. a subordinate is a relative of a higher level manager in Bank A).

Compared to the prevalence of guanxi in Bank A, the situation is different in foreign Bank B and city Bank C. All interviewees from foreign Bank B stated that the formative regulations and HR practices and performance-oriented culture diminishes the development of complicated guanxi networks and guanxi practices within the bank, and promotes a healthy performance-based atmosphere. The interviewees in city Bank C expressed similar feelings that supervisors' pursuit of better workgroup performance makes them focus more on employees' individual performance rather than guanxi. Both foreign Bank B and city Bank C have a short history in China. Intense competition among workgroups and supervisors generates performance-oriented culture, which constrains the development of guanxi between supervisors and subordinates and the formation of complicated guanxi network within the bank. Moreover, well-designed and implemented regulations and policies for HRM also limit the use of guanxi in HR practices.

Two reasons for the formation of complex guanxi networks in Bank A

According to the interviews, the existing guanxi network is complex and supervisors' guanxi practices are prevalent in state-owned Bank A. It is interesting that two reasons, one institutional reason and one cultural reason, for the formation of

complicated guanxi networks and practices were founded in Bank A.

Institutional reason

Firstly, in terms of the institution, traditional HR policies and practices in Bank A helped to promote the development of a guanxi network and make it more complex. For instance, in the past, Bank A had a policy of recruiting children of the current employees, who held at least a three year college degree. Every autumn, employees whose children were graduating in the following year, were required to provide a report on their children to be kept on file by the HR department, if the family wanted to obtain a job from Bank A. Then, the higher level managers in Bank A would consider allocating work and positions to those employees' children, based on their qualifications. As one elder employee said in the interview:

“Higher level managers in the bank would allocate better work types, better positions and better work locations to the children of employees with whom they have good guanxi. In order to obtain a good job for the child, the employee would invite higher level managers to dinner, visit them and give gifts to them.”

The recruitment of employees' children was regarded as an important perk for employees in Bank A. According to HR staff, this policy was abolished three years ago, with the reform and standardisation of HR practices in Bank A. However, it was reported that a number of graduates could be still recruited into Bank A through guanxi as long as the graduate has direct or indirect guanxi with a higher-level manager within the bank. Those graduates who have guanxi still need to apply for the job via campus recruitment system of Bank A, but their performance in the recruitment process is not important, because their position had been already pre-determined by higher level managers. The competition in job applications to Bank A is very intense, because of higher salaries, good working conditions, promising industry and higher social status, and therefore, jobs in Bank A have very

high requirements, e.g. a relevant major degree from a top university. However, graduates recruited through guanxi are normally not as qualified as other graduates who succeed on their own ability and qualifications. One employee reported that:

“I can tell you a story about one of my colleagues. His father is a higher level official in the city government. I’ve heard that his father was the classmate of a higher level manager in my bank. He was recruited into my bank with help of this manager, although this colleague just had a literature-major degree from a third tier university, which is not qualified at all. I do not think that this colleague is able to perform well in my workgroup, due to his lack of expertise knowledge. Therefore, the supervisor would ask other subordinates to help him with work, when he has new tasks. But the supervisor would provide more help and satisfactory evaluations for him, because of his guanxi with the higher level manager.”

Therefore, it is found that some old special guanxi-based HR regulations, policy and practices, e.g. guanxi-based recruitment, had complicated the internal guanxi network within Bank A. This is consistent with the views of scholars holding an institutional perspective that existing institutions in China promote the prevalence of guanxi and guanxi practices (e.g. Guthrie, 1998).

Cultural reason

The second reason for the formation of a complicated guanxi network within Bank A is that employees actively develop guanxi with their supervisors or higher level managers, through a number of different strategies.

It is very common and indeed necessary to develop guanxi with line managers and high level managers within the bank. Firstly, employees’ development of guanxi with supervisors could help to attract supervisors’ attention, demonstrate their respect toward supervisors and improve communication channels with their supervisors.

Supervisors, particularly older ones, consider an individual's ability to develop guanxi as evaluation criteria. As one employee in Bank A said, if they give gifts to supervisors on special holidays, the supervisors would regard this employee positively and treat the employee who gives gifts better than others. Supervisors' attitudes toward guanxi and development of guanxi have a positive impact on employees' willingness and activities of guanxi development.

Secondly, if an employee wants to have a positive career trajectory, the development of guanxi with managers through non-workplace interactions is always considered the most important aspect of the work for employees in Bank A, because the manager makes HR decisions regarding subordinates based on their own reasons, regardless of subordinates' performance. As one interviewee said, a staff member's guanxi with managers is the crucial factor in influencing managers' decisions on promotions. As long as a manager thinks the employee is entitled to be promoted, he can be given the promotion opportunity. Even if this employee does not give the best performance, the manager can provide other reasons for justification to the highest decision makers of Bank A, such as the employee having strong leadership or good communication skills.

Based on the above two reasons, almost all of the employees clearly understand and recognise the importance of guanxi in all aspects of the life at workplace in Bank A. Employees strive to develop guanxi with supervisors and higher level managers, within Bank A, by using different methods and strategies. In order to develop guanxi with managers, it is traditional for employees to interact with managers outside of work, such as visiting managers' homes on special days to give gifts for celebration. These interactions are considered the most effective method for new employees to establish their own guanxi networks, which will benefit their career development. Therefore, employees' active development of guanxi with managers is considered to be an important skill and ability and could explain the future success of new employees who do not have guanxi. 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.”

We can see that employees in Bank A display a natural tendency to actively build, develop and use guanxi. This is consistent with Chen and Chen's (2004) view that we should treat guanxi as a continuous variable and the quality of guanxi is changing. Employees in Bank A choose to develop the quality of guanxi with important people, which led to employees' own guanxi network. Even if an employee does not have any guanxi when they start working for Bank A, they could have a strong guanxi network with the active effort for development of guanxi for several years. This is also consistent with scholars with cultural perspective toward guanxi (e.g. Bian, 1994) who claim that guanxi is a fundamental phenomenon in China and individuals rationally develop and use guanxi in order to achieve their personal goals.

In summary, the combination of traditional guanxi-based HR policies and practices (institutions) and employees' active development of guanxi with managers in state-owned Bank A (culture), results in complicated guanxi networks and the prevalence of guanxi practices. It is consistent with Gold, Guthrie and Wank's (2002, p17) view that “the reality is that both culture and institutions matter for the functioning of guanxi in China.” Therefore, the complicated guanxi network within Bank A could be regarded as a type of institutional heritage or cultural legacy. It is found that the complex guanxi network still has a great impact on supervisors' decisions and behaviour in appraisals. The regulation of the new appraisal system cannot immediately eliminate guanxi practices in appraisal, because supervisors are still actively or passively influenced by the complex guanxi network in Bank A.

Situation in foreign Bank B and city Bank C

It is found that there is no complex guanxi network as a historical heritage in foreign Bank B and city Bank C, particularly Bank B. Firstly, since their establishment, both of these two banks have comparatively modern HR policies and practices, which constrain the fast development of complicated guanxi networks within the bank. As one employee in Bank C said, the well-designed HRM system emphasizes the importance of employees' performance. The systematic HR policies and regulations had provided important criteria for both of managers and employees to follow. Therefore, with proper monitoring, the use of guanxi is either unnecessary or difficult.

Moreover, in both of these two banks, there is not a strong tradition or culture for employees to develop or cultivate guanxi with managers. One employee in foreign Bank B said that normally, outside of working hours, employees do not have any contact with managers. It is not traditional to give gifts to managers on special days or visit their managers' homes. According to one employee in city Bank C, although employees' active development of guanxi with managers is not prevalent in his bank, he knows that some employees actively develop guanxi with managers by using non-workplace interactions, such as giving gifts or home visits. This leads to the formation of employees' own guanxi network within the bank, which is perhaps helpful to their future development. However, all employees and managers in Bank C admitted in the interviews that the guanxi network within the bank was not complex and did not have a big influence on supervisors' decisions in HR practices. One manager in Bank C illustrated that he did not need to consider whether his subordinates had guanxi with other managers in the bank when he make HR decisions.

To sum up, the complex guanxi network in state-owned Bank A, a type of institutional heritage (previous HR regulations and practices) and cultural legacy (employees' active development of guanxi with managers) is complex and still has a great impact on supervisors' decisions and treatment toward employees in performance appraisal after reform. On the other hand, the other two banks do not have a complicated guanxi

network, because of their comparatively fairer HRM systems and absence of the tradition and culture of guanxi development and use. This is consistent with previous research which has indicated that cultural and institutional heritages of state-owned enterprises have constrained the reform of HRM systems and the adoption of Western style modern HRM practices (Ding *et al.*, 2000; Ngo *et al.*, 2008). It is found that the historical heritage – complex guanxi network in state-owned Bank A had a great impact on supervisors' behaviours in appraisal, which constrains the achievement of goal of the reform. In next parts, I will continue to examine the formation of guanxi practices in performance appraisal in three banks, in terms of both cultural and institutional perspectives.

8.2.3.2 Cultural perspective

In this part, cultural aspects, including organisational culture and personal cultural values will be discussed in order to explore the formation of guanxi practices in performance appraisal in Chinese banks, especially in state-owned Bank A after reform.

Personal cultural value

Supervisors' relationalism and employees' utilisation of guanxi are found to have impact on guanxi practices in appraisal, in that supervisors with higher level of relationalism and employees' active utilisation of guanxi promotes guanxi practices in appraisal.

Supervisors' relationalism

According to King (1991), relationalism is defined as “a social and moral system in which obligations to interpersonal and small-group relationships take precedence over both one's individual self-interest and the interest of larger institutions and communities” (Chen & Chen, 2009, p 42). It is argued that people with higher relationalism will be inclined to develop and maintain close guanxi through multiplex, thick and continuous favour exchanges and cooperative behaviour (Chen & Chen, 2004).

In state-owned Bank A, where supervisors have considerable authority and are able to make decisions without any employee participation, all employee interviewees reported that the supervisors' relationalism has a great impact on guanxi practices in performance appraisals. The supervisors' behaviour after appraisal reform could be generally divided into two categories. Those supervisors with lower relationalism altered their behaviour and began to abide by the company appraisal policy and make decisions based generally on employees' performance. However, supervisors with higher relationalism were still heavily affected by employees' guanxi in performance appraisals and continued to make decisions or providing directions toward employees based on guanxi. Their behaviour remained the same as it was before appraisal and they continued to put guanxi prior to employees' performance in appraisal. This is consistent with Chen et al's (2002) findings that individuals who endorse relationalism would be resistant to economic and enterprise reform, both of which emphasise the performance rather than interpersonal relations.

Similarly, in interviews with employees in city Bank C, they all stated that a proportion of supervisors with higher relationalism are influenced by subordinates' guanxi in performance appraisal implementation. These supervisors, who emphasize the maintenance of guanxi with employees, would ignore appraisal regulations and make decisions based on guanxi in order to reciprocate those employees who develop guanxi with them.

Thus, it is observed that a large number of supervisors in Chinese banks have higher relationalism and are inclined to make decisions and treat employees based on guanxi, which is consistent with King's (1991) view that relationalism is deeply rooted in Chinese psyche and Chinese people have a predominantly guanxi itself. On the other hand, Chinese culture and society "is enormously complex, diverse and dynamic as it builds on multiple schools of thoughts that represent different views regarding human existence and human relationships" (Chen and Chen, 2009, p43). Therefore,

it is found that other supervisors have lower relationalism and do not regard guanxi as criteria in performance appraisal, probably because they endorse other beliefs or values (e.g. Legalist or Daoist). However, it could be concluded that Confucian relationalism culturally and deeply influence Chinese people's psyche and daily life. Thus, in terms of cultural perspective of guanxi, a large number of Chinese supervisors in banks will actively violate the well-designed regulations and policies in company and spontaneously involve in establishment, cultivation and utilisation of guanxi (e.g. guanxi practices in performance appraisal), even though this is harmful to either group interest (e.g. the interest of employees without guanxi) or supervisors' self-interest (e.g. supervisors' reputation).

Another interesting finding regarding supervisors' guanxi practices in appraisal after reform is that supervisors creatively change their strategies or behaviours for guanxi practices, according to changes to company regulations and policies. The regulations for the new performance appraisal system after reform in Bank A emphasises employees' performance, which should be the primary criteria for evaluation, rather than guanxi, seniority or need. Therefore, making decisions regarding employees' performance based on guanxi appears to violate new appraisal regulations. Many supervisors consider that it is no longer proper and even unsafe to make appraisal decisions based on guanxi, because it leads to negative attitudes of employees without guanxi and even the notice of higher-level managers. Thus, in order to avoid risk of criticism from employees without guanxi and higher level managers, supervisors begin to provide more intangible benefits, such as help and direction to those employees with guanxi in order to help them obtain a good performance, instead of directly making appraisal decisions based on guanxi (tangible benefits).

Due to the mutual obligations of favour exchange, two parties in guanxi need to provide benefits to each other for the development and maintenance of guanxi (Chen & Chen, 2004). Therefore, supervisors need to reciprocate those employees with

whom they have good guanxi, by providing benefits in the workplace. After the appraisal reform in Bank A, supervisors should find an easier and safer way of rewarding employees with guanxi in appraisal, by providing direction and support. According to the interviews in foreign Bank B and city Bank C, supervisors choose to provide more direction to employees with guanxi instead of directly offering a better performance rating, under the rigid appraisal regulation and monitoring mechanism. This finding is consistent with the scholars with cultural perspective that guanxi was deeply rooted in Chinese psyche (King, 1991; Yang, 1994). Reacting to the change of organisational regulations and policies, Chinese people tend to adjust their guanxi practices, by choosing a “suitable” type of guanxi practices under the framework of regulation or even innovatively developing new types of guanxi practices at workplace, in order to avoid risk.

Employees’ behaviours

Employees’ active utilisation of guanxi also has a positive impact on supervisors’ guanxi practices in performance appraisal. In interviews with employees in state-owned Bank A, some employees have actively pursued frequent interactions with supervisors and intend to influence supervisors’ behaviours and decisions in performance appraisals. For example, some employees visit supervisors’ home and regularly give them gifts in order to develop guanxi, attract their attention and obtain more help at work. Some employees even intend to give some valuable gifts to supervisors before their appraisal, in order to obtain a good result of the appraisal from supervisor. Their interactions are aimed to entice the supervisors into providing more direction to these employees or even directly offering a better performance rating to them. It is consistent with Chen and Chen’s (2004) view that expressive and instrumental interactions are two primary activities for cultivation and utilisation of guanxi in China.

To sum up, in Chinese banks, supervisors with higher relationalism ignore the regulation which emphasizes performance and insist on treating employees differently

based on whether they have guanxi. Moreover, some supervisors with higher relationalism even change their strategies for guanxi practices, by providing more direction to employees with guanxi in order to help them to perform better instead of directly offering a better performance rating in appraisal. Some employees use frequent interactions to influence supervisors' behaviours and even decisions in appraisal. It is found that either supervisors or employees are actively involved in guanxi practices in performance appraisal and development of guanxi, regardless of organisational regulations and policies. All of these findings echo King's (1991, p68) view that "the Chinese are preoccupied with guanxi building which has indeed a built-in cultural imperative behind it."

Organisational culture

Organisational culture in three banks is also found to have great impact on guanxi practices in performance appraisal.

Before the reform of performance appraisal system in state-owned Bank A, the bank had few performance oriented HR practices with objective and clear criteria or standards, while guanxi played a very important role in almost all aspects of HR practices. At that time, employees still need to develop guanxi within the company in order to have brighter career prospects, such as good performance evaluation, promotion or training opportunities. Managers also tended to provide more benefits to employees with guanxi, not only because it is a tradition within the bank, but also perhaps because it is beneficial to their own careers. After the introduction of new performance appraisal system, performance became the sole criteria for evaluation. However, according to the result of both qualitative and quantitative research, it is found that guanxi still greatly influence supervisors' behaviours in appraisal, which means that supervisors are resistant to reform and change.

Therefore, these two conflicting culture – guanxi based practices and performance orientation – coexist within Bank A and have a mutual impact on HR practices and

supervisors' behaviours. This echoes Li's (2005) view that Chinese conventional wisdom, i.e. managerial networking and modern management philosophy, i.e. strategic orientation could coexist in China's transition economy. Thus, with the impact of these two competing cultures, supervisors with higher relationalism are inclined to behave based on guanxi in performance appraisal; while supervisors with lower relationalism tend to base their decisions more on employees' performance.

Since its establishment in China, city Bank C had implemented a series of performance oriented HR policies and practices, in order to cultivate a performance oriented culture within the bank. However, some supervisors are heavily influenced by employees' guanxi in terms of their decisions and treatment in performance appraisal process. As one employee states, some employees tried their best to develop a good guanxi with their supervisors or other higher-level managers, hoping that they could obtain some benefits from them. These activities gradually led to the formation of those employees' network within the bank and also supervisors' guanxi practices in appraisal and other HR aspects. While Bank C promotes the performance-oriented culture, employees cannot avoid the Chinese tradition for development of guanxi with authorities. As one employee states, these activities do not mean that employees hope to obtain performance ratings beyond their performance, they just want to make sure their performance is recognised and obtain some extra direction and support from supervisors. This is consistent with Li's view that conflicting culture (guanxi based and performance oriented) could coexist in current Chinese organisations and also echoes the scholars' culture perspective regarding guanxi that Chinese people are born with the ability to cultivate and use guanxi (e.g. Bian, 1994).

Foreign bank B also has a modern HRM system, including a well-designed objective performance appraisal system. The performance oriented culture within the bank deeply influences both supervisors' and employees' behaviours. Although the majority of the supervisors make fair decisions based on employees' performance in

appraisal, guanxi still has some impact on some supervisors' behaviours, particularly in departments with more subjective performance criteria such as HR and administration. As one employee states, the result of the performance appraisal is directly linked to employees' and supervisors' bonus and promotion; therefore, supervisors will encourage able employees with good performance ratings. On the other hand, he also states that having good guanxi with supervisors or other high level managers can help employees to obtain a better performance rating than colleagues with similar performance. However, traditional methods of developing guanxi for Chinese people, such as giving gifts or home visit, are not common in foreign Bank B. Outside of work, employees have very little contact with supervisors, which limits the development of complex guanxi within the bank and reduces guanxi practices in performance appraisal.

Based on the discussion above, it is found that two conflicting culture – guanxi based practices and performance orientation coexist in all of these three banks. However, guanxi has stronger impacts on appraisals in state-owned bank A than the other two banks, while performance orientation has greater impacts on appraisals in foreign bank B than the other two banks. Thus, the differences of organizational culture contribute to the different level of guanxi practices in appraisals among these three banks.

8.2.3.3 Institutional perspective

Some institutional defects in the new performance appraisal system in state-owned Bank A have a significant impact on guanxi practices in appraisal. According to the interviewees including both managers and HR staff, there is a lack of transparency in decision-making processes and no supervision mechanism to prevent managers' inappropriate behaviour and biased decisions.

The appraisals policy in state-owned Bank A does not provide an opportunity for employees to participate in the process of appraisal, while the one-way closed communication also reduces employees' opportunities to observe and find out about

the specific process of performance appraisals and supervisors' decisions. Lack of a transparent appraisal decision means that employees are unable to see how supervisors make decisions, or understand process and procedure; while supervisors have more opportunities to make decisions based on *guanxi* rather than performance.

Public knowledge and scrutiny were found to not only put pressure on authorities to justify their criteria in the decision-making process, but also to motivate authorities to act according to normative expectations of social norm and responsibilities (Orbell, *et al.*, 1988). Moreover: "decision transparency may also decrease the information asymmetry between insiders and outsiders of the *guanxi* circle" (Chen & Chen, 2009, p47). Therefore, the lack of a transparent decision-making process leads to a lack of employee knowledge and scrutiny about the supervisors' behaviour and decisions, which increases the *guanxi* practices in appraisal.

Moreover, it was observed that state-owned Bank A has a supervision mechanism for the new performance appraisal system, whereby the head of the department reviews each supervisor's final decisions and revises any inaccurate ratings. However, as one manager in Bank A states, it is very difficult for the head of the department to make an accurate review of every rating because the head does not have adequate knowledge and information about the performance of each employee. Secondly, it is not usual for the head of the department to change the appraisal decisions, because they need to give *mianzi* (face) and show respect to supervisors in the department, in order to maintain a harmonious relationship with them. Therefore, this element of the supervision mechanism in performance appraisal system in Bank A does not achieve the desired results.

On the other hand, supervisors' decision making processes in appraisals were found to be more transparent in both foreign Bank B and city Bank C than state-owned Bank A, because of employees' ability to participate in the appraisal process and the open two-way communication system, which means employees are better informed about

appraisals. Moreover, the supervision mechanism in these two banks is more effective than the counterpart of state-owned Bank A, because the supervision committee in these two banks does not place much emphasis on harmony and thus will make adjustments to unfair and improper ratings made by supervisors.

These findings indicate that institutional defects, including decision making transparency and supervision mechanism provide the conditions for guanxi practice to influence performance appraisal. According to Bian (2002), individuals rely on guanxi in employment process, because of “institutional holes” in the Chinese labour market. Thus, the finding here is consistent with scholars with institutional perspective on guanxi and also echoes Bian’s view of “institutional hole”.

To sum up, it is found that the reform of performance appraisal in state-owned bank A diminished guanxi practices in appraisal to some extent. However, guanxi practices in appraisals in bank A are still more prevalent than the other two banks, due to the following three reasons. Firstly, the historical heritage – complex guanxi network within Banks make supervisors actively or passively be involved in guanxi practices. Secondly, although guanxi network and performance orientation coexist within bank A, guanxi network still have a great impact on supervisors’ thoughts and behaviors. Thus, supervisors with higher relationalism and employees who actively develop guanxi within the bank are inclined to behave according to guanxi criteria. Thirdly, it is found that institutional defects in the new performance appraisal system in state-owned Bank A (i.e. a lack of transparent appraisal decision-making and effective supervision mechanisms in appraisal) provide conditions for supervisors’ guanxi practices in appraisals.

This echoes Gold et al.’s (2002, p17) view that “both culture and institutions matter for the functioning of guanxi in China.” It is found in this study that the cultural and institutional factors in these three banks, especially in state-owned bank A, jointly contributed to the formation of complex guanxi and supervisors’ guanxi practices in

performance appraisals.

8.2.4 The role of guanxi and guanxi practices in Chinese organisations

Having examining the impact of guanxi practices on appraisal (quantitative result) and the institutional and cultural perspective of guanxi in three banks, it is necessary to discuss the real role of guanxi and guanxi practices in China and its implications to both employees and managers in Chinese organisations.

Guanxi

Guanxi is not intrinsically negative and I do not hold a negative attitude toward it. The importance of guanxi will not diminish; thus, it is necessary for Chinese people to develop their own guanxi network. According to both the qualitative and quantitative research discussed above, guanxi still has a significant impact on HRM practices such as performance appraisal in Chinese organisations; while the majority of Chinese employees in the interviews noticed and understood its importance and effects. I believe guanxi will retain its centrality in Chinese society and suggest that Chinese people should develop guanxi for future use, for the following reasons.

Firstly, the development of guanxi is considered as a mark of respect by many people, particularly the older generation; therefore, it is good manners for employees to develop or maintain a good guanxi with authorities or supervisors in Chinese organisations. Therefore, activities like home visits, having dinner with supervisors and giving gifts to supervisors on special days becomes not only important but also necessary as a way of demonstrating respect and commitment. In exchange, authorities will value these activities and pay more attention to employees who try to develop guanxi with them.

Secondly, based on the discussion above, from an institutional perspective, the importance of guanxi in Chinese organisations has an institutional basis. The reform of HR practices could not effectively diminish this phenomenon. One important

reason is that supervisors are resistant to change, because “the mind-sets of Chinese managers and workers remaining anchored in earlier practices for longer than prima facie organisational changes would suggest” (Warner, 1999, p2). Thus, it could be expected that guanxi still matters a lot, although more and more organisations reform their HR policies and practices to more standardized level.

Thirdly, from a cultural perspective, Chinese people are born with the ability and skills of developing guanxi with others (Yang, 1994). Chinese employees actively develop guanxi with different people in order to build his/her own guanxi network for future use. I believe that with this tradition and cultural value, Chinese people’s attitudes toward guanxi will not change in short period; while one’s own guanxi network becomes more complicated in the future because of their active development.

Fourthly, as China has a huge population, the competition in almost every aspect in China is intense and resources are still very limited. Therefore, practically, in order to survive in the competition, it is better for Chinese people to build their own guanxi network. Reasons including the constraints of strict policies and regulations or others having stronger guanxi, mean it cannot always determine success, but it can help to obtain competitive advantage.

Based on the reasons above, I suggest that Chinese people should learn to build and cultivate guanxi in order to make sure that they obtain what they deserve in every aspect of life and avoid being unfairly treated in guanxi practices, especially in the workgroup in which guanxi strongly influences supervisors’ decisions or behaviours. However, it should be noted that employees’ development of guanxi in this workgroup is not aimed to produce supervisors’ guanxi practices which benefit themselves but leads to unfairness toward other employees. Instead, a proper development of guanxi is recommended, which ensures that employees who develop guanxi with supervisors are not treated unfairly.

