

Case 9 Foreign Investment in Chinese Banking Sector: HR Challenges

China seemed to view foreign participation as compatible with the state's overall control over its banks and as a potentially valuable source of assistance in: (i) promoting bank restructuring, (ii) enhancing banking skills through business cooperation, (iii) supplementing equity capital, without recourse to the fiscal budget, and (iv) boosting the status of Chinese financial institutions in domestic and foreign capital markets. The Chinese government had been quite successful in attracting foreign investment, despite having extremely conservative FDI (foreign direct investment) guidelines. But the real challenge remained in the successful implementation of Human Resource (HR) policies in such international strategic alliances. The partnership not only needed to be a strategic fit and complementary in nature, but also had to be in line with the Chinese culture and value system.

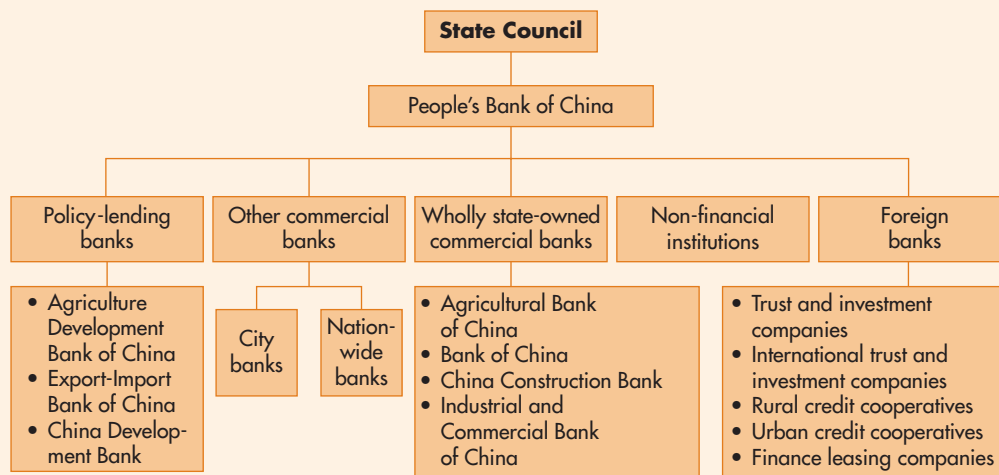
BANKING INDUSTRY IN CHINA

China's banking sector was regulated by the central bank, People's Bank of China (PBC), and the China Banking and Regulatory Commission (CBRC), and both of them were ultimately overseen by the State Council (the cabinet). PBC was in charge of the monetary policy and the liquidity of the financial system, while CBRC looked over the regulatory and supervisory functions. The banking system included four State-Owned

Commercial Banks (SOCBs), three policy lending banks, and a large number of other commercial banks, credit cooperatives, and financial institutions. Among the commercial banks, there were 13 joint-stock commercial banks (JSCBs), which were initially created to provide specialized product niches, but later offered a full range of financial services. At the local level, there were 115 city commercial banks (CCBs), 1,000 urban credit cooperatives (UCCs), and 35,000 rural credit cooperatives (RCCs).¹ The 225 foreign bank branches and subsidiaries played a very limited role, accounting for only 2% of the retail banking and foreign-exchange market (*Exhibit I*).

The total assets of the Chinese banks, which stood at \$2.4 trillion at the end of 2000, rose sharply to \$4.9 trillion in 2006. The four SOCBs, namely Industrial and Commercial Bank of China, Bank of China, China Construction Bank, and Agricultural Bank of China were among the largest banks in the world, with total assets of \$2,710 billion² and an extensive network of 120,000 branches³ and over 1,400,000 employees.⁴ Joint-stock commercial banks (JSCBs), which were owned partly by local governments and partly by private parties, were used to finance small state-owned enterprises (SOEs) and private small- and medium-sized enterprises (SMEs), and maintained much smaller branch networks than the SOCBs. These banks were typically confined to the region of origin or to the fast-growing coastal area, although they were generally allowed to operate at the