According to Chen and Chen (2004), there are mainly two types of interactions for guanxi building and cultivation: expressive interactions and instrumental interactions. As Chen et al (2009) point out, Chinese people have a higher degree of long-orientation cultural value; and thus would more accept expressive interactions which aim to building a long-term guanxi rather than instrumental interactions for immediate exchange. Therefore, I suggest that in order to appropriately develop guanxi with authorities, employees could use expressive interactions as strategies such as giving proper gifts or communication method (rather than expensive gifts which leads to bribery) to build, develop or maintain guanxi with authorities. The purpose of expressive interactions is to build a good guanxi with strong sentiment but not for supervisors' exchange by using unfair guanxi practices at the expense of others' interests. On the other hand, I suggested that Chinese people do not adopt instrumental interactions, because this leads to guanxi practices, which produce unfairness and injustice and also is harmful to the interests of others or even the whole workgroup. Therefore, I do hold a negative attitude toward instrumental interactions via guanxi in Chinese organisations.

Guanxi Practice

I believe that guanxi practices have negative impacts on several important aspects. And I think guanxi practices will not substantially decrease in a short period in China. Therefore, I suggest that employees and managers keep themselves away from guanxi practice and organisations should adopt some effective strategies to constrain the emergence and impacts of guanxi practices.

Based on the argument in the literature and the findings in my own empirical studies, I have summarised the following reasons for the negative impacts of guanxi practices.

Firstly, guanxi practices have negative impacts on employees' affective attitudes and perceptions of justice, including procedural justice, distributive justice, trust in managers and reactions toward performance appraisal (e.g. Chen, Chen & Xin, 2004;

Chen *et al.*, 2009). In teams, supervisors' guanxi-based decisions and behaviours would benefit those employees with guanxi; while the interests of employees without guanxi are sacrificed and hurt.

Secondly, supervisors' guanxi practices have negative impacts on the interest of the team. As employees without guanxi have negative feelings toward guanxi practices, it could be assumed that they would also have negative attitudes toward those employees with guanxi, which could harm cooperation and communication among team members; and in turn, the productivity of the department.

Thirdly, guanxi practices would also have negative impacts on the reform or implementation of new HR policies and practices at organisational level. The shared mindset of supervisors in state-owned Bank A had made them resistant to change their guanxi-based decisions to performance-based decisions. Thus, guanxi practice in performance appraisal, which is still prevalent, violates the new regulations for appraisal system and limits the effectiveness of the new system in supervisors' and employees' views.

Despite the negative impacts of guanxi practices, it seems that guanxi practices are unlikely to reduce in the foreseeable future in China for the following reasons.

Firstly, the construction of legal system e.g. the reform of the performance appraisal system, will not immediately end guanxi practices. As a result of the impacts of shared mindset and individuals' relationalism, some people will resist change and continue making decisions based on guanxi, particularly if there is no apparent decision-making process and supervision mechanism. Secondly, Chinese people will change their strategies for guanxi practices and could create new types of guanxi practices in order to adapt to the change of regulations. The finding above is a very good example of this; some supervisors reduced guanxi-based performance ratings, but began offering more support and direction to employees with guanxi to help them

perform better. This indicates that Chinese people would actively alter their guanxi practices and develop some new forms of guanxi practices according to the emergence of new regulations.

In conclusion, guanxi will retain its centrality and importance in Chinese society. Guanxi is not intrinsically negative. Employees are encouraged to properly develop their own guanxi network, in order to benefit their development, by expressive interactions; however, it is better to avoid instrumental interactions, which lead to guanxi practices and even bribery. Furthermore, as it is at the expense of the interests of individuals without guanxi, the team and even the organisation, guanxi practice has negative impacts on the attitudes of employees without guanxi, the cooperation and productivity of the team and the success of new HR policies and practices. Therefore, I suggest that employees and supervisors do not involve in guanxi practices, which emphasise their own interests at the expense of others' and organizational interests; and organisational implement effective policies to forbid guanxi practices as well.

8.2.5 Conclusion

Both quantitative results from the survey as well as qualitative results from the interviews indicate that the impact of guanxi on appraisal is significantly different between these three banks. In state-owned bank A, guanxi has a greater and stronger impact on appraisals than in the other two banks, while impact of guanxi on foreign bank B is the weakest and city bank C is in between these two banks. Moreover, the antecedents of guanxi practices in appraisals were also examined and three possible reasons have been discussed above, including complex guanxi network - historical heritage within the bank, organizational culture and some institutional defects and holes.

In the following section, the employees' perceptions of justice and reactions toward the appraisals in the three banks will be discussed and compared. In the first section,

employees' satisfaction with performance ratings and employees' distributive justice perceptions will be presented. In the second section, employees' satisfaction with the appraisal system and procedural justice perceptions will be discussed and compared. Then, the third section will focus on employees' satisfaction with supervisors in appraisal and interactional justice perceptions.

8.3 Employees' perceptions of distributive justice and satisfaction with ratings

Supervisors' distribution of performance ratings toward subordinates is one of the most important aspects of performance appraisal. Therefore, it is necessary to examine the employees' distributive justice perceptions and their satisfaction with ratings.

Company ownership plays a very important role in the adoption of HRM practices in China. It was reported that cultural legacy is an important constraint on the adoption of HRM practices in state-owned companies (Ding et al., 2000; Ngo et al., 2008). Moreover, it has been found that several Chinese cultural factors, such as employees' guanxi and seniority, will have great impact on HRM practices in state-owned companies than other types of organisations in China (Bai and Bennington, 2005; Cooke, 2008). Therefore, it could be assumed that those Chinese cultural factors would have a stronger impact on supervisors' allocation of performance ratings in state-owned companies than in foreign bank B and city bank C. Hence, it is also hypothesised that:

Hypothesis 11: *Employees' satisfaction with performance ratings in state-owned bank A will be significantly lower than foreign bank B and city bank C.*

Hypothesis 12: *Employees' perceptions of distributive justice will be significantly lower than foreign bank B and city bank C.*

8.3.1 Quantitative analysis of survey results

The one way ANOVA was also calculated to compare the mean difference in two scales: ‘employees’ satisfaction with performance ratings’ and ‘employees’ distributive justice perceptions.’

8.3.1.1 Employees’ satisfaction with performance ratings

The mean of the employees’ satisfaction with ratings in these three banks is 3.1528 for state-owned bank A, 3.5600 for foreign bank B and 3.5250 for city bank C. The *p*-value of Levene’s test in this case is 0.01, which indicates that there is a significant difference between the variances in the population. According to the findings (see table 8-3 below), a significance mean difference were observed between bank A and the other two banks. However, it is noted that there is no significant difference in mean difference between Bank B and Bank C. Therefore, it is concluded that the employees in both foreign bank B and city bank C have a much higher level of satisfaction with performance ratings than state-owned bank A.

Table 8-3: One way ANOVA test, Levene’s test and multiple comparisons for employees’ satisfaction with performance ratings

Descriptive statistics								
Scale: employees’ satisfaction with performance ratings								
	N	Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Higher Bound		
Bank A	108	3.1528	1.05726	0.10173	2.9511	3.3545	1.50	5.25
Bank B	100	3.5600	0.88129	0.08813	3.3851	3.7349	1.75	5.50
Bank C	100	3.5250	0.88727	0.08873	3.3489	3.7011	1.75	5.25
Total	308	3.4058	0.96375	0.05491	3.2978	3.5139	1.50	5.50

Test of Homogeneity of Variances			
Scale: employees' satisfaction with performance ratings			
Levene Statistic	df1	df2	Significance
4.691	2	305	0.010

ANOVA					
Scale: employees' satisfaction with performance ratings					
	Sum of squares	df	Mean square	F	Significance
Between groups	10.713	2	5.356	5.953	0.003
Within groups	274.432	305	0.900		
Total	285.144	307			

Multiple Comparisons between Three Banks					
Scale: employees' satisfaction with performance ratings					
LSD Test	Mean Difference	Standard Error	Significance	95% Confidence Interval	
				Lower Bound	Upper Bound
Bank A VS Bank B	-0.40722*	0.13164	0.002	-0.6663	-0.1482
Bank A VS Bank C	-0.37222*	0.13164	0.005	-0.6313	-0.1132
Bank B VS Bank C	0.03500	0.13415	0.794	-0.2290	0.2990

*The mean difference is significant at the 0.05 level.

8.3.1.2 Employees' distributive justice perceptions

A similar finding was detected in employees' distributive justice perceptions. The mean of this variable for three banks is 3.2407 for bank A, 3.6875 for bank B and 3.6050 for bank C and the *p*-value for Levene's test (<0.05) also indicated that a significant difference exists between the variance in the population. A significant difference was found between the state-owned bank A and the other two banks; on the other hand, no difference in this case was observed between bank B and bank C. To summarise: the employees in state-owned bank A expressed significantly fewer distributive justice perceptions than foreign bank B and city bank C.

Table 8-4: One way ANOVA test, Levene's test and multiple comparison for employees' distributive justice perceptions

Descriptive statistics								
Scale: employees' distributive justice perceptions								
	N	Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Higher Bound		
Bank A	108	3.2407	1.04453	0.10051	3.0415	3.4400	1.75	5.00
Bank B	100	3.6875	0.85751	0.08575	3.5174	3.8576	1.75	5.00
Bank C	100	3.6050	0.80731	0.08073	3.4448	3.7652	2.00	5.00
Total	308	3.5041	0.93071	0.05303	3.3997	3.6084	1.75	5.00

Test of Homogeneity of Variances			
Scale: employees' distributive justice perceptions			
Levene Statistic	df1	df2	Significance
6.178	2	305	0.002

ANOVA					
Scale: employees' distributive justice perceptions					
	Sum of squares	df	Mean square	F	Significance
Between groups	11.872	2	5.936	7.126	0.001
Within groups	254.060	305	0.833		
Total	265.932	307			

Multiple Comparisons between Three Banks					
Scale: employees' distributive justice perceptions					
LSD Test	Mean Difference	Standard Error	Significance	95% Confidence Interval	
				Lower Bound	Upper Bound
Bank A VS Bank B	-0.44676*	0.12666	0.000	-0.6960	-0.1975
Bank A VS Bank C	-0.36426*	0.12666	0.004	-0.6135	-0.1150
Bank B VS Bank C	0.08250	0.12907	0.523	-0.1715	0.3365

*The mean difference is significant at the 0.05 level.

According to the results of the employee survey, it could be concluded that the employees in state-owned bank A had significantly lower satisfaction with ratings and distributive justice perceptions than both Bank B and Bank C. Therefore, both H11 and H12 are supported. In the following section, the factors that influence the supervisors' distribution of performance ratings will be discussed in each bank, based on Greenberg's (1986) two theoretical factors for distributive justice.

8.3.2 Qualitative analysis of interview results

According to Greenberg's (1986) two factors for distributive justice of appraisal, there are two important factors which influence individuals' distributive justice perceptions in appraisal. The first factor is employees' perceptions of the fairness of the performance appraisal ratings in relation to their actual performance, while the second factor is employees' fairness perceptions of appraisal-related outcomes, such as promotion or payment increase in relation to their performance ratings (Greenberg, 1986). Therefore, the employees regard their performance appraisal ratings and the related rewards as just and fair when ratings reflect their contribution and inputs, and when rating-related consequences reflect their actual performance (Cropanzano and Ambrose 2001). Based on the assumptions of Greenberg's two factors, two questions were examined when exploring the performance appraisal system in the three banks.

The first question was to explore whether the employees' performance ratings reflect the employees' real contribution and performance in each bank. It is not surprising that the employees in state-owned bank A reported in both survey and interviews that their performance ratings did not really reflect their actual contribution.. According to the interviews, two important Chinese cultural factors, namely guanxi and seniority, seriously influence supervisors' decisions within appraisals in Bank A. A large proportion of supervisors in Bank A consider employees' guanxi and their seniority when they distribute ratings. Those employees with guanxi or with higher seniority more easily receive better performance ratings, even if their performance is not better

than those without guanxi and with lower seniority.

In the case of foreign bank B, it was found that performance ratings reflected the employees' performance to a large extent. As the culture of the bank is very performance-oriented, the employees' guanxi has very limited impact on supervisors' decisions of appraisal. In city bank C, Chinese cultural factors such as guanxi or seniority have an effect on a proportion of supervisors' decisions in appraisals. As the employees reported, performance is always the most important factor in city bank C; however, those supervisors who have traditional Chinese personalities and characteristics, will still consider employees' guanxi or seniority in appraisals. This limits the accuracy of the appraisal results in bank C. Overall, the performance ratings in city bank C could partially reflect employees' performance and contribution.

Thurston (2001) identifies two types of forces associated with the employees' perceptions of distributive justice in performance appraisals. The first type is supervisors' decision norms in appraisal. The supervisors could distribute the performance ratings among the subordinates conforming to some existing social norms, such as equity, equality, need and social status. It has been reported (Leventhal, 1980) that the subordinates would consider the performance ratings in accordance with an equity norm as fair; however, the performance ratings, which are developed by conforming to other distribution norms, such as social status, need, equality, will be regarded as unfair and unjust by the subordinates.

In state-owned bank A, a large proportion of supervisors' decisions in appraisals are influenced by the employees' guanxi and seniority, which is inconsistent with the equity norm and leads to employees' perceptions of distributive unfairness of appraisal. All employee interviewees in Bank A admitted that the distribution of performance ratings by the supervisor in their workgroups is not fair, because cultural factors, such as guanxi and seniority, will colour the results. Meanwhile, equity is

the norm for supervisors' decisions in appraisals in foreign bank B, and equity is also considered prior to other norms, such as guanxi and seniority, in city bank C.

The second type of structural force is the supervisor's personal goals in appraisal, such as avoidance of conflict, motivation of the employees and the gaining of personal favour. As Thurston (2001) explains, the employees may regard the performance appraisal results as unfair if the goals of the supervisors include favouritism, politics and conflict avoidance. However, if employees perceive that the supervisors are trying to improve their performance, teach them or motivate them, the appraisal will be considered fair.

In state-owned bank A, the impact of employees' guanxi and seniority on supervisors' decisions in appraisal could be regarded as a type of supervisors' favouritism or politics. For example, in order to satisfy the employee with guanxi and this employee's important guanxi-related person (e.g. high level managers within bank A), the supervisor chooses to provide him with a higher performance rating, even if this employee does not have a better performance than his peers. Although this will bias distribution of performance ratings in the whole workgroup, the supervisor could thus develop good guanxi with that important person (e.g. high level manager), which will be beneficial for the supervisors' career development. The goal of the exchange between supervisor and the important guanxi-related person is one example of the supervisor's politics in appraisal. Thus, the employees in Bank A are not satisfied with the biased results of the performance appraisal and perceive very low distributive justice, which is shown by the results of both survey and interviews.

On the other hand, it is found that achieving better performance from the whole workgroup is the primary goal of the majority of supervisors in foreign bank B; however, some interviewees in foreign bank B also talked of the supervisors' politics and favouritism in appraisals. For instance, one employee in the HR department in foreign bank B reported that supervisors' favouritism influences the performance

ratings, because of a large proportion of the subjective performance criteria for evaluation. Nonetheless, in those departments with a large percentage of the objective performance criteria, such as the banking section, the impact of supervisors' favouritism on appraisal is greatly limited.

Meanwhile, favouritism also influences a proportion of supervisors in city bank C, in terms of their decisions in appraisal. As the results of the survey indicate, the employees in Bank C had moderate distributive justice perceptions among these three banks. The impact of supervisors' favouritism on appraisals in city bank C is weaker than in state-owned bank A, but more prevalent than in foreign bank B.

The second question is to examine whether the performance ratings are linked to the consequences such as reward, promotion, training opportunities, which flow from the performance ratings, and whether the consequences reflect employees' actual performance and contributions. According to expectancy theory (Vroom, 1964), individuals will have higher level of motivation to perform well, if the following three aspects are fulfilled: expectancy, which refers to an individual's perception that a certain level of effort is required to achieve a certain level of performance; instrumentality, which refers to the strength of the belief that a certain level of performance will be associated with various outcomes; and valence, which refers to the attractiveness of outcomes to the individual (Heneman and Werner, 2005). In state-owned bank A, the performance ratings are not linked to any HR consequences. It is found that both supervisors and employees in Bank A did not attach much importance to performance appraisals, because the results of the appraisals do not have any impact on their HR outcomes. The appraisal does not bring any benefits in terms of HR outcomes, such as increased bonuses or promotions; hence, the employees consider the appraisal a mere ritual and pay little attention to it. The employees are not motivated by the new performance appraisal system and do not take it seriously.

On the other hand, in foreign bank B, the outcome of the performance appraisals is fully linked to employees' HR consequences, such as bonuses and promotions. For instance, the yearly bonus is distributed to each employee based on the results of the performance appraisal ratings. The employee who receives a better performance rating also receives a higher bonus at the end of the year than their colleagues. According to the interviews in Bank B, the employees are satisfied with the appraisals and are motivated to perform better in order to receive better performance ratings and thus more bonuses and promotion opportunities. Therefore, it is likely that the HR consequences in Bank B reflect the employees' performance ratings and actual performance.

Moreover, the results of the performance appraisal in city bank C are partially linked to the following HR consequences. It was found that the performance ratings are very important factors that influence the employees' bonuses, promotions and opportunities for training. However, it is also reported that there are several other factors which influence these results. For instance, the employees' seniority is considered by the supervisors in the distribution of bonuses; while employees' guanxi has some impact on the employees' promotion opportunities. Therefore, it could be concluded that the HR consequences in city bank C could partially reflect the employees' performance ratings and actual contribution.

8.3.3 Conclusion

To summarise: both qualitative and quantitative results indicated that the employees' distributive justice perceptions and satisfaction with performance ratings in state-owned bank A are significantly lower than in foreign bank B and city bank C. Regarding the fulfillment of Greenberg's two factors for distributive justice, the results suggest that neither of the factors was fulfilled in state-owned bank A. That is to say, the performance ratings in state-owned bank A are not able to accurately reflect the employees' actual performance, because several factors, especially employees' guanxi and seniority and supervisors' favouritism and politics, could

influence the supervisors' decisions in appraisals. Meanwhile, the results of the performance appraisals are not linked to any HR consequences in state-owned bank A. Therefore, compared to the other two banks, employees in bank A have the lowest satisfaction with supervisors' distribution of performance ratings.

On the other hand, according to the interviews, both factors were fulfilled in foreign bank B. That is to say, the performance ratings in foreign bank B basically reflect the employees' real work performance; and the HR consequences, such as yearly bonuses, are also distributed based on the performance ratings. Hence, according to the results of both interviews and the survey, the employees in foreign bank B perceive the highest distributive justice among the three banks.

Moreover, according to the findings in interviews, neither of the factors was met in city bank C. As several factors, such as guanxi, seniority and politics, influence a small number of supervisors' decisions in appraisals in Bank C, part of the performance ratings in city bank C do not reflect the employees' performance. Meanwhile, the performance ratings in Bank C are partially linked to the following HR consequences, such as yearly bonuses. Therefore, the employees in Bank C have moderate distributive fairness perceptions among these three banks.

8.4 Employees' satisfaction with the appraisal system and perceptions of procedural justice

The design for the procedures in a proper and effective performance appraisal system is widely discussed in the literature, and it is agreed that the employees' reactions to the procedures and the whole system design is an important factor in examining the success of the system. In the empirical study, I paid great attention to how employees in three banks perceived the procedures and fairness of the system design. It is reported that the reform of the HRM system in state-owned companies in China is constrained by the Chinese context, namely the institutional and culture heritage of

the SOEs (Ding et al., 2000; Ngo et al., 2008). For instance, Ngo et al. (2008) report that institutional pressures, such as pressures from the government and trade unions, have a great impact on the adoption of new modern HRM systems in state-owned companies in China. Moreover, the managers in state-owned companies are much less market-oriented than their counterparts in foreign companies in China (Warner, et al., 1999). Thus, it is possible that the reform of performance appraisal systems in state-owned bank A has been strongly influenced by its institutional and cultural heritage, which makes the design and implementation of new appraisal system in state-owned bank A totally different from the western style used in the foreign or city banks. Thus, it is hypothesised that:

Hypothesis 13: *Employees' satisfaction with performance appraisal systems in state-owned bank A will be significantly lower than foreign bank B and city bank C.*

Hypothesis 14: *Employees' perceptions of procedural justice in state-owned bank A will be significantly lower than foreign bank B and city bank C.*

8.4.1 Quantitative analysis of survey results

Two scales in the survey were adopted to examine employees' attitudes toward the system, including employees' satisfaction with the appraisal system and procedural justice perceptions. The mean difference and *p*-value of these two variables was computed for multiple comparisons, by one way ANOVA and Levene's test.

8.4.1.1 Employees' satisfaction with appraisal system

The mean of employees' satisfaction with the appraisal system itself for three banks is 3.2407 for state-owned bank A, 3.7383 for foreign bank B and 3.3650 for city bank C. According to the *p*-value for ANOVA test (<0.05), a significant difference was noted among these three banks with respect to satisfaction with system. Results indicated that employees in foreign bank B expressed significantly more satisfaction with the design of the system itself than the other two banks. It was also found that the mean

of city bank C is bigger than the mean of state-owned bank A, although there is no statistically significant difference between these two. (see Table 8-5)

Table 8-5: One way ANOVA test, Levene's test and multiple comparisons for employees' satisfaction with appraisal system

Descriptive statistics								
Scale: employees' satisfaction with appraisal system								
	N	Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Higher Bound		
Bank A	108	3.2407	0.56247	0.05412	3.1334	3.3480	2.00	4.33
Bank B	100	3.7383	0.57845	0.05784	3.6236	3.8531	2.67	4.83
Bank C	100	3.3650	0.57428	0.05743	3.2511	3.4789	2.00	4.67
Total	308	3.4426	0.60770	0.03463	3.3745	3.5108	2.00	4.83

Test of Homogeneity of Variances			
Scale: employees' satisfaction with appraisal system			
Levene Statistic	df1	df2	Significance
12.920	2	305	0.000

ANOVA					
Scale: employees' satisfaction with appraisal system					
	Sum of squares	df	Mean square	F	Significance
Between groups	13.749	2	6.874	21.045	0.000
Within groups	99.627	305	0.327		
Total	113.376	307			

Multiple Comparisons between Three Banks					
Scale: employees' satisfaction with appraisal system					
LSD Test	Mean Difference	Standard Error	Significance	95% Confidence Interval	
				Lower Bound	Upper Bound
Bank A VS Bank B	-0.49759*	0.07932	0.000	-0.6537	-0.3415
Bank A VS Bank C	-0.12426	0.07932	0.118	-0.2803	0.0318
Bank B VS Bank C	0.37333*	0.08083	0.000	0.2143	0.5324

*The mean difference is significant at the 0.05 level.

8.4.1.2 Employee's procedural justice perceptions

The mean for employees' procedural justice perceptions in these three banks is 3.3254 for state-owned bank A, 3.6214 for foreign bank B and 3.4886 for city bank C. According to the *p*-value of Levene's test, which is less than critical value (<0.05), a significant difference was found between the variance in the population. The findings in multiple comparisons showed that employees in foreign bank B have the highest level of procedural justice perceptions among these three banks. The employees of state-owned bank A perceived the worst procedural justice for the system itself, while the employees' perception of city bank C was in the middle of the other two banks.

Table 8-6: One way ANOVA test, Levene's test and multiple comparisons for employees' procedural justice perception

Descriptive statistics								
Scale: employees' procedural justice perception								
	N	Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Higher Bound		
Bank A	108	3.3254	0.42380	0.04078	3.2446	3.4062	2.43	4.29
Bank B	100	3.6214	0.32890	0.03289	3.5562	3.6867	2.86	4.29
Bank C	100	3.4886	0.40108	0.04011	3.4090	3.5682	2.14	4.43
Total	308	3.4745	0.40531	0.02309	3.4290	3.5199	2.14	4.43

Test of Homogeneity of Variances			
Scale: employees' procedural justice perception			
Levene Statistic	df1	df2	Significance
3.289	2	305	0.039

ANOVA					
Scale: employees' procedural justice perception					
	Sum of squares	df	Mean square	F	Significance
Between groups	4.580	2	2.290	15.231	0.000
Within groups	45.853	305	0.150		
Total	50.432	307			

Multiple Comparisons between Three Banks					
Scale: employees' procedural justice perception					
LSD Test	Mean Difference	Standard Error	Significance	95% Confidence Interval	
				Lower Bound	Upper Bound
Bank A VS Bank B	-0.29603*	0.05381	0.000	-0.4019	-0.1901
Bank A VS Bank C	-0.16317*	0.05381	0.003	-0.2691	-0.0573
Bank B VS Bank C	0.13286*	0.05483	0.016	0.0250	0.2408

*The mean difference is significant at the 0.05 level.

To summarise, it could be concluded that the employees in state-owned bank A have significantly lower procedural justice perceptions than both Bank B and Bank C; while employees' satisfaction with the performance appraisal system in Bank A is also significantly lower than in bank B. Therefore, both H13 and H14 are supported. In the following section, the factors influencing the employees' procedural justice will be discussed and compared between these three banks, based on the due process model for procedural justice theory (Folger, et al., 1992).

8.4.2 Qualitative analysis of interviews result

The due process model of performance appraisal was developed by Folger and his colleagues (1992), in order to increase the fairness of appraisal systems, appraisal effectiveness and employees' positive reactions toward the system. As discussed in the literature review, the due process model, which is rooted in the due process of law, can be specially adopted to examine the procedural justice of performance appraisal system. This model processes three fundamental factors: adequate notice, a fair hearing and judgment based on evidence. In this section, all three of these factors have been examined and the sub-dimensions of each factor were discussed, when exploring the performance appraisal system in each bank respectively.

8.4.2.1 Adequate Notice

The first factor, adequate notice, has two sub-dimensions: knowledge of performance standards, which requires employees to be accountable for the performance standards that they know and understand; and frequent feedback regarding performance, which should be provided to employees throughout the whole process of appraisal (Folger, et al., 1992). Knowledge of performance standards, which is more system-oriented, is linked to the publication and dissemination of performance standards and objectives (Levy & Williams, 2000). On the other hand, the feedback frequency, which is more of a supervisory function, reflects how often the supervisors provide the feedback to subordinates (Murphy & Cleveland, 1995). Therefore, in order to examine whether the employees in each bank have adequate notice, two questions are discussed in the following section.

Knowledge of performance standards

The first question is to explore whether employees are aware of and understand the performance standards and objectives at the beginning of the appraisal in each bank. A large number of studies in the performance appraisal literature have developed various different variables for the measurement of adequate notice in the form of knowledge of performance standards (e.g. Buehler, 2006; Erdogan, Kraimer & Liden,

2001; Evans & Mcshane, 1998; Inderriden, Allen & Keavey, 2004). Moreover, it was also found that knowledge of performance standards is positively related to employees' reactions to appraisals: procedural justice (Levy & Williams, 1998; Erdogan, et al., 2001), distributive justice (Buehler, 2006; Inderriden, et al., 1988; Inderriden et al., 2004; Thurston, 2001), interactional justice (Buehler, 2006; Thurston, 2001), motivation to improve (Buehler, 2006), and system satisfaction (Inderriden, et al., 1988; Williams & Levy, 2000).

According to the interviews, generally speaking, the employees in foreign bank B and city bank C are satisfied with performance objective setting process. The employees in these two banks have the opportunities to participate in the objective setting in order to achieve a mutual agreement between supervisor and each employee. The employees are able to express their own opinions and have a clear understanding of what they need to achieve in the whole year. Therefore, the employees in foreign bank B and city bank C know and understand their performance objectives at the beginning of the year.

However, based on the findings in my empirical study, the employees in state-owned bank A are not satisfied with the performance objective setting process for the following two reasons. Firstly, the interviewees in state-owned bank A stated that clear performance objectives are not give to them in advance, especially for those departments with a large percentage of qualitative criteria, such as HR and administration. Some supervisors just provide a simple job description, which does not really spell out what exact job the employees should complete within the year. Therefore, the employees are always confused with the performance standards and do not really know how to achieve them. Secondly, employees do not have opportunities to participate in the objective setting process and are able only to passively accept the objectives the supervisors set for them. Therefore, as there is no mutual agreement between supervisor and employee, employees sometimes receive unsuitable objectives that are beyond the employee's ability or are too easy for the

employee to accomplish. This also leads to employees' dissatisfaction with their performance objectives.

Feedback Frequency

The second question is to explore how often the supervisors provide feedback to subordinates regarding performance. Frequent feedback is very important for supervisors to communicate to subordinates the aspects of their performance that need to be improved prior to the appraisal, in order to allow the subordinates to have adequate notice about how to receive a positive performance rating (Pichler, 2009). A number of studies in the literature have found a positive relationship between feedback frequency and various employee reactions: procedural justice (Buehler, 2000; Erdogan, Kraimer & Liden, 2001), interactional justice (Buehler, 2006; Gaby, 2004; Thurston, 2001), distributive justice (Buehler, 2006; Inderriden, et al., 1988; Inderriden et al., 2004), motivation to improve (Buehler, 2006; Gaby, 2004), system satisfaction (Inderriden, et al., 1988) and perceptions of accuracy (Kinicki et al., 2004; Secunda, 1984).

It is a little surprising that no regular and frequent formal feedback is required in the performance appraisal system in any of the three banks in the empirical study. In foreign bank B and city bank C, there are two instances of formal feedback, which are provided to employees in the middle of the year and at the end of the year respectively when distributing the performance ratings. The supervisors in these two banks hold formal interviews with employees twice per year, in order to provide the ratings with the feedback and direction. The feedback in the middle of the year mainly summarises the employees' performance in the past six months and provides suggestions as to how to improve their performance in the following half of the year; while the feedback at the end of the year mainly reviews the employees' performance over the whole year and provides direction for future improvement. Although there is no other formal feedback required in these two banks, it was found that close two-way communication between supervisor and employee is encouraged and that the

supervisors are also required to be ready at any time to provide help and direction to employees.

On the other hand, in state-owned bank A there is just one instance of formal feedback, which is provided in the end of the year, and no other formal feedback is required. It was found that the supervisors distribute performance ratings and provide formal feedback and direction to each employee in formal interviews at the end of the year. Three points regarding the feedback in state-owned bank A were noted here. Firstly, when designing the new performance appraisal system, the bank did not include a requirement for more formal feedback, believing that this would increase the burden on supervisors and require too much of their time. Secondly, the employees do not have enough confidence in their supervisors in appraisals, because the hierarchical relationship between supervisors and subordinates results in supervisors not having a clear understanding of employees' performance. It echoes the findings from Landy et al. (1978), Klasson et al. (1980) and Tang and Sarsfield-Baldwin (1996) that organisations' assignment of supervisors and employees' confidence in supervisors both influence employees' perceptions of justice and accuracy in performance appraisals. Thirdly, employees do not have opportunities to ask for supervisors' feedback easily, because of closed communication and the formal relationship between supervisors and employees. Therefore, the employees feel great dissatisfaction with the lack of sufficient feedback in state-owned bank A.

8.4.2.2 A Fair Hearing

The second factor that has impact on employees' procedural justice perceptions is a fair hearing. Generally speaking, a fair hearing means two way communication between supervisor and subordinates, with the employee voice present in all aspects of the whole decision-making process within appraisals (Narcisse and Harcourt, 2008). It has the following important sub-dimensions: employees' participation in appraisals and supervisors' familiarity with employees' job performance. Hence, in order to explore whether the employees in each bank have a fair hearing, four questions

derived from these two aspects are discussed in the following section.

Employees' Participation in appraisals

Employees' participation in appraisals, which has several important aspects, has been widely studied in literature. The five categories of procedural justice in appraisal identified by Greenberg (1986) consisted of three important aspects of participation, namely, soliciting input prior to the appraisal and using it, two-way communication between supervisor and subordinate during the interview, and the opportunity to appeal or challenge the result of appraisal. Folger and Konovsky (1989) also identified two aspects of employee voice, including employees' input (feedback) and the ability to rebut the performance ratings (recourse). In this section, the employees' participation in appraisals will be discussed in each bank in terms of four important aspects, including employees' participation in goal-setting, instrumental voice, non-instrumental voice (value-express voice), and appeal opportunity.

Participation in Goal-setting

The first question examines whether or not employees in each bank have the opportunity to participate in the goal-setting process of appraisal. Employees' participation in the goal-setting process in appraisals has been found to be positively related to various outcomes, such as motivation to improve the performance (Burke & Wilcox, 1969; Nemeroff & Wexley, 1979; Locke & Latham, 1990), employees' reactions to, perceptions of and satisfaction with appraisal (Cawley et al., 1998, Burke & Wilcox, 1969; Landy, Barnes & Murphy, 1978; Prince & Lawler, 1986) and satisfaction with supervisor and work (Nathan, Mohrman & Milliman, 1991), because increased participation in goal-setting leads to employees' clearer understanding of and satisfaction with the performance objective.

Employees' participation in the goal-setting process in these three banks has been specifically discussed in the previous chapter. In foreign bank B, the employees have the opportunity to participate in the goal setting process and discuss the

performance objectives with their supervisors. The interviewees in Bank B reported that the participation has led to a better performance objective and also increased their acceptance and knowledge of the performance standards. In city bank C, the employees also have the opportunity to have a face-to-face meeting with supervisors and express their own opinions on performance objectives. The talk and meeting between supervisor and employee leads to a mutual agreement on the performance objectives, which also increases the employees' satisfaction with their performance standards.

However, in the state-owned bank A, employees do not have the opportunity to participate in the goal-setting process. Normally, the supervisors design the performance objective for each subordinate and send the objectives to the HR department, who will then distribute the objectives to each employee. The employees are able to only passively accept the objective and sign the agreement contract without any opportunity to express their own opinions. It was found in the interviews that the employees in Bank A are not satisfied with their objectives, because the objectives are always not commensurate with their ability and are not clearly explained.

Instrumental voice and non-instrumental voice (value-express voice)

The second question explores whether or not the employees have opportunities to express instrumental and non-instrumental voice in the appraisal process in each bank. Voice, which “refers to the practice of allowing individuals who are affected by a given decision to present information relevant to the decision” (Korsgaard & Roberson, 1995, p657), was shown to affect employees' procedural and distributive justice perceptions and the subsequent attitudes toward the performance appraisal in several studies in literature (e.g. Greenberg, 1986; Paese, Lind & Kanfer, 1988). The voice is divided into two important types in the literature, instrumental voice and non-instrumental voice, which is also named value-express voice.

Instrumental voice refers to the voice which “provides the perceptions of indirect control over decisions when direct control is impossible” (Korsgaard & Roberson, 1995, p659), while the non-instrumental voice means that “the voice is intrinsically valued regardless of whether the input influences the decision” (Korsgaard & Roberson, 1995, p659). Instrumental voice can positively influence the employees’ attitudes, because the employees feel that they have the opportunity to indirectly influence the decisions (Thibaut & Walker, 1975), while the non-instrumental voice can engender employees’ positive attitudes, because this voice is indicative of one’s status in the workgroup or the organisation (Lind & Tyler, 1988).

In the study of performance appraisals, the instrumental voice measures whether the employees have the chance to express their feelings about the appraisal; while the non-instrumental voice measures whether the employees have the opportunity to influence the decisions in appraisal (Korsgaard & Roberson, 1995). According to Lind and Tyler (1988), the non-instrumental voice is positively related to employees’ reactions in appraisal, such as procedural justice perceptions; nonetheless, the instrumental voice is not necessary to produce employees’ favourable attitudes during the appraisal.

According to the interviews, in state-owned bank A, the employees do not have the opportunity to express their feelings about appraisals, nor influence the supervisors’ decisions in appraisal. Firstly, because of the hierarchical and formal relationship between supervisor and subordinates in Bank A, the employees do not have an open channel to communicate with their supervisors. Moreover, the employees do not want to talk with supervisor about the appraisals, because they do not think that the supervisor is helpful or that they care about the employees’ feelings. Therefore, in this situation, not only do the supervisors not have a clear knowledge of the employees’ performance, but the employees are not able to talk about their contribution and achievement to their supervisors.

On the other hand, the employees in both foreign bank B and city bank C have the opportunity to express their feelings and opinions on appraisals. Both of these banks encourage open two-way communication between supervisors and subordinates; hence, the supervisors are always ready to talk with subordinates and help them if they have requests. Therefore, the employees in these two banks have the opportunity to share their ideas and feelings about their appraisals to supervisors, talk about their major contributions and recent performance, discuss what they feel are their strengths and weaknesses and tell their supervisors about problems they are having. The employees' value-expressive participation opportunities are likely to increase their satisfaction with appraisals and their procedural justice perceptions. However, the employees in these two banks do not have instrumental participation opportunities. The employees are not able to influence how the supervisors evaluate their work, and are not able to influence the direction of the discussion. According to the policy of appraisal in these two banks, the employees do not have the opportunity to participate in the design and discussion of the changes in the current appraisal system.

Appeal opportunity

The third question examines whether each bank has a strong appeal system for the employees to challenge and refute the supervisors' decisions in appraisal. Opportunity to appeal is provided to employees to express their feelings about supervisors' decisions, and refute and challenge the performance ratings. It is reported that employees' ability to appeal the inaccurate, unfair or biased performance ratings is considered an important factor to ensure the employees' positive procedural justice perceptions (Greenberg, 1986; Murphy & Cleveland, 1991). The appeal system in each bank has been discussed specifically in previous chapters; hence, the important points will be summarised here.

The interviewees in state-owned bank A reported that the appeal system in Bank A is not strong enough to ensure that employees' have the opportunity for appeal.

Although the appeal opportunity is provided to employees in Bank A, the employees are not able to participate in the appeal process and are only able to wait for the decisions regarding appeals from the management in Bank A. Therefore, the employees think that the problems are not able to be resolved, which discourages them from appealing. On the other hand, foreign bank B and city bank C talk of a strong appeal system, which ensure that employees are able to participate in the appeal process, by providing relevant information regarding their performance and defending their opinions with the relevant people.

Supervisor's knowledge of employees' performance

The fourth question explores whether or not the supervisors in each bank have complete knowledge of employees' performance when conducting the evaluation. Besides the employees' opportunities for participation in appraisals, an additional important sub-dimension of a fair hearing is supervisor's knowledge of employees' job-related performance. This requires that supervisors observe and have familiarity with each employee's job performance and achievements, which then enables the supervisor to provide a more accurate and valid evaluation of each employee's performance. A number of studies have reported that supervisors' knowledge of employees' performance has a positive impact on employees' reactions to appraisals, such as motivation to improve or employees' fairness perceptions (e.g. Evans & Mcshane, 1988; Giles, Findley & Field, 1997; Secunda, 1984; Kinicki, Prussia, Wu, & Mckee-Ryan, 2004; Lee & Akhtar, 1996).

It was found that the employees in the state-owned bank A do not think their supervisors have a complete knowledge of each employee's performance in the workgroup, for the following three reasons. Firstly, the formal and hierarchical relationships between supervisor and subordinate in bank A that lead to lack of communication between supervisors and employees, make it difficult for supervisors to observe each employee's performance and have a clear understanding of each employee's contribution and achievements. Secondly, as a result of the lack of

employee participation in appraisals, the employee does not have adequate opportunities to explain his or her achievements, state his or her side of the story and tell the supervisors how the employee would evaluate him-/herself. Thirdly, in some big workgroups in Bank A, the supervisor is responsible for a large number of employees in performance appraisals. As a result, the supervisor is not able to undergo a careful observation of each employee and thus is unlikely to have a thorough understanding of each employee's performance. It is noted that the workgroups in Bank A are comparatively larger than their counterparts in Bank B and Bank C. A number of supervisors in Bank A are responsible for the appraisals of more than ten employees, which increases the burden on supervisors in terms of observation of each employee's performance. As one interviewee reported, the supervisor of his workgroup is responsible for the appraisal of 14 employees. However, the supervisor is not able to become familiar with the performance of each employee in the workgroup, especially those employees with whom the supervisor does not have close guanxi. In this situation, the interviewee believed that the supervisor was not able to make a fair and accurate decision in performance appraisal, without a clear understanding of all employees' achievements.

However, the interviewees in both foreign bank B and city bank C reported a higher level of confidence in supervisors' familiarity with each employee's performance. The open two-way communication system in these two banks ensures that supervisors have adequate opportunities to interact with employees and observe their performance, and also gives the employees an opportunity to demonstrate their achievements to supervisors and express their own opinion and feelings. Therefore, compared to Bank A, the supervisors in Bank B and Bank C are more familiar with each employee's performance before making appraisal decisions. Moreover, the size of the workgroups to be appraised is comparatively small in Bank B and Bank C compared to Bank A. For instance, as the HR interviewee in Bank B stated, Bank B has a policy of six-to-eight in appraisal, in order to make sure supervisors have a thorough understanding of each employee's performance, because the size of six to

eight is considered neither too small nor too large.

8.4.2.3 Judgment based on evidence

The third dimension of due process model of performance appraisal, judgment based on evidence, states that performance standards should be applied consistently and supervisors should judge employees' performance based on job-relevant factors (Folger et al., 1992). The judgment based on evidence dimension is able to be fulfilled, through the following two aspects: the supervisor's lack of bias or neutrality in appraisal decisions and supervisors convincing employees that the performance ratings accurately reflect their performance by justifying decisions based on evidence (Erdogan, et al., 2001; Pichler, 2009). Therefore, in order to examine whether the supervisors in each bank make judgment based on evidence in appraisal, two questions are discussed in the following section.

Supervisors' neutrality and lack of bias

The first question explores whether supervisors' appraisal decisions in each bank are neutral and unbiased. In the literature, a number of studies have investigated the impact of supervisors' neutrality and lack of bias on employees' reactions to appraisal. It was found that supervisors' neutrality or lack of bias is positively related to perceptions of fairness (Tang, & Sarsfield-Baldwin, 1996; Kavanagh, Benson & Brown, 2007), employees' perceptions of distributive justice (Buehler, 2006; Thurston, 2001; Tang, & Sarsfield-Baldwin, 1996), employees' interactional justice perceptions (Gaby, 2004), and motivation to improve (Gaby, 2004). In the due process model, supervisors' neutrality is considered an important procedural component in the whole performance appraisal process (Folger et al., 1992).

The previous chapters have specifically discussed whether supervisors' appraisal decisions are free of bias and fair in each bank. Hence, the main points regarding supervisors' neutrality in appraisal and the factors that influence supervisors' decisions in appraisal in each bank will be summarised here. Two important Chinese

cultural factors, employees' guanxi and seniority, will strongly influence supervisors' decisions in appraisal in state-owned bank A, which means that a large number of supervisors' decisions in appraisal in Bank A are not neutral or unbiased.

According to the interviews, a number of supervisors in city bank C are also influenced by employees' guanxi and seniority in terms of decisions in appraisal. However, this phenomenon is not that prevalent in Bank C, compared to Bank A. On the other hand, the interviewees in foreign bank B reported that the majority of supervisors make neutral and unbiased decisions in appraisals, which means that majority of the performance ratings in Bank B are considered accurate and fair.

Justification of the performance ratings to employees

The second question examines whether the supervisors in each bank justify the performance ratings to employees in the formal interviews. After the supervisors determine the performance rating for each subordinate, it is important for them to convince the employees that they have made fair and accurate decisions (Erdogan et al., 2001; Narcisse & Harcourt, 2008). Normally, the supervisors hold a face-to-face formal interview with each subordinate to announce the appraisal result and justify the performance rating based on the performance-related evidence.

During the interviews, it was observed that the supervisors in state-owned bank A do not provide enough evidence to justify the results. As one interviewee reported, his supervisor just told him the result and provided some general suggestions for future improvements in the formal interview. He found that his supervisor was not really familiar with his contribution and was not able to justify the performance rating. However, he could not refute his supervisor directly, because he needed to give mianzi (face) to his supervisor. Therefore, he could only indirectly ask for some comments regarding his performance in the past year. In state-owned bank A, it was found that the majority of supervisors do not and are not able to justify their decisions in appraisals in the formal interviews with subordinates.

On the other hand, the majority of supervisors in foreign bank B and city bank C are reported to provide proper evidence to justify their appraisal decisions in the formal interviews. As one interviewee in foreign bank B said, his supervisor pays great attention to the appraisal, provides very detailed reasons for his performance rating and even compares his performance and rating with his colleagues for justification in the interview.

8.4.3 Conclusion

In conclusion, both of the quantitative as well as qualitative results indicate that the employees' procedural justice and satisfaction with the performance appraisal system in Bank A is significantly different from foreign bank B and city bank C. The employees in state-owned bank A are not satisfied with the goal-setting process, do not have a clear understanding of performance standards, do not receive frequent formal or informal feedback, do not have participation opportunities, are not satisfied with their supervisors' appraisal decisions, do not think that supervisors' decisions are neutral or unbiased and think that supervisors are not able to justify their decisions in interview. In bank A, all these factors have a negative impact on employees' procedural justice perceptions and satisfaction with the performance appraisal system itself. It was also found that employees in Bank A had a significantly lower level of satisfaction with the procedures in the performance appraisal system than the other two banks.

On the other hand, the employees in foreign bank B have a satisfactory goal-setting process and a clear understanding of performance standards, are given frequent informal feedback in interaction with supervisors, have participation opportunities in appraisals, have supervisors with enough knowledge of employees' performance in appraisals, have supervisors who in the majority make neutral and unbiased decisions and have supervisors who are in the main able to justify the performance ratings to employees. Hence, according to the results of both survey and interviews, the employees in foreign bank B had the highest procedural justice perceptions and

satisfaction with appraisal system itself among the three banks.

Moreover, according to the interviews, the employees in city bank C are also satisfied with the goal-setting process in appraisals, have a clear understanding of performance standards, receive frequent informal feedback, have good participation opportunities and feel that supervisors give good justification for their ratings. However, compared to Bank B, the employees have lower satisfaction with the neutrality of supervisors' decisions, because several cultural factors, such as *guanxi* and seniority, can influence a number of supervisors' decisions. Therefore, the employees in bank C have moderate procedural justice perceptions and satisfaction with the appraisal system itself among these three banks.

8.5 Employees' satisfaction with supervisors in appraisal

The supervisor is the key person in the performance appraisal and plays an important role in procedure application, communication with subordinates, decision-making and distribution of performance ratings. Therefore, the quality of the communication and the interpersonal treatment the subordinates receive from their supervisors are also an important aspect of the appraisal process (Bies, 2001; Erdogan, 2002). Besides the impact of institutional and culture heritage on the design and reform of the HRM system in state-owned companies, Chinese cultural factors are also found to influence the supervisors' decisions in appraisal, such as employees' *guanxi* and seniority (Bai & Bennington, 2005; Cooke, 2008). The impact of Chinese cultural factors on supervisors' decisions in appraisal can lead to employees' dissatisfaction with not only the decisions but also the supervisors' behaviour, because this action violates the equity norms. Moreover, it is possible for those supervisors in companies with a higher level of traditional Chinese cultural heritage to provide different treatment to employees with or without *guanxi*. Hence, it can be hypothesised that:

Hypothesis 15: *Employees' satisfaction with supervisors in appraisal in state-owned bank A will be significantly lower than foreign bank B and city bank C.*

Hypothesis 16: *Employees' perceptions of interactional justice in state-owned bank A will be significantly lower than foreign bank B and city bank C.*

8.5.1 Quantitative analysis of survey result

Two scales in the survey were adopted to examine employees' attitudes toward supervisors' behaviors in appraisal, including employees' satisfaction with supervisor in appraisal and interactional justice perceptions. The mean difference and *p*-value of these two variables was computed for multiple comparisons, by one way ANOVA and Levene's test.

8.5.1.1 Employees' satisfaction with supervisors in appraisal

The mean of the satisfaction with supervisors in appraisal is 3.3667 for state-owned bank A, 3.7440 for foreign bank B and 3.5100 for city bank C. The *p*-value for Levene's test in this case is 0.017, which is less than the critical value (e.g. <0.05), showed that there is a significant difference between the variance in the population. The result of the one way ANOVA indicated that significant differences were found between these three banks with respect to employees' satisfaction with supervisors in appraisals. According to the findings in multiple comparisons among the banks, the employees in foreign bank B had significantly higher levels of satisfaction with supervisors' behaviour in appraisals than the employees in other two banks. Although there is no significant difference in this scale between city bank C and state-owned bank A, the mean of city bank C was still found to be bigger than state-owned bank A. Therefore, among these three banks, the employees in state-owned bank A expressed the least satisfaction with supervisors in appraisal.

Table 8-7: One way ANOVA test, Levene's test and multiple comparisons for employees' satisfaction with supervisor in appraisal

Descriptive statistics								
Scale: employees' satisfaction with supervisor in appraisal								
	N	Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Higher Bound		
Bank A	108	3.3667	0.62502	0.06014	3.2474	3.4859	2.00	5.00
Bank B	100	3.7440	0.50459	0.05046	3.6439	3.8441	2.40	5.00
Bank C	100	3.5100	0.60993	0.06099	3.3890	3.6310	2.00	5.00
Total	308	3.5357	0.60219	0.03431	3.4682	3.6032	2.00	5.00

Test of Homogeneity of Variances			
Scale: employees' satisfaction with supervisor in appraisal			
Levene Statistic	df1	df2	Significance
4.106	2	305	0.017

ANOVA					
Scale: employees' satisfaction with supervisor in appraisal					
	Sum of squares	df	Mean square	F	Significance
Between groups	7.491	2	3.745	11.001	0.000
Within groups	103.836	305	0.340		
Total	111.327	307			

Multiple Comparisons between Three Banks					
Scale: employees' satisfaction with supervisor in appraisal					
LSD Test	Mean Difference	Standard Error	Significance	95% Confidence Interval	
				Lower Bound	Upper Bound
Bank A VS Bank B	-0.37733*	0.08097	0.000	-0.5367	-0.2180
Bank A VS Bank C	-0.14333	0.08097	0.078	-0.3027	0.0160
Bank B VS Bank C	0.23400*	0.08252	0.005	0.0716	0.3964

*The mean difference is significant at the 0.05 level.