EXHIBIT I Structure of the Chinese Financial System



Source: Sayuri Shirai, "Banking Sector Reforms in the People's Republic of China—Progress and Constraints," www.unescap.org/dpad/publication/fin_2206/part3.pdf

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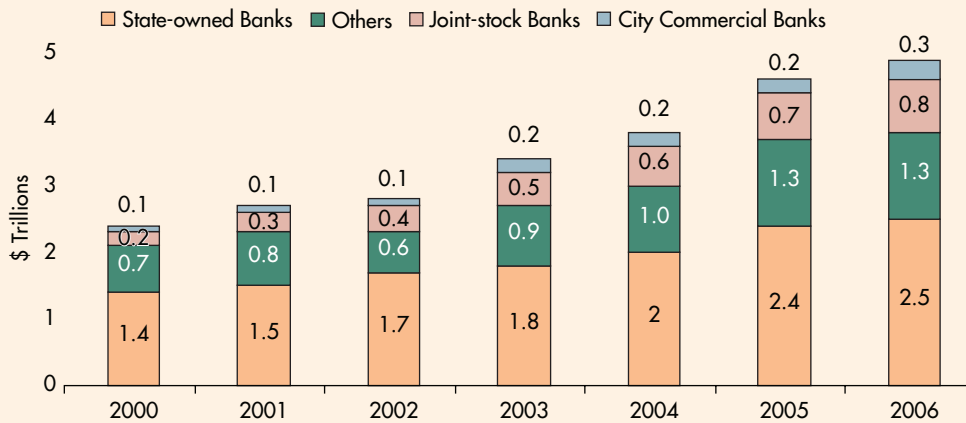
This case was written by Chaudhuri S, IBS Research Center. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation. The case was compiled from published sources.

¹ García Herrero and Daniel Santabárbara, "Where Is the Chinese Banking System Going with the Ongoing Reform?" www.ideas.repec.org/p/wpa/wuwpma/0408001.html

² CBRC Statistics; Total Assets & Total Liabilities in the First Half of 2006 (2006-08-22); Total Assets was 21,571.48 billion. Yuan Renminbi converted to USD with the prevailing exchange rate on August 22, 2006.

³ Douglas Clement, "China's Rich but Troubled Banking Sector," <http://www.minneapolisfed.org/pubs/region/03-12/banking.cfm>, December 2003

⁴ <http://sec.edgar-online.com/2005/12/27/0001104659-05-062761/Section12.asp>

EXHIBIT II Distribution of Assets in China's Financial System

Source: Compiled by the author, IBS Research Centre, Kolkata.

national level. Their relative market-oriented corporate culture had allowed the JSCBs to gain market share over the years at the expense of the SOCBs. Joint-stock banks, which held a 12% share in the Chinese banking industry at the end of Q3-2002, raised their share to 21% at the end of Q3-2006 (*Exhibit II*).

After China's entry into the WTO in 2001, more emphasis was given to the management of "Non Performing Loans" (NPL), which included the recapitalization of the SOCBs and the disposal of the NPLs. As a result of directive lending, PRC banks were burdened with high levels of NPLs. In 1999, the government set up four Asset Management Companies (AMCs), Huarong, Great Wall, Orient, and Cinda, to reduce the NPL level of SOCBs. Initially, these AMCs together took on NPLs worth RMB 400 billion (\$169 billion) and slowly sold or auctioned off some of those distressed assets. In 2003, the PRC government established Central Huijin Investment (Huijin) in order to increase the capital reserves of those banks. This wholly owned government investment company funneled foreign exchange from the State Administration of Foreign Exchange (SAFE) to the large state-owned banks. By 2006, government capital spending on both NPL reduction and capital infusion into the Big Four banks reached roughly \$283 billion. Steps were also taken for the merger and closure of the problematic banks, the transformation of urban credit cooperatives into city banks, and the promotion of the debt-equity swaps.