8.5.1.2 Employees' interactional justice perceptions

The mean of employees' interactional justice perceptions for three banks is 3.5031 for state-owned bank A, 3.5778 for foreign bank B and 3.5144 for city bank C. The p-value for Levene's test (<0.05) in this case indicated that a difference exists between the variances in the population. According to the p-value for ANOVA test, no significant difference was noted among these three banks with respect to interactional justice perceptions.

Table 8-8: One way ANOVA test, Levene's test and multiple comparisons for employees' interactional justice perceptions

Descriptive statistics								
Scale: employees' interactional justice perceptions								
	N	Mean	Standard Deviation	Standard Error Mean	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Higher Bound		
Bank A	108	3.5031	0.57393	0.05523	3.3936	3.6126	2.22	4.89
Bank B	100	3.5778	0.38328	0.03833	3.5017	3.6538	2.56	4.44
Bank C	100	3.5144	0.41773	0.04177	3.4316	3.5973	2.22	4.33
Total	308	3.5310	0.46854	0.02670	3.4785	3.5836	2.22	4.89

Test of Homogeneity of Variances			
Scale: employees' interactional justice perceptions			
Levene Statistic	df1	df2	Significance
14.660	2	305	0.000

ANOVA					
Scale: employees' interactional justice perceptions					
	Sum of squares	df	Mean square	F	Significance
Between groups	0.330	2	0.165	0.751	0.473
Within groups	67.065	305	0.220		
Total	67.395	307			

Multiple Comparisons between Three Banks					
Scale: employees' interactional justice perceptions					
LSD Test	Mean Difference	Standard Error	Significance	95% Confidence Interval	
				Lower Bound	Upper Bound
Bank A VS Bank B	-0.07469	0.06508	0.252	-0.2027	0.0534
Bank A VS Bank C	-0.01136	0.06508	0.862	-0.1394	0.1167
Bank B VS Bank C	0.06333	0.06631	0.340	-0.0672	0.1938

*The mean difference is significant at the 0.05 level.

Thus, it could be concluded that the employees in state-owned bank A had significantly lower levels of satisfaction with supervisors' behaviour in appraisal than Bank B. Therefore, H15 is supported. However, no significant difference was found between these three banks, with respect to employees' perceptions of interactional justice. Thus, H16 is not supported. The following section will discuss the factors that influence the employees' satisfaction with supervisors' behaviour in appraisal in each bank, in terms of Bies's (2001) four factors for interactional justice.

8.5.2 Qualitative analysis of interviews results

Interactional justice refers to employees' concerns about the quality of interpersonal treatment which they receive from the supervisor during the enactment of procedures (Bies, 2001). In a performance appraisal system, interactional justice concentrates on the quality of the interpersonal treatment that employees receive from supervisors during the process of appraisal. Bies (2001) identifies four factors that have a negative impact on employees' interactional justice perceptions, including deception, invasion of employees' privacy, disrespectful treatment and derogatory judgments. In order to explore the employees' interactional justice perceptions in each bank, two questions designed based on these four factors will be examined in this section.

8.5.2.1 Deception, invasion of employees' privacy, and disrespectful treatment

The first question examines whether the supervisors in each bank deceive employees, invade employees' privacy or give disrespectful treatment to employees. Deception means that "supervisors' words and actions are inconsistent"; while invasion of employees' privacy means that "the supervisors gossips, spreads rumours, or unnecessarily discloses confidential information about an employee" (Narcisse & Harcourt, 2008, p1155). Moreover, disrespectful treatment means that "supervisors are abusive or inconsiderate in their words or actions" (Narcisse & Harcourt, 2008, p1155).

According to the interviews, generally speaking, these three problems do not exist in any of the three banks. Harmony is one of the most important cultural factors in Chinese organisations. In order to maintain a harmonious environment and good guanxi with employees, the supervisors would not deceive employees, invade employees' privacy or treat employees disrespectfully. As all these three types of behaviour may lead to serious conflicts between supervisors and employees, and so the supervisors would avoid them and any conflict, to achieve harmony. Moreover, the majority of the employees in the banking industry in China have a higher level of education, compared to other industries; therefore, the communication style between individuals in banks is normally polite and based on mutual respect and understanding. For instance, in state-owned bank A, the supervisors need to maintain good guanxi with each subordinate, in order to create a harmonious workgroup environment, hence; the majority of supervisors would treat subordinates politely, as reported by one interviewee in Bank A.

8.5.2.2 Derogatory judgment

The second question explores whether supervisors make derogatory judgments about employees in each bank. Derogatory judgment in appraisal refers to "wrongful and unfair statements and judgments about the employees' performance" (Narcisse & Harcourt, 2008, p1155).

The previous chapters have already repeatedly and specifically discussed the questions related to supervisors' decisions in appraisal, such as whether supervisors' decisions are neutral and free of bias and what factors influence supervisors' decisions. Therefore, I will summarise the previous findings to answer this question regarding supervisors' derogatory judgment. In state-owned bank A, it is believed that a large number of supervisors do not make fair and accurate judgments in appraisals, because several Chinese cultural factors, such as employees' guanxi and seniority influence their judgments. However, it is found that the supervisors' decisions in appraisals in both foreign bank B and city bank C are more neutral and fairer than bank A, although employees' guanxi and seniority can also influence a small number of supervisors in city bank C.

8.5.3 Conclusion

To summarise, both the quantitative and qualitative results state that the employees' satisfaction with supervisors' behaviour in appraisal in state-owned bank A is different from foreign bank B and city bank C. According to the interviews, the majority of the supervisors in each of the three banks do not deceive employees, do not invade employees' privacy and do not treat employees disrespectfully. However, a larger proportion of supervisors in state-owned bank A are reported to make derogatory judgments (unfair distribution of performance ratings) in performance appraisals than the supervisors in foreign bank B and city bank C.

8.6 The impact of cultural factors on performance appraisal

As discussed in Chapter 3, company ownership plays an important role in the design and implementation of human resource management in Chinese organisations, something which has been well documented by a number of recent studies (e.g. Ding and Akhtar, 2001; Braun and Warner, 2002). It is reported that foreign invested enterprises adopt more advanced and standardised market-oriented human resource management practices than those local Chinese companies, such as state-owned

enterprises and collective owned enterprises (Ngo, et al., 2008). Moreover, the managers in state-owned enterprises are much less market-oriented and adopt fewer mainstream HRM practices than managers in foreign invested enterprises, due to their limited exposure (Warner et al., 1999; Ngo et al., 2008). As Law and his colleagues (2003) state, a large number of state-owned enterprises in China still operate like government agencies, and the majority of HR tasks have been designed in order to make sure that decisions are politically rather than economically correct. On the other hand, in many multi-national companies, the HRM practices that resemble those of the parent country rather than local Chinese firms (Björkman and Lu 2001) have been of high strategic importance for operations in China (Braun and Warner 2002).

One of the most important reasons for the difference is that state-owned enterprises have more historical cultural legacy than foreign invested enterprises. State-owned bank A, which has a long history in China and has been using the traditional HRM practices and Chinese management system for more than 30 years, has more cultural constraints when designing and implementing new performance appraisals than the other two banks, especially foreign bank B. It had been widely discussed that powerful institutions, including formal organisations and social rules, constrain the adoption and implementation of HRM practices (Buck, Filatotchev, Demina and Wright 2003). However, although the impact of formal institutions e.g. legislation, ownership and regional development on HRM, has been focused on by a number of studies (e.g. Child 1994; Warner 1996; Law et al. 2003; Björkman, Fey and Park 2007), the research of informal constraints that come from cultural transmission of values, may lag behind (Huang & Gamble, 2011).

In the sections above, I have discussed the difference of design and implementation of performance appraisal systems as well as the impact of an important cultural factor – *guanxi* – on performance appraisals among these three banks. In the following section, I will discuss how other relevant cultural factors influence the design of appraisal systems, as well as managers' and employees' attitudes toward appraisals and

behaviour in appraisal.

8.6.1 Individualism versus Collectivism

The first important cultural factor is the degree of individualism versus collectivism (Hofstede, 2001) or individual-group interdependence (Markus and Kitayama, 1991) within a society. Hofstede defines it as “the relationship between the individual and the collectivity which prevails in a given society” (1980, p213). In individualist society, which is characterised by loose ties between individuals (Kluckhohn and Strodtbeck, 1961), it is found that people value individual competition, self-reliance and individual success over group welfare. Personal characteristics and achievement are adopted to define the success (Kluckhohn and Strodtbeck, 1961); thus: “everyone is expected to look after himself or herself and his or her immediate family” (Hofstede, 1991, p51).

On the other hand, in collectivist society, it is found that people consider group cooperation, unity, harmony and loyalty more important than individual achievement (Morris and Peng, 1994). Individuals in those group-oriented countries: “are often highly motivated by how their behaviour affects the group” (Chiang and Birtch, 2007, p235). Personal relationships and family are found to have a great impact on business (Hampden-Turner and Trompenaars, 1993), while trust and network are also very important (Lowe, 1998). Therefore: “when group harmony and relationships have primacy over individual needs, behaviour is not automatically determined” (Chiang and Birtch, 2007, p235). Since their birth, people in collectivist societies are integrated into strong cohesive ingroups, which continues to protect them in exchange for loyalty throughout their lifetime (Hofstede, 1991).

Hofstede (1991) pointed out that the level of collectivism/individualism has an impact on the nature of relationships between employees and organisations. The employees with collectivist values, who are more socially and morally involved and emotionally identify with workgroups or organisations, are inclined to value the group, reciprocity

and mutual obligations. Moreover, employees with such values are more likely to expect their organisations to take care of them like a family, and thus, the separation between their work life and personal life is much less than the situation in individualist countries.

On the other hand, the employees with individualist values will emphasise individual personal achievement as well as strong universalistic feelings that standards, rules, principles and criteria should be applied equally to all (Ashkanasy et al., 2002). Individualists are normally regarded as having control over their responsibilities and their actions (Fiske, et al, 1997). In this study, in state-owned bank A, it was found that collectivist values have a greater impact on both managers' behaviour and attitudes toward performance appraisal systems than the counterparts in both foreign bank B and city bank C.

State-owned bank A

In the interviews, it was found that performance appraisals were considered the most difficult among all types of HRM practices by two supervisors from state-owned bank A. The supervisors do not hope that new performance appraisal system in which employees receive different levels of performance ratings has any negative impact on workgroup harmony, employees' motivation and satisfaction. Thus, they still believe that how they allocate ratings has the least negative impact on workgroup harmony. Moreover, they need to consider giving priority to maintaining harmonious guanxi with some subordinates e.g. employees with guanxi or with seniority, than other employees e.g. younger employees. Thus, some criteria, such as guanxi or seniority, rather than employees' real performance, may be adopted when a supervisor with strong collectivist values conducts appraisal.

The old performance appraisal system used before the reform in state-owned bank A required the supervisors to describe the performance of the subordinates and provide comments and suggestion for future improvement. At that time, the majority of the

supervisors in state-owned bank A, especially those with a higher level of collectivist values, chose to provide a positive evaluation to all subordinates who did not make any mistake, in order to encourage them and maintain a harmonious atmosphere within the workgroup as well as a harmonious relationship with each subordinate. It was reported by one supervisor in Bank A that a number of supervisors, especially those old supervisors with more collectivist values, were used to the style of the old performance appraisal system, and were resistant to the reform of the appraisal system.

However, the supervisors are not able to continue to provide a satisfactory evaluation to each subordinate for harmony and maintenance of each relationship, because of the distribution of different levels of performance ratings among subordinates required by new appraisal system. Thus, the supervisors with more collectivist values feel that it is difficult for them to make decisions under the new appraisal system, if they still intend to maintain the harmony within the group. For instance, they need to consider providing satisfactory ratings to those employees with whom they have good *guanxi*, because the maintenance and development of *guanxi* requires reciprocity and benefit exchange. They need to consider giving better ratings to older employees than younger ones, in order to give *mianzi* (face) to them and show respect to them. They also need to give a proper rating to those young employees who have a positive work attitude and perform well, in order to encourage and motivate them. The supervisors who have strong collectivist values are likely to more or less consider the interest of every subordinate in appraisals, in order to maintain harmonious *guanxi* with them. One supervisor in state-owned bank A said as follows:

“I understand that the aim of the reform of performance appraisal is to establish a scientific evaluation system with standardised performance criteria. However, I do not really agree that performance of each employee should be divided into several levels. I am responsible for the performance appraisal of 10 subordinates in my workgroup. I cannot really compare the

performance among subordinates, because the majority of the jobs in my group are completed by teamwork and each subordinate has his/her own task and responsibilities. I think the majority of them give a good performance, which deserve at least a “merit” rating; however, due to the limited availability of “excellent” and “merit,” a large number of subordinates would be rewarded a “qualified” rating instead. Therefore, it is possible for those employees to regard the lower level of performance ratings they obtain as unfair and disappointing.”

In order to tackle this problem, the supervisor continued to say:

“I’d prefer to provide better performance ratings to those older subordinates, because respecting seniority and giving mianzi (face) to them is very important in our bank, although younger employees actually have more work to do than older employees. However, in order to comfort the young employees, who perform very well but obtain a lower level of performance rating, I would praise their work in the one to one formal interview, in which I announce the result to them, and encourage them to carry on with good performance.”

Another supervisor in state-owned bank A also provided his story:

“It is too difficult for me to make decisions in appraisal every year. There are 9 subordinates in my workgroup. One subordinate is the son of a high level manager of the bank. I should provide a satisfactory rating to him; otherwise there will be a negative impact on my guanxi with this high level manager. And for those old employees, with whom I have a good guanxi, I also need to provide a satisfactory rating to them. Therefore, I will consider for a while how to allocate the performance ratings before the decision should be made every time. I hope that my decisions would not negatively

influence my guanxi with my subordinates. However, I do know some of them will feel dissatisfied with and disappointed with the result, although they do not speak out.”

According to Chiu (2006), after the reform in state-owned enterprises in China, supervisors could be constrained by their traditional socialist ideologies and practices from imposing huge changes. The primary reason why supervisors in state-owned bank A find decision-making difficult in the new performance appraisal system is because those supervisors with strong collectivist values are still inclined to find a way of maintaining a harmonious atmosphere within the workgroup and harmonious guanxi with subordinates under the new appraisal system. As the collectivism principle states that supervisors with collectivistic values, who value group, reciprocity, mutual obligation and relationships, are highly motivated by how their performance affects the group (Chiang and Birtch, 2007), the supervisors with collectivist values in state-owned bank A will always consider carefully how to distribute performance ratings, in order to minimise the negative impact of rating differences on the whole workgroup.

In this situation, performance (equity) is not the primary and unique criterion; while some other factors, such as employee’s guanxi, seniority and equality would also heavily influence supervisors’ decisions. To maintain a harmonious relationship with employees with guanxi or seniority is considered more important by supervisors in state-owned bank A. Moreover, it is easier for younger employees to accept a lower level performance rating, because they understand older employees should be respected. In other words, supervisors’ consideration and adoption of different criteria in appraisals can lead to difficulties for supervisors in making decisions as well as unpredictability in terms of the results; and thus employees’ confusion as to criteria and the uncontrollability of their own performance rating. One employee in state-owned bank A also said:

“Performance is not the unique criterion for my supervisor to make decision in appraisal. He needs to comfort those employees with guanxi or seniority by providing satisfactory ratings to them. Thus, as a young employee, I know that I could only obtain a “just qualified” rating, regardless of my performance. I still remember that in the appraisal of 2011, the quantitative part of evaluation of my performance is rated as top three in my workgroup with 11 employees. However, I only obtained “just qualified” in that year. In the one to one interview, my supervisor explained that although my quantitative performance is very good, I still need to improve my personal characteristics, such as teamwork and communication. I did not agree with him and regard the rating as unfair to me, but I still needed to pretend to agree and accept it. Therefore, I know that I need to work very hard to achieve impressive performance in the subsequent years. I should do more work than those employees with guanxi or old employees, which is a very normal in state-owned company in China. What I can do is to develop a good guanxi with my supervisor and to wait. After several years, I believe that I could obtain a better performance rating.”

Employees in state-owned bank A become very confused about the supervisors’ criteria adopted in appraisals and do not really know how to strive for a better performance rating by working hard. Instead, they would rather try to develop a good guanxi with supervisors, by which they could either obtain more direction from supervisors or show their contribution and express their own opinion in more frequent communication with supervisors.

Foreign bank B and city bank C

On the other hand, compared to state-owned bank A, foreign bank B and city bank C, which have less of a cultural legacy and less institutional constraints, do not have a strong collectivistic culture, especially in the case of foreign bank B.

In foreign bank B, according to employee interviewees, it is found that performance is still the major criteria for the majority of the supervisors and they do not need to consider other various factors very much. First of all, the culture in foreign bank B is individualistic, performance-oriented and market-oriented, which means the supervisors allocate the performance ratings heavily based on the employees' performance. Secondly, the guanxi network in foreign bank B is not complicated and there is no need to develop a special guanxi with supervisors by frequent non-workplace (e.g. gift giving or having dinner together) and workplace interactions. Thirdly, the link between performance rating and bonuses makes both employees and supervisors pay great attention to the allocation of performance ratings; thus, it is not easy for supervisors to make apparent unfair decisions in appraisal. Therefore, as the employee interviewees in foreign B reported, other factors, such as guanxi, seniority and harmony, are not likely to have a great influence on performance ratings.

In city bank C, as found in the interviews of employees, performance is the primary criterion for appraisal for a large number of supervisors; while some supervisors' decisions are still influenced by some other factors, such as employees' guanxi or seniority. Although the development of the guanxi network is not prevalent in city bank C, it was reported that some employees and supervisors still developed a special guanxi through non-workplace and workplace interactions. Moreover, it is also found that it is very difficult for younger employees, especially those who have worked for less than three years, to obtain a good performance rating, even if their performance is very good. Some supervisors with strong collectivist values will consider some factors a lot e.g. employees' guanxi, seniority or harmony, when they allocate performance ratings. Despite this finding, the interviewees in city bank C confirmed that the culture of the bank is performance-oriented, which makes employees and supervisors mainly emphasise individual achievement rather than harmony.

8.6.2 Power distance

The second important cultural factor is power distance, which refers to: “the extent to which members of a society accept that power in institutions and organisations is distributed unequally” (Hofstede, 1983, p336). It is reported that a higher level of power distance culture emphasises the importance of hierarchy and respect for authority (e.g. Bond, 1988, Markus and Kitayama, 1994). Those parties who are in the lower position in the hierarchy are regarded unequal to parties higher up. Thus, the superiors in higher level positions who are considered more knowledgeable and experienced, should be trusted and respected by the lower level of parties. The inequality between superiors and subordinates has two types of impact on subordinates (Sagie and Aycan, 2003). Firstly, subordinates will be dependent on their superiors and behave submissively to the supervisor. Secondly, subordinates can develop a fear of punishment if they disagree with superiors’ decisions or do not work according to their instructions; therefore, the subordinates are not willing to openly disagree with their supervisors (Sagie and Aycan, 2003).

Moreover, in high power distance cultures: “since authority is vested in the hands of the upper echelons of the organisational hierarchy, superiors give instruction, provide direction, make decisions and seldom seek the views of their subordinates” (Chiang and Birtch, 2007, p237). Employees consider their supervisors to be more paternalistic and autocratic. As employees’ performance is highly dependent on supervisors’ instructions, they hope to have the managerial intervention in their performance improvement (Brodts and Seybolt, 1996).

On the other hand, in lower level power distance cultures, individuals strive for the power equalisation and seek for the superiors’ justification for power inequality (Hofstede, 1980). Subordinates hope to have the opportunities to frequently communicate with supervisors and express their own opinions to them; and expect supervisors to consult them regarding important issues (Lam, Schaubroeck, & Aryee, 2002). Moreover, decision-making is delegated and subordinates expect the

participation opportunity to share the evidence and information in the process of decision-making (Hofstede, 2001). Self-direction and personal responsibility are regarded as very important by individuals in high power distance cultures (Brodts and Seybolt, 1996). In this study, significant differences in the impact of power distance on appraisals were observed across the three banks, that is, state-owned bank A with a comparatively higher power distance culture has a different style of appraisal system and supervisors' and employees' behaviour and attitudes to their counterparts in foreign bank B and city bank C, which have comparatively lower power distance cultures.

8.6.2.1 Design of the performance appraisal system

State-owned bank A

According to a comparative study of employee participation in German and Taiwan, Chinese culture impedes employees' participation opportunities in Taiwan, due to a high level of power distance between managers and subordinates (Han & Siu, 2000). It is also found that the design of the performance appraisal system in state-owned bank A does not provide any participation opportunities for employees. The employees in Bank A do not have chance to participate in those important procedures, especially objective setting, which ideally requires both supervisors and employees to complete it together. The employees did not have the opportunity to participate in the design of the new performance appraisal systems either. The performance appraisal system reform committee, made up of the high level managers, department directors and HRM department staff carried out the reform.

Strong hierarchical and authoritarian traditions in Chinese firms indicate that supervisors are more likely to feel threatened by the management style involving employees' participation (Hutchings, 2005). According to the head of the HR department of bank A, one important reason for why no employees' participation is permitted in the new appraisal system, is that the employees' participation makes the appraisal process more complicated. For example, when a supervisor determines the

individual performance objective for each subordinate, they should take into account the total performance objective of the workgroup. It is reported that normally the supervisors consider the ability and the performance of each subordinate in the previous year, and then make a proper objective for each of them, which accounts for a proportion of the total workgroup performance objective. Thus, the employees' participation in the objective setting process and bargaining with the supervisor for adjustment of individual objectives will make supervisors' work very complicated, because they need to consider adjusting other subordinates' objectives, in order to achieve the annual objective of the whole workgroup. In this situation, the reform committee of Bank A decided that the objective setting should follow a top down process with supervisors' determination of objective for each subordinate, because they believe that supervisors in Bank A are able to make suitable objectives for each subordinate.

It is traditional that employees have almost no participation in any of the decision-making processes in state-owned bank A. In terms of the old performance appraisal system, which was also a top down process, employees could only accept the supervisors' evaluation of their performance. It was found that high level managers in state-owned bank A do not really like and believe in the idea or concept of employees' participation in HRM practices. The high power distance culture in Bank A means the decision makers are confident that supervisors in Bank A are knowledgeable and experienced enough to properly implement the procedure of appraisal and make suitable decisions and objectives in the appraisal process without employees' voice. As the head of the HR department in Bank A said:

“We did not consider employees' participation when we designed the new appraisal system. We believe that our supervisors are able to make the right decisions in the appraisal process. For example, when determining the employees' performance objective, the supervisors should consider several aspects, such as the objective for the whole workgroup and the employees'

ability. This is a hard and complicated work. But we trust our supervisors. I believe that our employees also trust them. ”

Higher level managers in Bank A have strong power distance cultural values and thus appear to be very paternalistic and autocratic. Therefore, the power distance culture in Bank A had a great impact on the design of new appraisal system, which precludes employees’ participation in the appraisal process. According to Huang and Gamble, employees’ participation can positively predict employees’ satisfaction in state-owned companies in China, which indicates that “Chinese employees in SOE appreciate involvement initiatives and prefer a participative management style” (2011, p.3181).” Thus, it is understandable that employees in state-owned bank A had a much lower level of satisfaction with the performance appraisal system, which does not provide any participation opportunities, than the other two banks.

Foreign bank B and city bank C

On the other hand, in the case of the foreign bank B, it is found that employees can participate in different ways in order to express their views in the process of appraisal. For instance, they are able discuss their performance objective with supervisors to achieve a mutual agreement. They have access to supervisors’ feedback regarding their performance and suggestions through frequent communication and interaction. They could also have the opportunity to participate in the peer appraisal to give a brief evaluation of the performance of each colleague. According to HR staff in foreign bank B, the bank cares about the employees’ participation opportunities and their views and opinions of the HRM system; the bank conducts an annual survey to explore employees’ attitudes toward the current human resource practices and the result of the open questions in previous years indicates that employees are essentially satisfied with their opportunities for participation. Therefore, the low power distance culture in foreign bank B made the higher level managers, when designing the appraisal system, pay attention to employees’ feelings and views, respect employees’ attitudes and treat employees equally, thus ensuring that employees’

participation is included in the appraisal process.

Moreover, it is found that the comparatively low power distance culture in city bank C also had an impact on the design of performance appraisal system. The appraisal system provides several participation opportunities to employees, such as discussion of performance objectives with supervisors for a mutual agreement and peer appraisals. As one HR staff in city bank C said:

“The higher level managers emphasise employees’ participation in the appraisal, because they think that this increases supervisors’ knowledge of employees’ performance via information exchange; and meanwhile, increases employees’ satisfaction with appraisal. The appraisal system can work well, only when employees have a positive attitude toward it. So, participation can help. ”

Compared to state-owned bank A, the lower power distance culture in city bank C made the decisionmakers, when designing the appraisal system, consider employees’ reactions toward appraisals and provide some participation opportunities for them, in order to reflect their concern about employees’ views and opinions.

8.6.2.2 Supervisors’ behaviour

Another important aspect is that higher power distance culture in state-owned bank A makes the supervisors’ behaviour in appraisal, different from their counterparts in foreign bank B and city bank C.

State-owned bank A

In state-owned bank A with a higher power distance culture, supervisors implement the procedure of appraisal and make decisions without any consultation or information exchange with employees. It was found that there are very few interactions between supervisors and subordinates in the process of appraisal, despite

there being a formal face-to-face interview in which the supervisors provide the performance rating to each employee. Supervisors determine the performance objective for each subordinate without any discussion with employees, and then give the objectives to the HR department, which is then responsible for providing objectives to employees separately. Supervisors do not provide feedback to employees, unless employees have made any big mistakes. Supervisors make appraisal decisions and distribute the performance ratings without any information provided by employees or employees' self appraisal and evaluation. Thus, all of these reflect the fact that supervisors in state-owned bank A recognise the hierarchical structure in Bank A and do not really care about what employees think and want in appraisals. They are confident that they are able to arrange everything properly for subordinates. An employee in Bank A said in the interview:

“Supervisors in my bank will not consult with employees at all. For example, my supervisor believes in himself when making the right decisions in appraisals for all of his subordinates. I guess my supervisor keeps his distance from subordinates to establish the authority image in front of subordinates. Therefore, it is not possible for us to provide any information or express our own opinions regarding appraisal to him for reference, even though he does not really have a full knowledge of employees' performance or ability. I think that my supervisor just thinks he is too experienced and important.”

One supervisor in Bank A also admitted in the interview:

“I do not normally seek employees' views when I make decisions in appraisal, because it is not required by the regulation of appraisal and I am able to make a proper decision based on the information I have.”

Thus, it can be summarised that high power distance culture in state-owned bank A

leads to a hierarchical relationship between supervisors and subordinates, which means that supervisors behave in a very paternalistic and autocratic way, and get used to making appraisal decisions on their own without any views or opinions from subordinates. Moreover, the hierarchical relationship between supervisors and subordinates means that supervisors are not able to have a clear and thorough understanding of employees' real performance through observation; therefore, this is one reason why a large number of supervisors are not able to make fair judgments and evaluation for each subordinate in appraisal.

Foreign bank B and city bank C

In the case of foreign bank B, in which the relationship between supervisors and subordinates is not hierarchical, it was found that supervisors are more willing to communicate with employees for the purposes of information exchange and to obtain their views and opinions in appraisal. The majority of supervisors treat employees equally, in a friendly manner and with respect and sensitivity. In the process of appraisals, the supervisors discuss the performance objective with each employee, actively seek employees' self-evaluation in terms of performance and provide frequent informal feedback via regular communication. The close relationship between supervisors and subordinates also ensures that supervisors have adequate evidence and information regarding the performance of subordinates to make evaluation more accurate and fair in appraisals.

Meanwhile, in city bank C, it is found that the majority of supervisors are more or less willing to listen to the employees' views and opinions in the process of appraisal. For instance, according to the regulation of appraisals, the performance objective should be set by cooperation between supervisor and subordinates to achieve a mutual agreement. Employees in city bank C also have more opportunities to interact with supervisors for information exchange than counterparts in state-owned bank A. However, as reported by employees in bank C in interviews, supervisors still communicate with subordinates in a traditional Chinese style, that is, supervisors

expect to be respected and trusted, which makes employees feel the hierarchical and distant relationship between them and their supervisors. As one employee said in the interview:

“My supervisor is willing to talk with me regarding any issue in appraisal. However, he will not actively find me for a discussion. I perceive that he wants to keep a distance from me, in order to build his authority image in front of me. And my supervisor is very confident that he is experienced enough for proper decisions as well. Thus, normally, I will find him to express my view on the appraisal and report my performance progress to him.”

Therefore, the comparatively lower distance power culture in city bank C compared to state-owned bank A means the supervisors in city bank C are willing to listen to employees and adopt proper proposals in appraisals; however, due to the impact of traditional Chinese culture, e.g. power distance, the supervisors do not actively seek employees' opinions, because they are confident with their own decision-making abilities. Thus, the impact of power distance on supervisors' behaviour in appraisal in city bank C fell between the other two banks.

8.6.2.3 Employees' behaviour

In terms of employee's reactions to supervisors' appraisal decisions, especially unsatisfactory decisions, a significant difference in employees' behaviour was also observed among these three banks, which is caused by the different level of power distance culture within them.

State-owned bank A

Confucian values, which emphasised the obedience to authority and harmony between persons, are regarded as still influencing and guiding individual attitudes and actions in modern China (Hofstede & Bond, 1988). As Chen, Tsui and Zhong (2008)

claim, respect for authority, obedience, a general sense of powerless and fatalism are major characteristics of Chinese traditionality. In state-owned bank A, it was found that employees respect and show obedience to any decisions made by supervisors' in appraisals.

Even if they are not satisfied with the decisions, employees have to submissively accept supervisors' decisions in performance appraisals. For instance, employees are expected to accept the performance objective set by the supervisor as well as the performance rating, which is determined by the supervisor without any challenge and discussion. Because of the higher power distance culture in state-owned bank A, employees are expected to show great respect to and trust of their supervisors, by having no disagreement with them and not challenging their decisions. Employees in bank A understand that supervisors like the employees who unconditionally behave submissively to them. Any form of doubt and challenge from employees will be regarded as a disrespectful action towards supervisors, which can then have a great negative impact on supervisors' judgment of employees and the *guanxi* between supervisor and employee. As one employee from bank A said in the interview:

“I could only accept my supervisors' decisions in appraisal. I know that doubt or complaint about supervisor's decision will possibly destroy my *guanxi* with supervisor. If I do not have a good *guanxi* with supervisor, I think I will not have a bright career prospect either, because my supervisor will regard me as distrustful and provide less direction and allocate less important tasks to me. Therefore, when I disagree with my supervisor regarding his decision in appraisal, e.g. an unsatisfactory performance rating, which I think does not match my performance, I will ask him for some suggestion on how to improve my performance instead of asking why I obtain such a low performance rating. The skill of talking with supervisor is very important. I have to use the words, which reflect that I respect his decision and trust him. So, I can not challenge his decisions and sometimes

I can not even directly ask him for a question. For the performance objective, I think there is no way for employee to adjust it, because the objective is final when supervisors send their decisions to HR department. We can only work hard and show that we have done our best during the last year.”

Moreover, it was found that an appeal system in performance appraisals was provided to employees in Bank A. However, according to the head of the HR department in Bank A, no employee had adopted it to report the unfair results of appraisal to the organisation since the new system was implemented, even if they were not satisfied with supervisors’ behaviour in appraisal. According to the employee interviewees in Bank A, appealing the supervisors’ decisions in appraisal is not a choice for employees, because (1) appealing would destroy employee’s guanxi with supervisor, (2) appealing, which leads to conflicts, would break the harmony within the bank, which is regarded as very embarrassing, (3) supervisors will feel that they have lost the mianzi (face) in front of the higher level managers or even the whole bank. One employee said in the interview:

“Appealing the performance rating to the organisation would definitely damage the guanxi between supervisor and employee. I do not think the employee could transfer to another workgroup or department after the appeal. So if the employee still remains in the workgroup, the supervisor is likely to provide punishment to this employee, such as never giving help and direction or never providing a good evaluation.”

To summarise, in state-owned bank A with higher power distance culture, the employees who are more likely to show respect to supervisors passively accept the supervisors’ decisions in appraisal, e.g. performance objective or performance rating, and do not doubt, challenge or appeal the unfair or unsatisfactory appraisal decisions, in order to maintain good guanxi with supervisor and harmony within the bank.

This is one important reason for employees' great dissatisfaction with appraisals in state-owned bank A. In order to have the opportunity to openly discuss supervisors' decisions and freely express their views or opinions to supervisors, employees need to develop a good guanxi with supervisors by frequent non-workplace interactions, such as giving gifts to supervisors in festivals, as suggested by one employee in the interview.

Foreign bank B and city bank C

In the case of foreign bank B with lower power distance culture, employees who emphasise power equalization are more likely to actively communicate with supervisors for the exchanging of information, introducing their performance and contribution, requesting supervisors' feedback, expressing their own views on appraisals and seeking supervisors' justification for their appraisal decisions. The lower power distance culture leads to an equal and close relationship between supervisors and subordinates in Bank B, which results in frequent communication between supervisors and subordinates regarding appraisal. For instance, it is possible for employees to negotiate with supervisors about the setting of their performance objectives and influence the supervisors' decisions by justification with their own evidence and information. Therefore, if employees are dissatisfied with supervisors' decisions in appraisals, they are able to directly express their own opinions to supervisors, in order to obtain supervisors' justification and explanation of the appraisal decisions.

However, similar to employees in state-owned bank A, appealing supervisors' unsatisfactory decisions in appraisal is not a choice for employees in foreign bank B either. As Hofstede (2001) said, China is a typical example of a country with a collectivistic culture and high power distance. The Chinese people are more or less inclined to maintain harmony, develop a good guanxi with authority and avoid conflicts. Appealing the appraisal decisions to the organization can lead to destroyed guanxi with the supervisor that cannot be remedied, and break the harmony

within the organisation. Therefore, according to employee interviewees in foreign bank B, they will not appeal supervisors' decisions either; instead, they will request an open and sincere meeting or talk with supervisor.

In the city bank C, which has a moderate power distance culture among these three banks, it was observed that power distance culture also has a great impact on employees' behaviour in appraisals. Although frequent two-way communication between supervisors and subordinates in city bank C provides more opportunity for employees to express their own opinions to supervisors, it was found that employees are aware of whether or not their words show adequate respect to the supervisors. Direct or sharp words will have a negative impact on employees' conversations with supervisors. Therefore, it was noted that similar to employees in state-owned bank A, employees in city bank C pay more attention to their talking technique in communication with supervisors than in foreign bank B. Moreover, for similar reasons found in state-owned bank A and foreign bank B, employees in city bank C are not likely to appeal the results of the performance appraisal, believing it will break the harmony within the workgroup. Instead, they would rather have a sincere one-to-one talk with supervisors.

8.6.3 The relationship between guanxi and cultural values

Having examined the impact of some important cultural values on performance appraisal, I will briefly discuss the relationship between guanxi and these two cultural values in order to provide a complete picture of the guanxi phenomenon and a direction for future research.

Power distance

The workgroups, with a higher level of power distance culture, has the following features. Supervisors considered more experienced and knowledgeable always make decisions without any consultation with employees (Chiang and Birtch, 2007); while employees do not really want to express their opinions, especially disagreement, to

supervisors because of the fear of punishment (Sagie and Aycan, 2003). This indicates that the serious hierarchy in higher power distance culture cannot provide employees with enough opportunities or proper channels to exchange information or express their views to supervisors. A lack of information exchange not only results in supervisors' biased decisions and treatment of others, but also makes employees worry about whether supervisors treat them unfairly. Therefore, in a higher power distance culture, employees will try to develop some channels for communication with supervisors.

Development and use of guanxi, such as having dinner with their supervisor or visiting their home is a good way of communicating with supervisors. At a non-workplace venue, employees who have a good guanxi with their supervisor could have more meaningful interactions, which could lead to more opportunities to express their own opinions and show their work performance and contribution and also obtain more direction and support. Thus, in higher power distance culture, more employees tend to use non-workplace interactions to develop guanxi with supervisors, in order to have a channel for communication with their superiors.

Moreover, in workgroups with higher power distance culture, supervisors do not always seek employees' views and also may not have an adequate understanding of every employee's performance. Thus, supervisors' unbalanced information regarding each employee leads to their different treatment to different employees, in the way that they provide more tangible benefits (e.g. better performance rating) or intangible benefits (e.g. help and direction) to those employees with whom they have good guanxi and frequent interactions. Hence, it can be concluded that the higher the power distance culture in a workgroup, the more guanxi practices in performance appraisal and other HR practices.

Collectivism/individualism

As discussed above, in the workgroup with higher levels of collectivistic culture,

group harmony and an individual's loyalty are considered more important than an individual's needs and success (Morris and Peng, 1994). Behaviours are not automatically determined, because individuals, e.g. supervisors, are often motivated by how their behaviour influences the whole group (Chiang and Birtch, 2007). Thus, supervisors in workgroups with higher collectivism tend to provide benefits to those employees with guanxi or with higher seniority, in order to maintain a harmonious atmosphere in the group. In that situation, employees, who are confused about supervisors' evaluation criteria, will also use non-workplace interaction to develop guanxi with supervisors in order to obtain direction, support and information. Hence, it can be concluded that the higher the collectivistic culture in a workgroup, the more guanxi practices in performance appraisal and other HR practices.

Conclusion

To summarise, two cultural values, 'collectivism versus individualism' and power distance are found to have an impact on performance appraisals in these three banks. In state-owned bank A with a greater collectivistic culture, supervisors' appraisal decisions are more likely to be influenced by employees' guanxi and seniority rather than employees' real performance. On the other hand, performance is the primary criterion for supervisors to allocate performance ratings among subordinates. Secondly, the higher power distance culture in state-owned bank A has influenced the design of the new performance appraisal system in such a way that no participation opportunity is provided to employees in the process of appraisals. Moreover, supervisors in Bank A do not frequently and actively communicate with subordinates and do not obtain adequate information from subordinates for appraisal. In contrast, employees in foreign bank B and city bank C have the opportunity to participate in the appraisal process and supervisors have more interactions with subordinates in the two-way communication system. However, employees in all these banks are reluctant to appeal and challenge satisfactory performance ratings, because this will damage their guanxi with supervisors and break the harmony within the workgroup.

8.7 Convergence vs. divergence

Based on the comparative study above, the similarities and differences regarding performance appraisal and guanxi practices in it in three banks had been discussed in details. Some scholars with universalistic views claimed that HRM converges because of environmental forces, such as globalisation, international trade and finance, best practices and benchmarking, which put pressures on organisations to standardise their HR policies, regulations and practices. On the other hand, some commentators stated that some factors, such as institutions, culture, local customs and labour forces would constrain the levels of convergence and deliver increasing degree of divergence. Organisations in Asia had been considered a test bed for the examination of convergence and divergence theories (Rowley and Benson, 2000). Therefore, this part will compare the performance appraisal and guanxi practices in it among these three banks, in order to explore the special factors that lead to such convergence or divergence.

Convergence theory

The early stage of convergence theory stated that industrialisation and spread of modern advanced technology encourage countries to move toward economic and political systems such as America (e.g. Harbison and Myers, 1959 and Kerr *et al.*, 1960). Although it attracted substantial criticism, scholars still believe that the forces of convergence across countries could overwhelm differences among nations (e.g. MacDuffie, 1995; Kerr, 1983; Womack *et al.*, 1990; Peters and Waterman, 1982). This process would also result in best practice, whose impact is universal and readily transferable rather than firm specific, for organisations to converge.

Moreover, the convergence tendency had also been boosted by the idea of globalisation, which proposes that national systems, consisting of HRM, were pushed towards uniformity by a worldwide tendency for political and economic forces (Rowley and Benson, 2000). As all nations are influenced by these forces, the local government has to provide similar infrastructure and workforce to attract same

international investment (Salamon, 1997).

Contingency theory

Contingency theory states that working practices are influenced by a series of important factors, including the stability of environment (Lawrence and Lorsch, 1967) and technical differences (Woodward, 1965). Organisations would adjust their HRM practices to fit the external environment (Perlmutter and Heenan, 1979). Thus, contingency theory proposes the *best fit* model, which “advocates external and internal integration of HR strategy with the overall business strategy (Khan, 2011, p 79)”. The primary criticism of this theory is “that they fail to understand that the way managerial ideas and practices are interpreted, implemented and responded to, varies between countries and levels within organisations, both structurally and internally by individual employees (Rowley and Benson, 2000, p4-5).”

The reasons for the differences of HRM practices among different organisations mainly consisted of two aspects: institutional and cultural factors. Some scholars claimed that the social and economic institutions among different nations lead to the difference of their management practices, including of HRM. However, institution is not the only explanatory for this. As Sorge (2004, p118) asks, do differences between countries endure, “because a wider formal system of laws, agreements, standards, and codes exist..., or because people find it repulsive, unethical or unappealing to do otherwise?” That is to say, does it result from institutional or cultural reasons? Thus, other scholars focused on the differences in culture, including values, norms and beliefs, as an explanatory variable when comparing the difference of HRM across nations.

Convergence vs. divergence

The best practices vs. best fit debate leads to the convergence vs. divergence debate. The scholars who support convergence approach indicated that international competition pushes management systems in different nations to converge towards the

most effective and successful model (e.g. Levitt, 1983; Kerr *et al.*, 1960; Prentice, 1990); on the other hand, the proponents of divergence approach pointed out that the national economic and social context has a strong impact on national management practices (e.g. Whitley, 2000; Hofstede, 2001; Laurent, 1983). Thus, this debate results in “a two bipolar diagrams, that is, universalistic/convergence and the contextual/divergence diagram (Khan, 2011, p79).”

Comparison among three banks

Based on the comparative study of three banks above, several important points should be noted, in terms of convergence and divergence theory.

Macro-level: the design of performance appraisal system

Firstly, the reform of the performance appraisal system in state-owned Bank A demonstrated a degree of convergence of HR practices at enterprise level, at least on the surface. In order to improve internal management and establish a scientific appraisal system with objective and clear criteria, they reformed the appraisal system, with the help of an American consultancy firm. When designing the new system, the committee used the performance appraisal system in other banks (e.g. foreign bank and city bank) in the same city as a reference. The design of the performance appraisal system in three banks show directional convergence, which claimed that countries or organisations share the same trend, that is, they have the same direction for action, no matter what starting level and endpoint they have (Mayrhofer *et al.*, 2002), as they all have similar appraisal format, evaluation benchmark, performance criteria and implementation procedures. To some extent, this is consistent with scholars with globalisation view (e.g. Friedman, 2007; Kidger, 1991) that multinational companies import successful practices across country borders, which could help to change the local HR practices. The entry of foreign banks to China and the establishment of new types of local banks have pushed state-owned banks to reforming their HR practices, e.g. performance appraisal, by borrowing the modern style practices from foreign banks and consultancy firms.

Secondly, several differences in the design of appraisal system were still found among three banks, due to the cultural differences. For example, because of the large power disparity between authorities and employees (cultural reason), employees in Bank A are not given the opportunities to participate in the procedure of appraisal; while employees in Bank B and Bank C could participate in key parts of the appraisal, such as setting objectives. Moreover, the result of appraisal in Bank A is not fully linked to employees' bonuses, as they have a fixed salary package with few performance related parts (institutional reason); while performance ratings in the other two banks more or less decide the bonus employees could earn. Although Bank A borrowed the Western modern for their appraisal system, they made several changes to it to adapt it to their own situation and environment. Thus, the differences here indicated that it is not very positive for performance appraisal systems among three banks to achieve a final convergence, which means that they become more alike and develop toward a common end point (Mayrhofer *et al.*, 2004). This echoes the views of scholars against globalisation that it would not happen in a straightforward way that countries or organisations become similar, for a number of reasons (Brewster and Mayrhofer, 2012).

Micro-level: guanxi practices in performance appraisal

Thirdly, the importance and complexity of guanxi and the prevalence of guanxi practices in performance appraisal among three banks are found to diverge. As discuss above, it is found that guanxi network in state-owned Bank A is more important and complicated than the other two banks; while the guanxi practice in appraisal in Bank A is more prevalent than the other banks as well. Two types of reasons had been discussed for this difference. First of all, although two types of organisational culture, performance orientation and guanxi network, had been found to coexist within these three banks, foreign Bank B has a higher degree of performance orientation than the other two banks; while state-owned Bank A owns a higher level of guanxi complexity than the other two. Moreover, the differences of

institutional factors in performance appraisal procedure had also been detected in the discussion above, that is, the decision-making process in Bank A is less transparent and monitoring mechanisms are less effective than the other two banks. Both cultural and institutional factors influence the role of guanxi and supervisors' guanxi practices in performance appraisal among these three banks, which echoes the divergence theory and the view of some scholars, that cultural difference and institutional variations mutually lead to divergence between nations and organisations (Sorge, 2004; Brewster and Mayrhofer, 2012; Rowley and Benson, 2000).

Fourthly, besides the divergence of guanxi and guanxi practices among three banks, two interesting aspects, which indicated a direction of convergence, had been found. In foreign Bank B and city Bank C with performance oriented culture, some employees actively developed guanxi with supervisors, especially in city Bank C. The employees in these two banks all realised the importance of guanxi within the bank, because it could enable the employee to obtain the benefits from supervisors or secure the performance rating which matches their performance. Moreover, the reform of performance appraisal systems reduced guanxi practices in Bank A to some extent; while the development of guanxi in Bank C and B gradually increased the influence of guanxi practices in appraisal. It could also be expected that the organisational culture in three banks would converge to be a mixture and co-existence of performance orientation and development and use of guanxi networks. Therefore, in terms of the importance of guanxi, guanxi practices in appraisal and organisational culture, there is a weak and slow trend of directional convergence among three banks. However, despite the convergence trend, a huge divergence of these factors among three banks could still be expected in the future, because of the cultural and institutional differences.

Micro-level: supervisors' behaviours in appraisal

According to the result of both quantitative (survey) and qualitative (interview) research, it is found that the employees' reactions toward supervisors and appraisal

diverge among three banks. It is observed that the supervisors' decisions in appraisal and implementation of procedures in Bank A are less fair than their counterparts in Bank B and Bank C. The discussion above had examined the factors, which lead to divergence of supervisors' behaviours in appraisal practices among three banks. In this part, these factors will be categorised into three types.

First of all, organisational cultural factors are found to have a big impact on supervisors' behaviors in performance appraisal and result in the divergence among different organisations. For example, the organisational culture which emphasizes *guanxi* and seniority in state-owned Bank A make supervisors prioritise employees' *guanxi* and seniority prior to over their performance when making decisions; while the performance-oriented culture in foreign Bank C ensure that performance is the deciding factor. The lower power distance culture makes supervisors in Bank C provide more opportunities for employees to participate in the appraisal process; while supervisors in Bank A make decisions without consultation with employees, because of its higher power distance culture. This is consistent with some scholars' views that national or organisational culture difference is one important convergence impediment, because it makes the nations or organisations adopted different practices or behaviours (e.g. Rowley and Benson, 2000; Brewster and Mayrhofer, 2012; Kostova, 1999).

Secondly, the gap between the new appraisal system and the shared mindset of people in Bank A constrains the convergence trend and leads to the divergence of supervisors' practices and behaviours in appraisal among three banks. Although Bank A reformed its appraisal system, supervisors did not really accept and follow the new policies, regulations and performance criteria when making decisions or implement the procedures. Supervisors in Bank A still follow old traditions and their behaviours violate the new policies and regulations. According to Kostova (1999), HR practices' "institutionalisation" should be distinguished into two levels, which consisted of first level "implementation" "whereby recipient units simply follow

formal rules with objective behaviours and actions” and a second deeper level “internalisation” whereby recipient units “have commitment to, satisfaction with and psychological ownership of the practices (Rowley and Benson, 2000, p11).” Thus, the reform of performance appraisal system successfully completed the first level implementation; however supervisors’ behaviours based on traditional culture or criteria rather than the new regulations and policies indicated a lack of internalisation. The gaps between the implementation of new performance appraisal system and the fixed and shared mindset of people demonstrated failure to infuse the performance appraisal practices with values in Bank A (Selznick, 1957). Therefore, lack of internalisation of the new appraisal system in Bank A results in the divergence of practices and supervisors’ behaviours among three banks.

Thirdly, several institutional factors also led to the divergence of appraisal practices among three banks. A lack of transparency and effective monitoring mechanisms in Bank A results in more unfair practices, such as unfair decisions, than the other two banks. This is consistent with the institutional view that institutional factors could account for divergence of HRM practices among organisations (Brewster and Mayrhofer, 2012; Rowley and Benson, 2000).

Macro-level convergence vs. micro-level divergence

Therefore, it could be summarized that the reform of performance appraisal system in state-owned Bank A indicated a degree of convergence of appraisal system design at the enterprise (organisational) level at least on the surface; while many differences were still found among three banks because of a variety of factors, including cultural and institutional factors and fixed enterprise mindsets, when considering appraisal practices and guanxi practices in it. This is consistent with Child’s (1981) view that “convergence studies focus on macro level variables (structure, technology, system) and divergence work concentrates on micro level variables (behaviour of people in organisations) (Rowley and Benson, 2000, p15)”. Moreover, it also echoes the view that divergence and convergence theory, which operate at different levels of a HRM

system, actually complement each other (e.g. Youndt *et al.*, 1996; Becker and Gerhart, 1996).