Further, revisions to China's banking laws took effect in February 2004. The Big Four were exempted from providing loans to the State Council-approved projects and were permitted to carry out commercial banking activities.⁵ The aggressive banking reform decreased the NPL level to a great extent, but the NPL ratio still stood high at 9% for the SOCBs, as compared to 0.3% to 3% in the developed economies.⁶ In 2005, the Paris-based Organization for Economic Cooperation and Development calculated that China would have to inject another \$203 billion (the government figure was \$137 billion) to clear the bad loans of its SOCBs.

Foreign Investment in Chinese Banks

Worldwide, the banking industry had undergone a process of restructuring and reorientation, both at the structural and organizational levels. Phenomena of mergers and acquisitions, globalization and internationalization of products and services, and changes in organizational structures became a global trend in the developing countries. Although the Chinese banking industry was not an exception to this, there was a basic difference in their reform process from that of other developing economies. While most of the developing nations had to adopt the trend set up by the global banking giants, China had made its own norms and forced those banking giants to comply with them. The global banks developed customized lending policies, bank cards, and asset management products so as to cater to the huge retail banking market. The Chinese banks had been restructured in order to upgrade their risk management, global treasury, and information technology services.

Most importantly, mergers and acquisitions had been replaced by strategic partnerships to a maximum permissible limit of 20%, while the total foreign ownership in any bank was capped at 25%.⁷ Foreign investments flew in large volume, starting with Bank of America (BoA) holding a 9% stake of CCB for \$3 billion. Temasek Holding, United Bank of Switzerland (UBS), and a consortium led by Royal Bank of Scotland (RBS) invested a total of \$5.1 billion in the Bank of China (*Exhibit III*).

The SOCBs were attractive investment opportunities, because they had a nationwide presence. Thus, the investors could significantly augment their position in mainland China through a single investment. But, acquiring a significant stake in those banks was very costly and, at the same time it would be very difficult to have any influence over the management due their large state ownership. Moreover, these banks were strategically well suited for those global players who intend to increase their business in the areas of credit cards, consumer finance, treasury management, etc. But, there was another category of foreign investors, who intended to spread their commercial banking business in mainland China through their strategic investments and thus wanted a higher ownership control as well as better asset

⁵ Activities included trading on government bonds, dealing in foreign exchange, and offering credit card services.

⁶ Vittaldas Leeladhar, "Recent banking developments in India," <http://www.bis.org/publ/bppdf/bispap28n.pdf>

⁷ "IBM plans to join bid for Guangdong bank," <http://www.ihf.com/articles/2006/11/13/business/bank.php?page=1>, November 13, 2006.

EXHIBIT III Strategic Partnerships with State-Owned Commercial Banks

Bank	Assets RMB bn	Employees	Branch Network	Deal Date	Foreign Partner	Stake	Deal Amount
China Construction Bank	4,586	260,000	14,250	Jun-05	Bank of America	9%	\$3 billion
Bank of China	4,743	209,265	12,157	Jul-05	Temasek Holdings	5%	\$1.5 billion
Industrial and Commercial Bank of China	6,454	361,623	18,870	Aug-05	RBS	8%	\$3 billion
					UBS AG	1%	\$0.6 billion
					Temasek Holdings	5%	\$1.5 billion
					Goldman Sachs	10%	\$2.6 billion
					Allianz AG subsidiary		€0.8 billion
Agricultural Bank of China	4,771	300,000	31,000		Dresdner Bank		\$0.2 billion
					American Express		

Source: Compiled by the author, IBS Research Centre, Kolkata.