8.8 Achievements and limitations of the performance appraisal system in three banks

This section will discuss the achievements and limitations of the performance appraisal systems which are currently implemented in state-owned bank A, foreign bank B and city bank C. The aim of this section is to provide a practical review of the design and implementation of appraisal system studied.

8.8.1 The performance appraisal system reform in state-owned bank A: achievements and limitations

All interviewees in state-owned bank A were asked to provide an overall comment on the reform of performance appraisal and its impact on the bank. Although almost all interviewees, including the HR staff, supervisors and employees, felt that the reform had caused a lot of problems and the new performance appraisal system has several defects, they are still supportive of reform, because they believe that the new appraisal system will bring more benefits to the bank in the long run. Based on the feedback from all interviewees in Bank A, the following section will present an empirical review of the achievements of the reform.

Firstly, as the specific performance criteria were designed specifically for different departments, positions and work types, all of the employees interviewed agreed that the new performance criteria are more transparent, standardised and objective than the previous ones, and thus were able to provide direction for employees' performance improvement. Most of the employees in Bank A stated that before the reform of the appraisal system, there were no clear and detailed performance criteria available to them. Therefore, before the reform, the employees did not really know what the bank expected them to do at work and how to strive to perform better, or how to make a bigger contribution to the workgroup and bank. The new performance criteria

designed in the reform, with both quantitative (financial) criteria and non-quantitative criteria, specifically explain how the employees can improve their performance, in terms of job performance and personal ability and behaviour. Hence, it was generally agreed by the employee interviewees in Bank A that the new performance criteria produced during the reform have made the evaluation criteria more objective and transparent; and made the employees more aware of the criteria.

Secondly, the new performance appraisal system with objective performance criteria reduces the supervisors' subjectivity in appraisal decisions and changes the supervisors' old ways of traditional subjective appraisal, such as guanxi-based appraisals or seniority-based appraisals, to new objective performance-based appraisal. Before the appraisal system reform, when there were no clear performance criteria, especially the quantitative criteria, the supervisors evaluated employees' performance very subjectively. The supervisors always provided a simple and general description of each employee's performance. Several factors, especially those Chinese cultural factors such as employee's guanxi and seniority, heavily influenced supervisors' evaluations. After the reform, although it has been noted that those cultural factors still more or less influence the supervisors' behaviour in appraisal, a number of supervisors have subjectively or objectively started to evaluate employees' performance based on the new performance criteria. Moreover, it is possible that more and more supervisors have started to think that it is not proper to conduct appraisals based on guanxi or seniority; so they accepted the performance-based evaluation; and gradually changed their concepts and behaviour.

Thirdly, the new performance appraisal system has helped to change the old traditional internal culture of Bank A to a new performance-based internal culture. Before the appraisal system reform, Chinese cultural factors had a strong impact on HRM systems and supervisors' behaviour in Bank A. For instance, it was very important to develop good guanxi with supervisors, because guanxi could determine whether an employee could obtain benefits and help from supervisors; and whether an

employee would have bright career prospects. Moreover, the young employees needed to wait to become senior employees, in order to obtain benefits or good compensation, because employees' seniority had an impact on the allocation of salary, bonuses or other benefits. However, the new performance appraisal system has started to change the internal culture of Bank A, by letting all managerial or non-managerial employees know that performance comes first, rather than guanxi, seniority or other factors.

However, despite the achievements discussed above, a number of problems with the performance appraisal system reform also came to light during the empirical study. In the interviews, some aspects of the design and implementation of the performance appraisal was criticised by the employees in Bank A. It seemed that the new performance appraisal system is considered a mere ritual by supervisors and subordinates; and less time was actually spent on the process of performance appraisal, because both supervisors and subordinates thought that the new performance appraisal is useless and meaningless; and it has more of a symbolic than practical meaning. Based on findings in interviews, the empirical review of three main limitations of reform and new appraisal system will be discussed in the following section.

Firstly, it was observed that employees in Bank A tend to be not motivated, because the results of the performance appraisal are not linked to any other HRM practices and could not bring any positive HR outcomes and benefits to employees, such as bonuses, promotion or development opportunities. As one supervisor said in the interview, neither supervisors nor employees in Bank A really want to spend a lot of time on performance appraisals, because the results of the appraisal will be only stored on file without any other consequences. The lack of linkage between appraisal outcomes and other HR practice results make the employees think the appraisal is useless and they will therefore pay less attention to appraisals, even if they obtain an unfair appraisal outcome.

Secondly, the fact that the employees had neither direct nor indirect control over the appraisals and no opportunities to participate in the process of appraisal has led to employees' great dissatisfaction with the implementation of the procedures. It was found that the employees in Bank A do not have any opportunity to participate in goal-setting, express their own opinions, have indirect influence on supervisors' decisions or appeal and challenge the results, if they need to. As one interviewee said, the employees in Bank A do not really know how every supervisor's decision in performance appraisal is made, because of the highly subjective process and the lack of transparency. Bank A follows a very traditional way of conducting appraisals, where the employees' voice and participation is kept to a minimum, which has led to employees' dissatisfaction with appraisals and perceptions of unfairness. Therefore, as Huang and Gamble suggested, "SOEs may need to consider how to implement better communication and participation practices" (2011, p3182); thus, Bank A may wish to consider more active participation from the employees' side as well.

Thirdly, employees in Bank A were dissatisfied with the appraisal outcome and had less confidence and trust in supervisors, because several Chinese cultural factors, such as *guanxi* and seniority, had a great impact on supervisors' decisions and behaviour in appraisals; and because there is no effective supervision mechanism to reduce the bias of supervisors' decisions.

State-owned bank A has a long history, which has brought complicated Chinese cultural factors to the HRM system of the bank. For example, according to the interviews, a number of supervisors in Bank A were passively influenced by the complex *guanxi* network within the bank. Therefore, the bank may wish to consider providing more training sessions to both managerial employees and non-managerial employees, in order to help them to change their behaviour and reduce the impact of cultural factors on performance appraisals.

Moreover, although the head of the department reviews the results of the performance

appraisal, it was found in interviews that this supervisor mechanism does not achieve the desired results, because the head of the department does not have specific knowledge and information regarding each employee's performance to enable them to complete an accurate review. Therefore, the original supervisors' decisions will not be revised by the head of the department. As one employee interviewee in Bank A said, the head of the department is not likely to change the supervisors' decisions, because the head does not know about the employees' performance in detail and needs to show respect to and give mianzi to supervisors by upholding their original judgment. Therefore, Bank A may need to build an effective supervision mechanism, in order to ensure the supervisors make unbiased decisions.

To summarise, the findings of the case study of state-owned bank A suggest that the reform of appraisal and new performance appraisal system has designed transparent, standardised and objective performance criteria that provide direction for employees' performance improvement; has more or less reduced the supervisors' subjectivity in appraisals and changed the supervisors' notions; and is helping to gradually change the old traditional internal culture of Bank A to a new performance-based internal culture. However, the employees in Bank A showed great dissatisfaction with appraisals and had low fairness perceptions of the new performance appraisal, because the results of the appraisal could not bring any other positive outcome to them; because the employees do not have any opportunities for participation; and because of the impact of Chinese cultural factors on appraisals and poor supervision mechanisms to reduce the supervisors' bias. Therefore, the new performance appraisal system with defective design and implementation has had a negative impact on employees' justice perceptions and satisfactions; and also failed to motivate employees to perform better.

8.8.2 Performance appraisal system in foreign bank B: a successful story

Compared to the controversial results of new performance appraisal system in state-owned bank A, the current performance appraisal system implemented in foreign

bank B seems to have been more successful. During the past five years, foreign bank B has continued to revise the system whenever they found problems. According to the internal employee survey in Bank B, the employees' positive reactions in Bank B have gradually increased in the past five years. As the employee survey shows, the employees in foreign bank B demonstrated much better justice perceptions and greater satisfaction with appraisals than the employees in state-owned bank A and city bank C. Therefore, it is necessary to summarise the advantages of the performance appraisal system in Bank B, whose experiences could be shared with other banks in China. Several points will be noted here.

Firstly, the employees have opportunities to participate in the process of performance appraisal, and the open two-way frequent communication between supervisors and subordinates is encouraged by the bank. It was found that, in the meetings, the employees are able to participate in the goal-setting at the beginning of the year and express their own opinions, which is valued by the supervisor and the bank, and are also able to appeal and challenge the results, if needed. Employees' participation in appraisals has increased the employees' indirect control over appraisals and their satisfaction and justice perceptions. Moreover, the frequent communication between supervisors and employees in Bank B ensures that the employees have adequate opportunities to demonstrate their achievements to supervisors and obtain feedback from them. In this situation, the supervisors have a better knowledge of employees' performance when conducting appraisals, while the employees are able to obtain more feedback, help and direction from supervisors for the completion of their performance targets. Therefore, the information exchange between supervisors and subordinates through employees' participation and frequent communication was found to be one of most important aspects in the successful implementation of appraisals in Bank B.

Secondly, it was found in interviews that by linking the results of the performance appraisal (the achievement of the performance objective) to other HR consequences, the foreign bank B significantly increased employees' motivation and productivity.

For instance, as one supervisor in the banking sector said, the employees in his workgroup set higher performance targets for themselves every year, because this could lead to better outcomes, such as higher bonuses. The majority of the employees in his workgroup were able to achieve more than sixty percent of performance objectives at the mid-year appraisal. As the appraisal results are fully linked to bonuses, promotions and some other HR outcomes, the employees in Bank B set higher performance targets and are motivated to achieve them.

Thirdly, the effective supervisor mechanism reduces the bias and unfairness of supervisors' decisions and behaviour. As discussed in the previous chapter, there will be a meeting for all supervisors who conduct appraisals, and their line managers, who are normally the heads of the department or high level managers in the department. Each supervisor has a face-to-face meeting with the line manager to report back the results and explain the reasons for performance ratings. Having had meetings with all supervisors, the line manager can then check the performance rating for each employee within one workgroup and make comparisons between the employees in different groups. Thus, the line manager can change the performance rating for the relevant employees, if needed. According to the interviews, the supervisors and their line managers in bank B take these meetings very seriously and this supervision mechanism effectively helps to reduce the supervisors' bias.

It was found that the supervision mechanism in state-owned bank A requires the head of the department to double check the decisions of each supervisor; however, this mechanism does not fulfill the aim of ensuring the supervisors are neutral in appraisals. The difference between Bank A and Bank B is whether the supervisors and their managers pay more attention to it, spend more time on it and take it more seriously. As a member of HR staff in Bank B reported, Bank B provided well-designed and systematic training programmes for the managerial employees, in order to make sure that they have comprehensive knowledge of all appraisal activity and take evaluation seriously.

Although the supervision mechanism in bank B works well and the employees have positive reactions toward the appraisal system, it was still found in the interviews that employees in Bank B had also mentioned the presence of supervisors' favouritism and bias in decisions and behaviour. Therefore, it is still necessary for Bank B to continue to taking action to reduce the supervisors' favouritism in appraisal.

8.8.3 Performance appraisal system in city bank C: achievements and limitations

Generally speaking, the performance appraisal system implemented in city bank C is also successful. Compared to state-owned bank A, the employees in city bank C perceived more satisfaction and fairness in performance appraisal; while compared to foreign bank B, the current performance appraisal system in city bank C could still be improved and revised, in terms of the implementation. Moreover, according to the interviews, all of the supervisors, employees and HR staff tended to support the appraisal, although they also mentioned some disadvantages, which they hoped would be improved. Therefore, based on the findings from the interviews in bank C, the following section presents a brief practical review of the achievements and limitations of the performance appraisal system in bank C.

According to the introduction to the performance appraisal system in bank C in the previous chapter, a number of advantages of the system design are very apparent, especially the following two aspects. Firstly, employees' participation and two-way communication between supervisors and subordinates ensures that the supervisors are able to gain a clear understanding of employees' feelings and that employees are able to obtain frequent feedback and suggestions from supervisors. Secondly, both supervisors and employees pay great attention to appraisals and take them seriously, which ensures more accurate results in the appraisal.

Nonetheless, besides the achievements mentioned above, one important limitation, found in interviews, is also worth discussing during this case study. Chinese cultural

factors, especially employees' guanxi, still has an impact on a number of supervisors' decisions and behaviour in appraisals, although there is a supervision mechanism to reduce the inaccuracy of supervisors' decisions in Bank C. The supervisors are required to send a report regarding the appraisal results to the head of the department, who will check the performance ratings and revise any incorrect ones. However, it was found that employees still reported a stronger impact of guanxi on appraisal and less fairness perceptions than in foreign bank B, which means that the supervision mechanism has a limited impact on supervisors' biased decisions. Therefore, Bank C may wish to consider the improvement of its current supervision mechanism to reduce the impact of Chinese cultural factors, such as guanxi and seniority, on appraisals. Moreover, as city bank C is a new bank, which has a short history of less than 15 years, the bank does not have strong historical and institutional heritage. For instance, no complicated guanxi network, which would have great negative impact on HRM practices, was observed in Bank C. However, it is very common for Chinese employees to develop guanxi within the organisation, which can lead to a very complex guanxi network. Therefore, Bank C may need to prevent the formation of a complicated guanxi network, which leads to a guanxi-based evaluation culture within the bank.

8.9 Chapter summary

According to both the quantitative and qualitative research results, significant differences were observed with respect to all of the above five aspects among these three banks (for detailed multiple comparisons see the table 8-9 below). In terms of the impact of guanxi on appraisals, the employees in state-owned bank A perceived that guanxi had a stronger impact on appraisals than both foreign bank B and city bank C. Guanxi's stronger impact in state-owned bank A is because of the impact of historical cultural and institutional heritage, supervisors' higher relationalism, lack of transparent appraisal decision making and no effective supervision mechanism.

With respect to employees' attitudes toward the distribution of performance ratings,

the employees in foreign bank B expressed much more satisfaction with ratings than the other two banks. It is interesting to find that two cultural factors, employees' guanxi as well as seniority, heavily influence the supervisors' decisions in appraisals in state-owned bank A. As for employees' satisfaction with the system itself, employees in foreign bank B also showed significantly more satisfaction with the system than in the other two banks. Based on the qualitative findings from interviews, procedural factors emerged as important differentiators. It was found that employees in Bank B perceive performance objective setting, distribution of performance ratings and formal interviews, employees' participation, communication system and feedback and appeal systems to be better and fairer than in the other two banks. In terms of the employees' attitudes toward supervisors' behaviour in appraisals, the employees in foreign bank B also expressed more satisfaction with supervisors than in the other two banks, especially in the following two aspects: employees' confidence in supervisors and unbiased judgments.

The cultural factors, including collectivism versus individualism and power distance, were found to have a greater impact on appraisals in state-owned bank A than in the other two banks, in terms of the design of the system, supervisors' and employees' attitudes and behaviour. The collectivistic culture in state-owned bank A means the supervisors' appraisal decisions are heavily influenced by some criteria, such as employees' guanxi and seniority rather than employees' real performance, while individualistic culture in foreign bank B and city bank C leads to supervisors' performance-oriented decisions and behaviour in appraisal. Moreover, the high-powered distance culture in state-owned bank A leads to a hierarchical relationship between supervisors and subordinates and very little communication between them; while the low-powered distance culture in foreign bank B and city bank C results in frequent interaction between supervisors and subordinates, as well as adequate information exchange between them. Finally, it is interesting to observe that employees in all these three banks do not choose to appeal the unfair ratings, because appealing would break their guanxi with supervisors and harmony within the

bank.

Table 8-9: The cross-bank analysis—a summary of the key findings of the multiple comparison of performance appraisal system in three banks in Eastern China

	State-owned Bank A	Foreign Bank B	City bank C
The impact of guanxi on appraisal	Employees' guanxi has strong impact on both distribution of ratings and communication between supervisor and subordinates.	Employees' guanxi is not important and does not influence the appraisal very much.	Yes, but limited.
Historical cultural and institutional heritage	Strong impact on appraisal, that the existing complex guanxi network in bank A still have impact on new appraisal system	No	No
Transparent appraisal decision making and supervision mechanism	Lack of transparency in decision making and no effective supervision mechanism	Very transparent decision making process and the line managers and effective supervision by the supervisors' line managers and the head of the department.	Transparent decision making process and the head of the department are responsible for supervision of all the managers in the department
The impact of seniority on appraisal	Seniority has strong impact on appraisal, that it is difficult for young employees to obtain good performance ratings, even if their performances are better.	No impact	Limited impact

performance criteria	KPI with both quantitative and qualitative criteria	KPI with both quantitative and qualitative criteria	KPI with both quantitative and qualitative criteria
appraisal purpose	No link to bonus and promotion	Fully linked to bonus, promotion, development and training	Partially linked to bonus, promotion and employee development
frequency of appraisal	annually	Biannually	Biannually
Overview of appraisal system	A mere ritual with no seriousness towards it. Employees do not care about the results and consider appraisal as a waste of time	well-stretched out and systematic system with supervisors' and employees' serious activity regarding appraisal	well-stretched out and systematic system. Supervisors are serious in implementing the process of appraisal
Performance objective setting	Supervisors set the objective for each subordinate and subordinates accept it passively. No employee participation in setting process.	Employees' participation in objective setting lead to a mutual agreement on performance target	Employees' participation in objective setting lead to a mutual agreement on performance target
Distribution of ratings and formal interview	Once in the end of the year. No clear explanation regarding the results and no good feedback from the supervisors	Twice per year. Employees could obtain feedback, direction and suggestion from the supervisors in the meeting. And they could also express their own opinions regarding appraisal	Twice per year. Feedback will be provided to employees in formal interview. And the employees do have opportunity to discuss the results with supervisors.

Participation and feedback	No participation. Very limited feedback from supervisors	Employees have various participation opportunities, such as objective setting. Supervisors are always ready to provide feedback	Employees could participate in objective setting. The communication and feedback is encouraged by the bank.
Appeal system	Employees have the appeal opportunity. But employees do not want to appeal, because they do not want to break up the guanxi with their supervisors	Robust system. Employees could challenge the results.	Employees do not want to appeal the results, because they want to maintain the harmonious guanxi with supervisors.
Employees' confidence in supervisors.	Less confidence. Lack of supervisors' training lead to the improper implementation of appraisal and unfair results.	Great confidence in supervisors, who have full knowledge and ability and are serious in conducting appraisal.	Have confidence in supervisors, because supervisors have good training and conduct appraisal properly.
the formal and hierarchical relationship between supervisor and subordinate	Yes, very formal and hierarchical relationship	No. frequent and close communication between supervisor and employee.	No. Two-way communication. Frequent interaction.

Chapter 9 Conclusion

This study has explored the design and implementation of performance appraisal systems in the Chinese banking sector, where the performance appraisal system aimed to link the evaluation to employees' real performance. This pioneering study has examined the impact of guanxi on performance appraisals and the suitability of performance appraisal systems at an organisational level and also employees' reactions toward guanxi in appraisals and performance appraisals at an individual level. Three in-depth case studies were conducted, the first investigating a state-owned bank, the second looking at a foreign bank and the third examining a city bank, with the aim of providing an insight into how their current performance appraisals influence employees' and supervisors' attitudes and behaviour in Chinese banking sector.

The last chapter summarises the whole study. Firstly, the key findings identified from the three case studies above will be revisited and the answers to each sub research questions will be briefly summarised. Secondly, theoretical and practical implications will be presented. Thirdly, contributions and limitations of this study will be discussed and possible directions for research in the future will also be presented.

9.1 Performance appraisal systems in the Chinese banking sector: A review of the key findings

In spite of the extensive discussion of performance appraisal systems in a Western context, there has been a great shortage of in-depth studies into the design and implementation of performance appraisal systems in Chinese organisations in a market context, leaving a significant gap in the understanding of performance appraisals reform in traditional Chinese organisations e.g. state-owned enterprises and public sector and the impact of Chinese cultural factors, e.g. guanxi on appraisal. In

recent years, more and more state-owned enterprises and public sectors in China have started to reform their performance appraisal system by linking the individual evaluation to their work performance. Nonetheless, no study has explicitly answered the question of how performance appraisal systems work in different organisations with different ownerships in China. In order to fulfill the research gaps identified in the literature review, the main research question of this research was presented as follows: “How has performance appraisal system been implemented in different organisations with different ownerships in China, and what has been the impact of guanxi on it?” In order to answer this question, several theories, including theories on performance appraisals, organisational justice theories, the research into performance appraisal systems in China and theories regarding guanxi were reviewed. Based on the research gaps and these theories, four sub-research questions were proposed and a range of hypotheses were also been developed.

In order to investigate the design and implementation of performance appraisals at an organisational level and employees’ and supervisors’ reactions toward it and behavioural outcomes at an individual level, among Chinese organisations with different ownerships, three in-depth case studies were carried out. The first examined state-owned bank A, which had just reformed its performance appraisal system five years ago, by adopting the Western modern style system instead of the traditional Chinese style. The second consisted of a foreign bank, whose performance appraisal system resembled the appraisal system in its parent country since being founded in China twenty years ago. The third focused on a city bank, which has a short history of less than 15 years and which has adopted the Western style appraisal system since its establishment. All of the research objectives were examined in relation to these three cases respectively. The key findings from the case studies were summarised as follows, according to each sub research question.

9.11 Sub Question 1: What is the role of guanxi in the performance appraisal systems?

In order to answer this question, a pilot study was conducted, consisting of the following two parts. In the first part, 20 interviews with employees from different types of Chinese organisations were carried out to explore what type of guanxi and how guanxi influences performance appraisals. According to these 20 interviews, three major findings were observed. First of all, the employees' guanxi influences the performance appraisals in Chinese organisations, in terms of two aspects: supervisors' distribution of performance ratings, and two-way communication between employees and their supervisors. Moreover, it confirmed that two types of employee guanxi can influence performance appraisals, including the employees' guanxi with their supervisors and employees' guanxi with higher level managers within the company or even important persons outside of the company. Lastly, non-workplace interactions, e.g. gift giving, visiting homes or having dinner with supervisors, were found to be a very helpful and common way of communicating and for the development of guanxi between employees and their supervisors, especially in state-owned enterprises and public sectors in China. Drawing on the findings of the interviews, a scale with two factors, including nine items, was developed for 'guanxi's impact on appraisals'.

In the second part, an explanatory factor analysis was conducted, on the basis of 145 valid questionnaires from part-time MBA students from two universities in Eastern China, in order to validate the new measure. Based on the result, seven items were retained to form the scale 'guanxi's impact on appraisals' for model testing (see Table 9.1).

Table 9-1: Scale for “guanxi’s impact on appraisal”

Guanxi below refers to any type of the following: (a) guanxi with supervisor; (b) guanxi with an important person within the company; (c) guanxi with an important person outside the company.

Factor 1: Guanxi’s impact on appraisal outcome:

- (1) Performance ratings are often distributed based on employees’ guanxi.
- (2) It is more important to have guanxi than to perform well, if I want to get a good performance rating.
- (3) Those employees who have guanxi will get better performance ratings than their peers, even if their performance is not better than their peers.

Factor 2: Guanxi’s impact on communication

Compared to employees without guanxi,

- (1) The supervisor provides more help and supervision to those employees who have guanxi for improvement of their performance.
 - (2) The supervisor provides more feedback and direction in appraisal to those employees who have guanxi.
 - (3) The supervisor has more non-workplace and workplace communication with those employees who have guanxi.
 - (4) The employees who have guanxi have more opportunities to express their own opinions to supervisor regarding appraisals.
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9.12 Sub question 2: How does guanxi’s impact on appraisals influence the employees’ perceptions of justice, affective reactions toward performance appraisals and behavioural outcomes?

In order to answer this question, a theoretical framework with nine hypotheses was developed in the literature review. I conducted the empirical study in three banks –

one state-owned bank, one foreign bank and one city bank – in Eastern China and ultimately obtained 308 valid questionnaires from model testing. Hierarchical multiple regression was adopted to analyse the data and test the model. The results of the model testing indicated that guanxi's impact on appraisal outcome is positively related to employees' perceptions of distributive justice, procedural justice, satisfaction with ratings and trust in supervisors. However, it was found that there is no significant relationship between guanxi's impact on communication and any dependent variables.

It is very interesting to note the difference between guanxi's impact on appraisal outcomes and guanxi's impact on communication, in terms of the relationship with employees' attitudes and behaviour. The possible explanation for this could be that outcomes of the HRM practices, such as performance ratings, are more valued by employees, and thus supervisors' decisions in HRM practices regarding the outcomes would violate not only organisational policy or regulations, but also will be easily observed, noticed and challenged by employees. Therefore, compared to guanxi's impact on communication, which is more accepted by employees, guanxi's impact on appraisal outcome has a negative impact on employees' perceptions of justice, affective attitudes and behavioural outcomes.

Besides this, the significant relationship between guanxi's impact on appraisal outcomes and four outcomes is consistent with the general trend of social norms in China. It is indicated that the legitimacy and applicability of the particularistic principle in HRM practices is increasingly questioned and challenged by employees and will be replaced by universalistic rules as predicted by Parsons and Shils (1951). Therefore, it is important for Chinese managers and organisations to be aware of the potential negative impact of guanxi practices on employees' attitudes and behaviour. Moreover, it is necessary for them to take actions to limit and constrain the formation and development of special guanxi between supervisors and subordinates and the prevalence of supervisors' guanxi practices within the organisation.

9.1.3 Sub question 3: How does performance appraisal work in Chinese organisations? and Sub question 4: How do guanxi's impact on appraisal and employees' reactions toward appraisal vary across three organisations in the same sector of different ownership in China?

Chapter 7 described the design and implementation of the performance appraisal system in each bank respectively; while Chapter 8 included a comparative study of the performance appraisals among these three banks, based on the findings from Chapter 7 as well as the result of questionnaires. Therefore, in this part, I will summarise the comparative study among these three banks in terms of the following three aspects: guanxi's impact on appraisals, design and implementation of performance appraisals and the impact of other cultural factors on appraisals.

Guanxi's impact on appraisal

Both quantitative results from the survey as well as qualitative results from the interviews indicated that employees' guanxi in state-owned bank A has a greater and stronger impact on appraisals than the other two banks, while guanxi's impact on foreign bank B is the weakest and the city bank C is in between these two banks. Moreover, the antecedents of the impact of guanxi on appraisal were also examined and three possible reasons have been discussed, including historical cultural and institutional heritage that lead to complicated guanxi networks and the prevalence of guanxi practices within the state-owned bank A, supervisors' relationalism, and lack of transparent appraisal decision making and supervision mechanism in appraisals.

Design and implementation of performance appraisals

Based on the findings, significant differences in the appraisal systems were observed across these three banks. Firstly, the origins of the performance appraisal systems were different in each of the three banks. The state-owned bank A in this study, which is a branch bank in the Eastern China, reformed its performance appraisal system because the headquarters of the bank A in Beijing required it to implement the

appraisal system reform. Meanwhile, foreign bank B and city bank C adopted the current performance-oriented appraisal system when they were founded or when they started the business in China.

Secondly, the design and procedure of the whole performance appraisal system was different among these three banks. Several similarities in procedure were observed among these three banks, such as adopting KPI as performance criteria, including both quantitative and qualitative criteria, and similar evaluation benchmarks. However, it was still found that the current appraisal system in state-owned bank A was significantly different from the system in foreign bank B and city bank C, in terms of the following aspects of procedure: appraisal purpose, frequency of appraisal, communication style, supervisors' feedback, employees' participation, objective setting process and appeal system.

The third difference among these three banks is employees' reactions toward the performance appraisal systems, including employees' affective reactions toward appraisals and perceptions of fairness. It was found that employees in state-owned bank A expressed greater dissatisfaction with the distribution of ratings, the design and implementation of the system, and the supervisors' behaviour in appraisal, and had much lower perceptions of distributive justice and procedural justice than the employees in the other two banks. On the other hand, employees in foreign bank B had the highest levels of satisfaction with appraisals and perceptions of fairness among all three banks. The employees in city bank C had a medium level of satisfaction with appraisals and perceptions of justice; Bank C was found to be statistically between state-owned bank A and foreign bank B.

Unexpected finding: the impact of other cultural factors on appraisals

Two more cultural values, collectivism versus individualism and power distance were found to influence performance appraisals in these three banks. In state-owned bank A, with a greater collectivistic culture, performance ratings are more likely to be

distributed based on employees' seniority and guanxi rather than employees' real performance. By contrast, performance is the primary criterion for supervisors to make appraisal decisions. Secondly, the higher power distance culture in state-owned bank A greatly influenced the design of the new performance appraisal system in the way that employees were not provided with any participation opportunities in the process of appraisals. Moreover, supervisors in Bank A do not frequently and actively communicate with subordinates, and consequently could not obtain adequate information regarding subordinates' performance for the final evaluation. On the other hand, participation opportunities in appraisals are provided to employees in both foreign bank B and city bank C and supervisors also have more interactions with subordinates as part of a two-way communication system. Nonetheless, employees in all three banks are not willing to appeal unfair performance ratings, because appeal can lead to a damage of their guanxi with supervisors and a breaking of the harmony within the organisation.

9.2 Theoretical and practical implications

Having presented the main findings above, the theoretical and practical implications will be briefly summarized in this part.

Theoretical implications

It is reported that guanxi has big impacts on performance appraisal in Chinese organisations (Bjorkman and Lu, 1999; Chen, Chen & Xin, 2004; Bai and Bennington, 2005; Bozionelos and Wang, 2007). Nonetheless, no research had clearly and explicitly examined the role of guanxi in appraisal. Thus, based on this research gap, this study explored the antecedents (institutional and cultural perspective) and consequences (impacts of guanxi in performance appraisal on employees' reactions) of guanxi practices in performance appraisal. Several important points which contribute to the theory of guanxi and guanxi practices are presented below.

Firstly, the present study enriches the understanding of cultural perspective of guanxi

and guanxi practices in performance appraisal by discussing this issue in terms of two levels of culture: organisational culture and personal cultural value. For organisational culture, although it is found that two types of culture (performance-orientation and guanxi network) co-exist within these three banks, guanxi orientation is found to be more prevalent and dominant than performance orientation in state-owned Bank A, compared to foreign Bank B and city Bank C. Thus, the special organisational culture in Bank A contributes to the formation of larger amount of supervisors' guanxi practices in performance appraisal than the other two banks. As guanxi development is considered to be an intrinsic ability for Chinese people (Bian, 1994), employees' active use of instrumental interactions, e.g. giving gift to supervisors, encourages supervisors to conduct guanxi practices in performance appraisal. Moreover, personal cultural values such as relationalism also influence supervisors' guanxi practices, in that supervisors with higher level of relationalism are more inclined to consider employees' guanxi in performance appraisals. Therefore, the organisational culture is an important reason for the divergence of guanxi practices in appraisal among these three banks; while supervisors' degree of relationalism (cultural value) strongly influence whether guanxi practices in appraisal exist in this workgroup.

Secondly, the findings also deepen our knowledge of institutional perspective of guanxi and guanxi practices in performance appraisal. It is found that the old performance appraisal system which did not have clear and objective criteria and some HRM practices which benefit guanxi (e.g. the recruitment of employees' children) had contributed to the formation of complex guanxi networks and prevalent guanxi practices in appraisal in Bank A before the reform of appraisal system. Even now, there are still some "institutional holes" in the new appraisal system, such as lack of decision-making transparency and lack of effective supervision mechanism. These "institutional defects" provide opportunities for guanxi practices to influence appraisals in Bank A and leads to the divergence among these three banks, because the appraisal system in foreign Bank B and city Bank C are found to be better

designed and implemented than Bank A.

Thus, This study confirmed that both institutions and culture matter for the formation of guanxi and guanxi practices in Chinese organizations, by using new types of data (i.e. both quantitative and qualitative data) from unexplored contexts (i.e. performance appraisal in three banks with different ownerships). The in-depth examination of guanxi and guanxi practices in appraisals in three banks had uncovered how cultural and institutional factors contribute to the functioning of guanxi and guanxi practices.

Thirdly, this study provides new prediction to the future of guanxi and guanxi practices and their importance in Chinese society. Guanxi still retains its centrality in daily life for Chinese people and the importance of guanxi will not diminish, because Chinese authorities value and regard the subordinates' development of guanxi as a mark of respect to them; the establishment and cultivation of guanxi is an intrinsic skill for Chinese people; and they will continue to use guanxi to obtain competitive advantages in China. Guanxi practices in Chinese will not decline because new regulations can not immediately limit guanxi practices to a large extent; the shared mindset of Chinese people will make them resistant to change and they will actively adopt new strategies for guanxi practices in order to adapt to the new regulations.

Fourthly, this study had offered a thorough and deep understanding of how guanxi influences performance appraisals. Although a large number of studies introduce the importance of guanxi in appraisals (Bjorkman and Lu, 1999; Chen, Chen & Xin, 2004; Bai and Bennington, 2005; Bozionelos and Wang, 2007), no study has clearly explained the role of guanxi in the performance appraisal system in Chinese organisations. In the pilot study I found two aspects of guanxi's impact on appraisals and then developed a measurement scale. Firstly, guanxi's impact on the appraisal outcome refers to supervisors' guanxi-based tangible benefits i.e. performance rating, which is noted in previous studies (Chen et al., 2004 and 2011).

Secondly, guanxi's impact on communication refers to supervisors' guanxi-based intangible benefits i.e. help, direction and support, which has been ignored in previous studies. Scholars should pay more attention to the second aspect: supervisors' guanxi-based intangible benefits, because more and more supervisors start to adopt this strategy in order to react to the reform or improvement of institutions and policies in China.

Fifthly, it also deepens our understanding of the impact of supervisors' guanxi practices on employees' reactions, attitudes or behaviours. Previous studies show that supervisors' guanxi-based tangible benefits, such as bonus, promotion and task allocation, have a negative impact on employees' procedural justice perceptions and trust in the management. The results from the model testing in this study not only confirm these two relationships, but also find that supervisors' guanxi-based tangible benefits are negatively related to employees' distributive justice perceptions and satisfaction with performance ratings. Although this study did not find a negative relationship between supervisors' guanxi-based intangible benefits and employees' attitudes, it is still found that guanxi's impact on communication contributes to the formation of complex guanxi networks within organisations.

Sixthly, this study also enriches Chinese culture literature by examining the impacts of some other cultural factors on performance appraisal in Chinese organisations besides guanxi. In organisations with a greater collectivistic culture, supervisors' appraisal decisions are more likely to be influenced by employees' guanxi and seniority rather than their actual performance. Moreover, higher power distance culture influences the design of appraisal systems in such a way that no participation opportunity is provided to employees and also influences supervisors' behaviour in the sense that they do not frequently and actively communicate with subordinates and do not obtain adequate information for the appraisal. Last but not least, supervisors' guanxi practices are found to be more prevalent in the workgroups with higher levels of collectivism and power distance culture.

Seventhly, the comparative studies of three banks in Eastern China broaden our understanding of differences within the appraisal system design and employees' reactions towards it among different organisations with different ownership structures. It is found that employees' attitudes and justice perceptions in state-owned Bank A are comparatively lower than their counterparts in the other two banks in terms of distributive justice perceptions, procedural justice perceptions, interactional justice perceptions, satisfaction with ratings, satisfaction with systems and their satisfaction with supervisors. The possible important reasons for employees' negative attitudes towards appraisal in Bank A include no participation opportunities, no linkage between appraisal outcomes and bonus, impact of cultural factors on supervisors' decisions, no apparent decision making process and no effective supervision mechanism.

Practical implications

It is found that guanxi practices in appraisal have negative impacts on employees' reactions, while the trend is that guanxi and guanxi practices will not diminish in China. In this part, I will briefly discuss why the impact of guanxi on performance appraisal really matters in Chinese organisations. This will be examined in the following two aspects: competitive advantage of a firm and corporate social responsibilities.

Firstly, the suppression and removal of guanxi practices in performance appraisal could increase the effectiveness and efficiency of the organisations, and thus enhance the competitive advantage as well. In order to maintain an advantage in intense competition, a firm should develop or acquire a special attribute or characteristic which helps them to outperform their rivals (Porter, 1985). In firms where guanxi practice in appraisal is prevalent, employees will believe that only guanxi building and development could be rewarded by the organisation rather than their actual performance and contribution. In that situation, employees will strive to establish

their own guanxi network within the firm rather than strive to work through their own individual efforts. Those employees who do not have guanxi will be seriously demotivated. On the other hand, the firms which suppress guanxi practices in appraisal, a performance-oriented culture could encourage employees to make great efforts to perform well. Comparatively, these firms with a performance-oriented culture are more effective and efficient over those firms with prevalent guanxi practices in appraisal in terms of employees' work performance.

Moreover, the prevalence of guanxi practices in appraisals will also have negative impacts on a firm's reputation, which in turn can harm the recruitment of employees. Those individuals who do not have adequate resources and skills for developing guanxi will consider giving up the application to work in those firms with guanxi-oriented culture. That is to say, the guanxi-oriented culture of a firm mainly attracts those individuals who are good at developing guanxi rather than those individuals who focus on performance. Thus, guanxi practices in appraisal are harmful to recruitment and hence a firm's future effectiveness and efficiency.

Secondly, firms with a performance-oriented culture provide a better contribution in terms of corporate social responsibility; while firms, in which guanxi practices in appraisal are prevalent, do not really take social responsibility actively and seriously. Corporate social responsibility is defined as "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams and Siegel, 2001, p117). It is found that one reason for using guanxi practices in appraisals is that employees use both expressive and instrumental interactions, such as giving gifts or having dinner together to develop guanxi with supervisors, and thence supervisors' guanxi practices in appraisal. The interactions for guanxi development leads to a great waste of social resources, such as a large amount of food for a big dinner and valuable products for gifts and they also promote a bad social environment and ethos. Suppression of guanxi practices in appraisal and other HRM practices signals a firm's serious attitude towards social

responsibility.

Moreover, a firm which embraces social responsibilities should make sure that their activities with employees, customers, stakeholders, communities and the environment all have a positive impact. However, it is found that guanxi practices have negative impacts on the attitudes and behaviours of those employees who do not have and use guanxi. Therefore, in order to be socially responsible for all employees, the firm should implement proper policies to limit and constrain the guanxi practices in appraisal and other HR practices.

To sum up, the firms which have lower levels of guanxi practices in performance appraisal could have a competitive advantage over rivals while embracing strong corporate social responsibility. Therefore, as I suggest above, firms should adopt proper strategies to constrain guanxi practices in appraisals, such as having a transparent decision making process, establishing effective supervision mechanisms and promoting a performance-oriented culture. For the supervisors, I suggest that they keep away from guanxi practices in performance appraisals, by strictly abiding by the performance-oriented appraisal regulations and refusing to be involved in employees' instrumental or expressive interactions, which lead to guanxi practices in appraisals.

9.3 Contributions, limitations and directions for future research

Contributions

The thesis makes the following three important contributions. Firstly, very little research has systematically explored the current performance appraisal system in three organisations and the reform process of one state-owned organisation in Eastern China using empirical evidence, as this study does. Moreover, this study has also investigated the design and implementation of performance appraisal in banks with different ownerships in China, a very important industry that is rarely explored. Secondly, in-depth case studies were carried out including both qualitative i.e.

detailed semi-structured interviews with employees, supervisors and HR staff and collection of relevant documents, and quantitative methodology, i.e. a large scale employee survey in three banks. I gained access to all these three banks through personal guanxi; and appointments were made before I visited each bank every time in order to ensure that I had plenty of time to complete the distribution of surveys and interviews. In my opinion, this is the first systematic study of the performance appraisal system and its reform in the Chinese banking sector that provides an insight into the implementation of appraisals and their impact on employees' attitudes and behaviour. Thirdly, three banks with different ownerships were chosen for a comparative study, including a state-owned bank which had just reformed its performance appraisal system five years ago by adopting a Western style modern system instead of the old traditional system, a foreign bank, which resembles the HRM practices of its parent countries and a city bank, which has a short history and has adopted advanced western style HRM practices since its establishment. The state-owned bank in this study acted as a pioneer in performance appraisal reform in its type of ownership; while the foreign bank and city bank also had very good reputations in their types of ownership, which led to the first comparative study on the basis of first hand data. Hence, to my knowledge, this is a valuable piece of research into the theoretical and practical implications for the design, implementation and reform of performance appraisal systems in the Chinese banking sector.

Limitations

Although this study has made the above three contributions, it also has several unavoidable limitations. Firstly, although a case study has its own advantages in specifically investigating the contextual factors in organisations and permitting some theoretical generalisation, the results of the case study are restricted to the banking industry and have a lack of generalisability to other types of cases. In this study, three case studies have been conducted in one state-owned bank, one foreign bank and one city bank in major cities in Eastern China. However, some important banks with other ownerships, including joint-stock banks and village and town banks were

excluded, due to limited resources and having no access to them. Moreover, the banks in small cities or suburban areas were not included either. Therefore, the results of the case studies may not be generalised to other types of banks or to banks in other regions or parts in China. Thus, future research could apply the results of this case study to other industries or other types of banks in different regions in China.

Secondly, in spite of multiple sources of information and evidence adopted in the case study, the data collection was still limited by the access I obtained from the banks. In order to explore what factors in performance appraisal in each bank led to employees' perceptions of unfairness and dissatisfaction, the data were collected through interviews with 3 to 4 employees and 2 supervisors. However, I have noted that the small number of samples in interviews might have constrained the findings. Therefore, future research could adopt larger samples in interviews to explore more contextual factors which influence employees' reactions toward appraisal. Moreover, a questionnaire was designed to examine employees' attitudes toward *guanxi* in appraisals, fairness of appraisals, affective reactions toward appraisals and subsequent behavioural outcomes. In fact, one questionnaire for supervisors was also designed, in order to examine employees' organisational citizenship behaviour. However, this plan was declined due to the lack of access allowed. As Chen, Chen & Xin (2004) suggest, it is necessary to examine the relationship between *guanxi* practice and some factors of organisational citizenship behaviour, such as voice. Future research could explore this relationship by using the data from both of supervisors' and employees' questionnaires, although this is difficult to conduct in practice.

Thirdly, my reflexivity has an impact on the analysis of qualitative data and the writing up process of this thesis. "Reflexivity is a hallmark of excellent qualitative research and it entails the ability and willingness of researchers to acknowledge and take account of the many ways they themselves influence research findings and thus what comes to be accepted as knowledge" (Sandelowski & Barroso, 2002, p222).

As Malterud (2001) points out, a researcher's attitude, background, knowledge and position will influence the investigation, findings and conclusion in qualitative research. In this study, my own position regarding guanxi practices strongly influences the process of data collection and analysis. I believe that guanxi practices in appraisal and other HR practices have great negative impacts on employees' attitudes and behaviours; thus, I planned to mainly focus on the examination of the antecedents and consequences of guanxi practices in performance appraisals in Chinese banks. As guanxi practices in appraisals are much more prevalent in state-owned Bank A, than the other two banks, the majority of the data analysis part focused on the context of state-owned Bank A; while the situation in the other two banks were less mentioned.

Another reason for the adoption of uneven quotations from these three banks i.e. majority from state-owned Bank A and very little voice from the other banks is that I am very interested in the reform of the performance appraisal system in state-owned Bank A. The reform of HR practices, such as the appraisal system in state-owned companies in China, is always a very hot topic. I think it is very interesting and important to explore how reforms influence the role of guanxi and guanxi practices in performance appraisals and I believe that the findings may provide valuable information to other state-owned companies for the reform of their appraisal system. Therefore, at the beginning of my study, I have determined that state-owned Bank A is the most important sample; and during the data analysis, I had made great efforts to discuss the situation before and after the reform in state-owned Bank A. My position led to the lack of adequate information regarding the situation in foreign Bank B and city Bank C. I believe that a more balanced selection of information from all of these banks would improve the data analysis and provide a more complete picture for both Bank B and Bank C.

Directions for future research

Finally, some hidden contextual variables may still underlie this study; hence, future

study should explore broader contextual determinants of employees' reactions toward appraisal by conducting quantitative analysis of large-scale survey. For instance, some other important cultural factors, such as seniority, collectivism and power distance, were found in this study to influence the implementation of performance appraisals in terms of supervisors' and employees' behaviour. Therefore, alternatively, based on the findings in this study, future quantitative research could be conducted on these issues.

To sum up, the case study method chosen for this research has demonstrated its advantages in providing an insight into the implementation of performance appraisal systems in three banks in Eastern China. By exploring the impact of guanxi and other cultural factors on appraisals, and the procedural factors of appraisals that influence employees' reactions toward appraisals, this research has shed light on the reform appraisal system in Chinese organisations in a market context and has contributed to the research gaps in terms of what factors and how these factors influence employees' attitudes and behaviour in appraisals.

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Appendix 1: Interview questions in pilot study

- 1 What kinds of impact have the employees' guanxi had on performance appraisals in your company?
- 2 What types of employees' guanxi have an impact on supervisors' behaviour in appraisals?
- 3 How does employees' guanxi influence supervisors' decisions and behaviour in appraisals in your company?
- 4 Do those employees with guanxi obtain better performance ratings from supervisors, compared to those employees without guanxi, regardless of their performance?
- 5 Do those employees with guanxi obtain better treatment from supervisors, compared to those employees without guanxi?
- 6 Do those employees with guanxi have more opportunities to communicate with supervisors, compared to those employees without guanxi?
- 7 Is the guanxi network complicated in your company? If so, how was the complicated guanxi network developed within the company?
- 8 Are supervisors' guanxi-based decisions and behaviour prevalent in your company? If so, why did this become prevalent within the company?
- 9 Has the company taken any action to limit the development of complicated guanxi networks within the organisation?
- 10 Has the company taken any action to limit supervisors' guanxi-based decisions or behaviour in appraisals?
- 11 Do you have any further comments?

Appendix 2-1: Interview questions for HR staff in bank A

Interview questions for staff in the HR department of state-owned bank A (semi-structured interviews)

- 1 Why was the reform of the performance appraisal system carried out in your bank?
- 2 How was the reform of the performance appraisal system implemented in your bank?
- 3 Could you please briefly describe the design and implementation of the old performance appraisal system before reform in your bank?
- 4 What changes were made to the performance appraisal system in your bank in the reform?
- 5 Who participated in the process of the reform of the performance appraisal system in your bank?
- 6 What were the most difficult parts of designing and implementing the performance appraisal system reform in your bank?
- 7 Has the implementation of the new performance appraisal system helped to align the goals of the employees with those of the workgroup and the bank?
- 8 What is the format and design of the new performance appraisal system in your bank?
- 9 What is the administrative purpose of the new performance appraisal system in your bank?
- 10 How often are performance appraisals conducted in your bank?
- 11 How were the criteria for the evaluation decided upon during the performance appraisal system reform?
- 12 Can you introduce the performance criteria which have been adopted in the performance appraisal system in your bank? KPI? Objective or subjective criteria?
- 13 What kind of the benchmark does your bank adopt in performance appraisals?
- 14 How is the performance of employees in different departments evaluated in the new performance appraisal system? Do they have same criteria and benchmarks?

- 15 Does the new performance appraisal system have 360 degree appraisals e.g. appraisal from customers and peers?
- 16 How are employees' performance objectives set at the beginning of appraisal?
- 17 How does the supervisor communicate with the subordinates in performance appraisals?
- 18 How frequently are supervisors required to provide formal feedback to subordinates regarding their performance? How about informal feedback?
- 19 Is there any participation opportunity in the process of appraisals provided to employees?
- 20 Is employee voice in performance appraisal valued and noticed by supervisors and the bank?
- 21 Do employees have opportunities to appeal the results of the appraisal, when they feel any unfairness in or dissatisfaction with performance appraisal?
- 22 How does the bank deal with the employees' appeals? Who participates in the solution process of the appeal process?
- 23 Does the bank conduct post-appraisal attitude surveys in order to explore employees' affective reactions toward the performance appraisal system?
- 24 What is the role of the supervisor in performance appraisals?
- 25 What responsibilities does the supervisor have in performance appraisals?
- 26 How many subordinates is one supervisor responsible for in performance appraisals?
- 27 What are the employees' responsibilities in performance appraisals?
- 28 Has the implementation of the new performance appraisal system helped to establish a scientific and objective system for the evaluation of employees' performance?
- 29 How did the HR department evaluate the implementation of the new performance appraisal system after the reform?
- 30 Has the implementation of the new performance appraisal system helped to reduce

any unwanted behaviour among the internal management of the bank?

31 Has the implementation of the new performance appraisal system helped to reduce any unwanted behaviour among employees in the bank?

32 Has the implementation of the new performance appraisal system affected cooperation among employees in the bank?

33 How were employees in different departments involved in the performance appraisal reform and its implementation?

34 What impact have the performance appraisal system reform and the implementation of the new performance appraisal system had on different employees in the bank? (a. employees in banking sector; b. employees in support sector)

35 How fair do you think the performance appraisal system reform in your bank was?

36 How fair do you think the new performance appraisal system implemented in your bank is?

37 What factors in appraisal do you think have a negative impact on the fairness of the performance appraisal system in your bank?

38 What kind of impact does have the employees' guanxi have on performance appraisals in the bank?

39 What types of employee guanxi will have an impact on appraisals?

40 How does employees' guanxi influence supervisors' decisions and behaviour in appraisals in your bank?

41 Is the guanxi network complicated in your bank? If so, how was the complicated guanxi network developed within the bank?

42 Are supervisors' guanxi-based decisions and behaviour prevalent in your bank? If so, why did this become prevalent within the bank?

43 Has the bank taken any action to limit the development of complicated guanxi networks within the organisation?

44 Has the bank taken any action to limit supervisors' guanxi-based decisions or behaviour in appraisals?

45 What do you think have been the achievements and what problems have occurred

in the performance appraisal system reform and the implementation of the new performance appraisal system in your bank?

46 How do you think the implementation of the performance appraisal system reform in your bank could have been improved?

47 How do you think the current performance appraisal system in your organisation could be improved?

48 Do you have any further comments?

Appendix 2-2: Interview questions for HR staff in bank B and C

Interview questions for staff in the HR department of foreign bank B and city bank C (semi-structured interviews)

- 1 What is the format and design of the performance appraisal system in your bank?
- 2 What is the administrative purpose of the performance appraisal system in your bank?
- 3 Has the implementation of the performance appraisal system helped to align the goals of the employees with those of the workgroup and the bank?
- 4 How often are performance appraisals conducted in your bank?
- 5 Can you introduce the performance criteria which have been adopted in the performance appraisal system in your bank? KPI? Objective or subjective criteria?
- 6 What kind of the benchmark does your bank adopt in performance appraisals?
- 7 How is the performance of employees in different departments evaluated in the performance appraisal system? Do they have same criteria and benchmarks?
- 8 Does the performance appraisal system have 360 degree appraisals e.g. appraisal from customers and peers?
- 9 How are employees' performance objectives set at the beginning of appraisal?
- 10 How does the supervisor communicate with the subordinates in performance appraisals?
- 11 How frequently are supervisors required to provide formal feedback to subordinates regarding their performance? How about informal feedback?
- 12 Is there any participation opportunity in the process of appraisals provided to employees?
- 13 Is employee voice in performance appraisal valued and noticed by supervisors and the bank?
- 14 Do employees have opportunities to appeal the results of the appraisal, when they feel any unfairness in or dissatisfaction with performance appraisal?

15 How does the bank deal with the employees' appeals? Who participates in the solution process of the appeal process?

16 Does the bank conduct post-appraisal attitude surveys in order to explore employees' affective reactions toward the performance appraisal system?

17 What is the role of the supervisor in performance appraisals?

18 What responsibilities does the supervisor have in performance appraisals?

19 How many subordinates is one supervisor responsible for in performance appraisals?

20 What are the employees' responsibilities in performance appraisals?

21 Has the implementation of the performance appraisal system helped to establish a scientific and objective system for the evaluation of employees' performance?

22 How did the HR department evaluate the implementation of the performance appraisal system?

23 Has the implementation of the performance appraisal system helped to reduce any unwanted behaviour among the internal management of the bank?

24 Has the implementation of the performance appraisal system helped to reduce any unwanted behaviour among employees in the bank?

25 Has the implementation of the performance appraisal system affected cooperation among employees in the bank?

26 How were employees in different departments involved in the implementation of performance appraisal?

27 What impact have the implementation of the performance appraisal system had on different employees in the bank? (a. employees in banking sector; b. employees in support sector)

28 How fair do you think the performance appraisal system implemented in your bank is?

29 What factors in appraisal do you think have a negative impact on the fairness of the performance appraisal system in your bank?

30 What kind of impact does have the employees' guanxi have on performance

appraisals in the bank?

31 What types of employee guanxi will have an impact on appraisals?

32 How does employees' guanxi influence supervisors' decisions and behaviour in appraisals in your bank?

33 Is the guanxi network complicated in your bank? If so, how was the complicated guanxi network developed within the bank?

34 Are supervisors' guanxi-based decisions and behaviour prevalent in your bank? If so, why did this become prevalent within the bank?

35 Has the bank taken any action to limit the development of complicated guanxi networks within the organisation?

36 Has the bank taken any action to limit supervisors' guanxi-based decisions or behaviour in appraisals?

37 What do you think have been the achievements and what problems have occurred in the implementation of the performance appraisal system in your bank?

38 How do you think the current performance appraisal system in your organisation could be improved?

39 Do you have any further comments?

Appendix 3-1: Interview questions for supervisors in bank A

Interview questions for supervisors in state-owned bank A (semi-structured interviews)

- 1 Why was the reform of performance appraisal system carried out in your bank?
- 2 How was the reform of performance appraisal system implemented in your bank?
- 3 Could you please briefly describe the design and implementation of the old performance appraisal system in your bank before reform?
- 4 What changes were made to the performance appraisal system in your bank in the reform?
- 5 Who participated in the process of the reform of the performance appraisal system in your bank?
- 6 What were the most difficult parts of designing and implementing the performance appraisal system reform in your bank?
- 7 Can you introduce the performance criteria which have been adopted in the performance appraisal system in your department?
- 8 How are subordinates' performance objectives set at the beginning of appraisals in your workgroup? You decide or mutually decide with subordinates?
- 9 Do subordinates have the opportunity to participate in any step of the performance appraisal process?
- 10 How often can subordinates express their own opinions or views to you regarding performance appraisals?
- 11 How does the bank deal with employees' appeals? Who participates in the solving of the appeal process?
- 12 Have the subordinates in your workgroup complained about performance appraisals to you in the last several years?
- 13 What is the role of the supervisor in performance appraisals in your bank?
- 14 What responsibilities does the supervisor have in performance appraisals?

- 15 How do you communicate with subordinates in performance appraisals?
- 16 Do you have frequent communication with subordinates in the process of appraisals?
- 17 How frequently do you provide formal feedback to subordinates regarding their performance? How about informal feedback?
- 18 How are the results of performance appraisals distributed to subordinates?
- 19 Do you think you could provide reasonable justification to subordinates regarding the results of appraisals?
- 20 Do you think you treat subordinates with respect and sensitivity in the process of appraisals?
- 21 How are you able to have a clear understanding of the performance of each subordinate in your workgroup?
- 22 How do you ensure your appraisal decisions are neutral and lack bias?
- 23 What kind of criteria do you base your appraisal decisions on?
- 24 When you make appraisal decisions, do you need to consider some factors, such as employees' guanxi or seniority?
- 25 How fair do you think the performance appraisal system reform in your bank was?
- 26 How fair do you think the new performance appraisal system implemented in your bank is?
- 27 What factors in appraisals do you think have a negative impact on the fairness of performance appraisal systems in your bank?
- 28 What kind of impact does the employees' guanxi have on performance appraisals in the bank?
- 29 What types of employees' guanxi has an impact on appraisals?
- 30 How does employees' guanxi influence supervisors' decisions and behaviour in appraisals in your bank?
- 31 Is the guanxi network complicated in your bank? If so, how was the complicated guanxi network developed within the bank?

- 32 Are supervisors' guanxi-based decisions and behaviour prevalent in your bank? If so, why did this become prevalent within the bank?
- 33 Do you have non-workplace interactions with the subordinates in your workgroup e.g. home visiting, having dinner or gift giving?
- 34 Is it important for employees to have non-workplace interactions with supervisors in your bank?
- 35 Has the bank taken any action to limit the development of complicated guanxi networks within the organisation?
- 36 Has the bank taken any action to limit supervisors' guanxi-based decisions or behaviour in appraisals?
- 37 What do you think have been the achievements and what problems have occurred in the performance appraisal system reform and the implementation of the new performance appraisal system in your bank?
- 38 How do you think the implementation of the performance appraisal system reform in your bank could have been improved?
- 39 How do you think the current performance appraisal system in your organisation could be improved?
- 40 Do you have any further comments?

Appendix 3-2: Interview questions for supervisors in bank B and C

Interview questions for supervisors in foreign bank B and city bank C (semi-structured interviews)

- 1 Can you introduce the performance criteria which have been adopted in the performance appraisal system in your department?
- 2 How are subordinates' performance objectives set at the beginning of appraisals in your workgroup? You decide or mutually decide with subordinates?
- 3 Do subordinates have the opportunity to participate in any step of the performance appraisal process?
- 4 How often can subordinates express their own opinions or views to you regarding performance appraisals?
- 5 How does the bank deal with employees' appeals? Who participates in the solving of the appeal process?
- 6 Have the subordinates in your workgroup complained about performance appraisals to you in the last several years?
- 7 What is the role of the supervisor in performance appraisals in your bank?
- 8 What responsibilities does the supervisor have in performance appraisals?
- 9 How do you communicate with subordinates in performance appraisals?
- 10 Do you have frequent communication with subordinates in the process of appraisals?
- 11 How frequently do you provide formal feedback to subordinates regarding their performance? How about informal feedback?
- 12 How are the results of performance appraisals distributed to subordinates?
- 13 Do you think you could provide reasonable justification to subordinates regarding the results of appraisals?
- 14 Do you think you treat subordinates with respect and sensitivity in the process of appraisals?

- 15 How are you able to have a clear understanding of the performance of each subordinate in your workgroup?
- 16 How do you ensure your appraisal decisions are neutral and lack bias?
- 17 What kind of criteria do you base your appraisal decisions on?
- 18 When you make appraisal decisions, do you need to consider some factors, such as employees' guanxi or seniority?
- 19 How fair do you think the new performance appraisal system implemented in your bank is?
- 20 What factors in appraisals do you think have a negative impact on the fairness of performance appraisal systems in your bank?
- 21 What kind of impact does the employees' guanxi have on performance appraisals in the bank?
- 22 What types of employees' guanxi has an impact on appraisals?
- 23 How does employees' guanxi influence supervisors' decisions and behaviour in appraisals in your bank?
- 24 Is the guanxi network complicated in your bank? If so, how was the complicated guanxi network developed within the bank?
- 25 Are supervisors' guanxi-based decisions and behaviour prevalent in your bank? If so, why did this become prevalent within the bank?
- 26 Do you have non-workplace interactions with the subordinates in your workgroup e.g. home visiting, having dinner or gift giving?
- 27 Is it important for employees to have non-workplace interactions with supervisors in your bank?
- 28 Has the bank taken any action to limit the development of complicated guanxi networks within the organisation?
- 29 Has the bank taken any action to limit supervisors' guanxi-based decisions or behaviour in appraisals?
- 30 What do you think have been the achievements and what problems have occurred

in the implementation of the performance appraisal system in your bank?

31 How do you think the current performance appraisal system in your organisation could be improved?

32 Do you have any further comments?

Appendix 4-1: Interview questions for employees in bank A

Interview questions for employees in state-owned bank A (semi-structured interviews)

- 1 How was the reform of the performance appraisal system implemented in your bank?
- 2 What changes were made to the performance appraisal system in your bank in the reform?
- 3 Who participated in the process of the reform of the performance appraisal system in your bank?
- 4 Could you please briefly describe the performance criteria e.g. KPI adopted for evaluation in your department?
- 5 How is your performance objective set at the beginning of appraisals?
- 6 Can you set your performance objectives together with your supervisor and express your own opinion regarding it?
- 7 Do you have the opportunity to participate in any step of the process in the performance appraisal system?
- 8 Are you able to influence your supervisors' decisions in appraisals?
- 9 Are you able to express your view and opinions on appraisals to the supervisors and the bank?
- 10 Are your voice and opinions regarding appraisals valued and noticed by your supervisor and your bank?
- 11 Do you have the opportunity to appeal the results of an appraisal, when you feel there is unfairness or you feel dissatisfaction?
- 12 How does the bank deal with employees' appeals? Who participates in the solving of the appeal process?
- 13 Does the bank conduct post-appraisal attitude surveys in order to explore employees' affective reactions toward the performance appraisal system?
- 14 Do you have opportunities to conduct a self-appraisal?

- 15 Do you have opportunities to evaluate your peers' performance?
- 16 What is the role of the supervisor in performance appraisals?
- 17 What responsibilities does the supervisor have in performance appraisals?
- 18 Do you think your supervisor is qualified to conduct a proper appraisal for each subordinate?
- 19 Do you think your supervisor have adequate knowledge of the performance of each subordinate when they make appraisal decisions?
- 20 How does supervisor communicate with you in performance appraisals?
- 21 Do you have opportunities for frequent communication with your supervisor regarding the process of appraisal?
- 22 How frequently do supervisors provide formal feedback to you regarding your performance? How about informal feedback?
- 23 Do you think the feedback your supervisor provides to you is helpful in the improvement of your performance?
- 24 How are the results of performance appraisals distributed to you?
- 25 Do you think your supervisor could provide reasonable justification regarding the result of your appraisal?
- 26 Do you think your supervisor treats you with respect and sensitivity in the process of appraisals?
- 27 Do you think your supervisor makes judgment on objective evidence and information?
- 28 Do you think your supervisor's appraisal decisions are neutral and lacking in bias?
- 29 What kind of factors influence your supervisors' appraisal decisions e.g. guanxi or seniority?
- 30 How fair do you think the performance appraisal system reform in your bank was?
- 31 How fair do you think the new performance appraisal system implemented in your bank is?

32 What factors in appraisal do you think have negative impact on the fairness of the performance appraisal system in your bank?

33 What kind of impact does the employees' guanxi have on performance appraisals in the bank?

34 What types of employees' guanxi have an impact on appraisals?

35 How does employees' guanxi influence supervisors' decisions and behaviour in appraisals in your bank?

36 Does your guanxi influence your supervisor's decisions or behaviour in appraisals?

37 Is the guanxi network complicated in your bank? If so, how was the complicated guanxi network developed within the bank?

38 Are supervisors' guanxi-based decisions and behaviour prevalent in your bank? If so, why did this become prevalent within the bank?

39 Has the bank taken any action to limit the development of complicated guanxi networks within the organisation?

40 Has the bank taken any action to limit supervisors' guanxi-based decisions or behaviour in appraisals?

41 Do you think your supervisor's decisions and behaviour in the appraisal are influenced by subordinates' guanxi in your workgroup?

42 What do you think have been the achievements and what problems have occurred in the performance appraisal system reform and the implementation of the new performance appraisal system in your bank?

43 How do you think the implementation of the performance appraisal system reform in your bank could have been improved?

44 How do you think the current performance appraisal system in your organisation could be improved?

45 Do you have any further comments?

Appendix 4-2: Interview questions for employees in bank B and C

Interview questions for employees in foreign bank B and city bank C (semi-structured interviews)

- 1 Could you please briefly describe the performance criteria e.g. KPI adopted for evaluation in your department?
- 2 How is your performance objective set at the beginning of appraisals?
- 3 Can you set your performance objectives together with your supervisor and express your own opinion regarding it?
- 4 Do you have the opportunity to participate in any step of the process in the performance appraisal system?
- 5 Are you able to influence your supervisors' decisions in appraisals?
- 6 Are you able to express your view and opinions on appraisals to the supervisors and the bank?
- 7 Are your voice and opinions regarding appraisals valued and noticed by your supervisor and your bank?
- 8 Do you have the opportunity to appeal the results of an appraisal, when you feel there is unfairness or you feel dissatisfaction?
- 9 How does the bank deal with employees' appeals? Who participates in the solving of the appeal process?
- 10 Does the bank conduct post-appraisal attitude surveys in order to explore employees' affective reactions toward the performance appraisal system?
- 11 Do you have opportunities to conduct a self-appraisal?
- 12 Do you have opportunities to evaluate your peers' performance?
- 13 What is the role of the supervisor in performance appraisals?
- 14 What responsibilities does the supervisor have in performance appraisals?
- 15 Do you think your supervisor is qualified to conduct a proper appraisal for each subordinate?

16 Do you think your supervisor have adequate knowledge of the performance of each subordinate when they make appraisal decisions?

17 How does supervisor communicate with you in performance appraisals?

18 Do you have opportunities for frequent communication with your supervisor regarding the process of appraisal?

19 How frequently do supervisors provide formal feedback to you regarding your performance? How about informal feedback?

20 Do you think the feedback your supervisor provides to you is helpful in the improvement of your performance?

21 How are the results of performance appraisals distributed to you?

22 Do you think your supervisor could provide reasonable justification regarding the result of your appraisal?

23 Do you think your supervisor treats you with respect and sensitivity in the process of appraisals?

24 Do you think your supervisor makes judgment on objective evidence and information?

25 Do you think your supervisor's appraisal decisions are neutral and lacking in bias?

26 What kind of factors influence your supervisors' appraisal decisions e.g. guanxi or seniority?

27 How fair do you think the performance appraisal system implemented in your bank is?

28 What factors in appraisal do you think have negative impact on the fairness of the performance appraisal system in your bank?

29 What kind of impact does the employees' guanxi have on performance appraisals in the bank?

30 What types of employees' guanxi have an impact on appraisals?

31 How does employees' guanxi influence supervisors' decisions and behaviour in appraisals in your bank?

- 32 Does your guanxi influence your supervisor's decisions or behaviour in appraisals?
- 33 Is the guanxi network complicated in your bank? If so, how was the complicated guanxi network developed within the bank?
- 34 Are supervisors' guanxi-based decisions and behaviour prevalent in your bank? If so, why did this become prevalent within the bank?
- 35 Has the bank taken any action to limit the development of complicated guanxi networks within the organisation?
- 36 Has the bank taken any action to limit supervisors' guanxi-based decisions or behaviour in appraisals?
- 37 Do you think your supervisor's decisions and behaviour in the appraisal are influenced by subordinates' guanxi in your workgroup?
- 38 What do you think have been the achievements and what problems have occurred in the implementation of the performance appraisal system in your bank?
- 39 How do you think the current performance appraisal system in your organisation could be improved?
- 40 Do you have any further comments?

Appendix 5: English version of employee questionnaires

Part 1: Personal background Information:

- 1 What is your age? _____
- 2 What is your gender? _____
 - A male
 - B female
- 3 What is your education level? _____
 - A below high school
 - B high school
 - C 3-year college
 - D 4-year college
 - E Master's degree or above

Part 2: Reactions to appraisal

Guanxi refers to any type of the following: (a) guanxi with supervisor; (b) guanxi with an important person within the company; (c) guanxi with an important person outside the company.

- (1) Performance ratings are often distributed based on employees' guanxi,
- (2) It is more important to have guanxi than to perform well, if I want to get a good performance rating
- (3) Those employees who have guanxi will get better performance rating than their peers, even if their performance is not better than their peers.
- (4) The supervisor provides more help and supervision to those employees who have guanxi for improvement of their performance
- (5) The supervisor provides more feedback and direction in appraisal to those employees who have guanxi
- (6) The supervisor has more non-workplace and workplace communication with those employees who have guanxi
- (7) The employees who have guanxi will have more opportunities to express their own opinion regarding appraisal to supervisor.
- (8) I have been able to express my views and feelings during the procedures of performance appraisal
- (9) I have had influence over my performance rating arrived at by those procedures of performance appraisal
- (10) Those procedures of performance appraisal have been applied consistently
- (11) Those procedures of performance appraisal have been free of bias
- (12) Those procedures of performance appraisal have been based on accurate

information

(13)I have been able to appeal my performance rating arrived at by those procedures of performance appraisal

(14)Those procedures of performance appraisal have upheld ethical and moral standards.

(15)My performance rating reflects the effort I have put into my work,

(16)My performance rating is appropriate for the work I have completed

(17)My performance rating reflects what I have contributed

(18)My performance rating is justified, given my performance.

When enacting the procedure of performance appraisal, my supervisor

(19)has treated me in a polite manner

(20)has treated me with dignity

(21)has treated me with respect

(22)has refrained from improper remarks or comments

When enacting the procedure of performance appraisal,

(23)my supervisor has been candid in (his/her) communications with me,

(24)my supervisor has explained the procedures thoroughly

(25)my supervisor's explanations regarding the procedures were reasonable

(26)my supervisor has communicated details in a timely manner

(27)my supervisor has seemed to tailor (his/her) communications to individuals' specific needs

(28)I am satisfied with the performance rating I received for the most recent rating period

(29)My most recent performance rating was fair

(30)My most recent performance rating reflected how I did on the job

(31)The performance rating I received was pretty accurate.

(32)Overall, I think the performance appraisal system is fair,

(33)I am satisfied with the way the performance appraisal system is used to set my performance expectations for each rating period,

(34)I am satisfied with the way the performance appraisal system is used to evaluate and rate my performance,

(35)I think my department should change the way they evaluate and rate job performance,

(36)I think the performance appraisal process is a waste of time,

(37)The performance appraisal has helped me to improve my job performance

(38)I am satisfied with the amount of support and guidance I receive from my supervisor,

(39)Overall, I am satisfied with the quality of supervision I receive at work from

supervisor

- (40) All in all, I think I have a good supervisor,
- (41) I would give my supervisor a positive rating,
- (42) My supervisor takes the rating system and process seriously.

- (43) My supervisor would try to gain an advantage by deceiving employees,
- (44) I have complete faith in the integrity of my supervisor
- (45) I feel a strong loyalty to my supervisor
- (46) I would support my supervisor in almost any emergency.

- (47) I am willing to put in a great deal of effort beyond that normally expected in order to help this bank be successful,
- (48) I talk up this bank to my friends as a great organisation to work for,
- (49) I would accept almost any type of job assignment in order to keep working for this bank,
- (50) I find that my values and the bank's values are very similar,
- (51) I am proud to tell others that I am part of this bank,
- (52) This bank really inspires the very best in me in the way of job performance,
- (53) I am extremely glad that I chose this bank to work for over others I was considering at the time I joined,
- (54) I really care about the fate of this bank,
- (55) For me this is the best of all possible organisations for which to work.

- (56) I often think about quitting my job with my present bank
- (57) I will probably look for a new job within the next year

- (58) The policies and procedures of performance appraisals at my bank are favorable to me.
- (59) My supervisor often allocated me better performance ratings than others.

Appendix 6: Criteria for performance appraisals in foreign bank

B (Banking Sector)

Financial Objectives

Title: Financial KPI

Description:

Grow SME customer base through new customer acquisition, contribute to the Banks' business growth through cross-selling;

Measurement: New customer, activities, deposit, NFI, referral

Target:

By end of 2011 performance year as a team:

Acquire xx new account

Averagely xx customer visits per week for each hunter

Deposit balance: RMB xx m

Total NFI: RMB xx

Refer x customers per month to other department

Stretch Target:

Grow TOI from existing customers. At least do x facility cases within 1 year.

Non Financial Objectives

Title: Customer Service

Description: Deliver satisfying service to customers

Measurement:

1. Deliver outstanding customer service to increase customer wallet share by beating competition, and to achieve customer loyalty and satisfaction.
2. Establish/maintain networks cross border, function and industry to develop new business for existing or new-to-bank customers.
3. Probe to understand and highly responsive to meeting customers' needs.
4. Able to adopt a discriminative approach in achieving right pricing to balance risk and return.
5. Provide business review at least once a year.

Target:

No justifiable complaints from customers.

No misunderstanding resulted from poor service or communication.

Stretch Target: Get letter of recommendation from customers.

Title: Audit and compliance

Description:

Strictly abide by all rules and policies related to internal audit and compliance

Measurement:

-
1. Demonstrates the highest levels of personal integrity and ethical behavior at all times and ensures this underpins team business conduct.
 2. Achieve satisfactory regulatory/audit/CMP/BMP Reviewed the portfolio of clients
 3. Code of Conduct: I hereby confirm that I have reviewed the Bank's latest Code of Conduct and CBRC Guidelines on Professional Ethics (copies of which are available through the Bank's intranet under Human Resources, Policies & Manuals, CBRC Guidelines on Professional Ethics & Code of conduct, which are to be re-read on an annual basis.) I also acknowledge my responsibility to comply with the specified standards as well as other applicable laws/rules/internal compliance policies. I will maintain a high level of personal integrity and upon the bank's ethical standard both in my professional activities and personal conduct.
-

Target: No violation to all related policies above.

Stretch Target: N/A

Title: Quality of Work

Description: Ensure good quality of daily work

Measurement:

1. Insightful understanding of facts and figures.
 2. Works/tasks are always completed ahead of schedule with the high standard of output.
 3. Demonstrate quality of proposal write-up with well through structure and terms.
 4. No B&D made on managed account.
 5. Presentation is logical, succinct, and fluent.
 6. Participate all mandatory training.
-

Target: No error caused by poor quality of work

Stretch Target: N/A

Title: Collective Management/Team Work

Description: Contribute to good team work of whole team

Measurement:

1. Work collaboratively and communicate persuasively, emphasizing teamwork, diversity and knowledge sharing both within bank and with external business partners;
 2. Supports and contributes to the implementation of 2011 survey feedback. Actively contributes ideas to improve staff engagement.
-

Target: No justifiable complaints from colleague due to any activity against team spirit.

Stretch Target: gain acknowledge or praise from other team member for good team spirit

Title: NON-FIN internal control standard
Description: Maintain bank's internal control standards, including the timely implementation of internal and external audit points together with any issues raised by external regulators.
Measurement:
1. Implement audit points.
2. Repeated deficiency audit points.
Target:
1. Implemented.
2. No Major/repeated deficiency.
Stretch Target: n/a
Title: NON-FIN-Internal & external compliance
Description: Ensure compliance with a relevant internal instructions and external regulatory requirements, including the management of operational risk and adherence to the Group's standards of ethical behaviors.
Measurement: Compliance with all relevant internal instructions and external regulatory requirements.
Target:
1. 100% compliance.
2. No Major/repeated deficiency.
Stretch Target: n/a

Development Areas

Title: other aspects such as presentation skills, or credit knowledge, etc.