EXHIBIT IV Strategic Partnerships with Joint Stock Commercial Banks

Bank	Rating (S&P)	Deal Date	Foreign Partner	Stake	Deal Amount
Bank of Communications	BBB	Aug-04	HSBC Holdings Plc	19.90%	\$1.75 billion
China CITIC Bank	N.R.	Dec-06	Banco Bilbao Vizcaya Argentaria (BBVA)	5% (With option to increase to 9.9%)	€501million
China Everbright Bank	Bpi	Jan-07	ADB	3%	US\$20 million
China Minsheng Bank	Bpi	Oct-04	Hang Seng Bank	8%	NA
Guangdong Development Bank	Bpi	Jan-07	IFC	1.20%	\$23.5 million
			Temasek Holdings	4.55%	\$106 million
			Citigroup, IBM	85.6%	RMB 24.267 bn/
			(Citigroup 20%, China Life 20%, State Grid 20%, Puhua 8%, CITIC Trust 12.85%, IBM 4.74%)		US\$3.06 billion
Hua Xia Bank	Bpi	Oct-05	Deutsche Bank	14.00%	\$325 million
Industrial Bank (Fujian)	N.R.	Dec-03	Hang Seng Bank	16%	\$208 million
Shanghai Pudong Development Bank	BBpi	Dec-02	Citigroup	19.9%	\$72 million for
Shenzhen Development Bank	Bpi	Oct-05	PING An Insurance	4.94%	4.62% (in 2003)
					\$238 million for
					3.04%
Evergrowing Bank	N.R.	Jun-08	Newbridge Capital	17.89%	\$149 million
			(Texas Pacific Group)	7.00%	\$100 million
China Bohai Bank	N.R.	Sep-05	GE Consumer Finance		
			United Overseas Bank	15.38%	US\$114 million
			Standard Chartered	19.90%	US\$123 million

Source: Compiled by the author, IBS Research Centre, Kolkata.

quality. Joint Stock commercial banks (JSCBs) were best suited for that purpose, because these banks were strong enough compared to the city commercial and other co-operative banks. There was also scope for forming consortiums in order to get rid of the ownership restrictions. Citigroup formed such a consortium with

China Life, State Grid, CITIC trust, Puhua, and IBM to acquire an 85% stake in Guangdong Development Bank⁸ (Exhibit IV).

⁸ "Citigroup Completes Guangdong Development Bank Transaction," <http://www.citigroup.com/citigroup/press/2006/061219a.htm>, December 19, 2006.

EXHIBIT V Strategic Partnerships with City Commercial Banks

Bank	Deal Date	Foreign Partner	Stake	Deal Amount
Ningbo Commercial Bank	Jan-06	OCBC	12%	\$71 million
Tianjin City Commercial Bank	Nov-05	ANZ Banking Group	19.90%	\$120 million
Nanjing City Commercial Bank	Oct-05	BNP Paribas	19.20%	\$87 million
	2002	IFC	15.00%	\$27 million
Hangzhou City Commercial Bank	Apr-05	Commonwealth Bank of Australia	19.90%	\$76 million
Bank of Beijing	Mar-05	ING	19.90%	\$215 million
Ji'Nan City Commercial Bank	Dec-04	Commonwealth Bank of Australia	11.00%	\$17 million
Xi'an City Commercial Bank	Nov-04	Bank of Nova Scotia	5%	\$7 million
	Dec-04	IFC	19.90%	\$12.5 million
Bank of Shanghai	Dec-01	HSBC	8%	\$62.6 million
		IFC	7%	\$50.3 million

Source: Compiled by the author, IBS Research Centre, Kolkata.

As the coastal regions of China were financially most developed and there was also a surplus of capital, the city banks in those regions were also considered to be good targets for foreign strategic alliances. By 2006, city banks in Shanghai, Tianjin, Beijing, Hangzhou, Ningbo, and Ji'Nan got foreign strategic investors, though the deal amounts were comparatively small in nature. On an aggregate, the total foreign investments in the city banks amounted to around \$1 billion (*Exhibit V*).

The PRC government had initiated the “Socialist New Countryside” campaign in a bid to promote the development of its vast rural areas, where 53% of its population lived. The Agricultural Bank of China had planned to inject \$58 billion in the next five years and the campaign was estimated to gobble up around \$2.5 trillion by 2020.⁹ Sooner or later, foreign banks would also start investing in the rural credit cooperatives.

Strategic Foreign Partnership: HRM Issues

Foreign banks had been aiming to tap the growing credit card and asset management business in China, either individually or through potential synergies with the domestic banks. But for a considerable period the Chinese government had imposed various restrictions on the entry of the foreign banks. After China's entry into the WTO in 2001, the Chinese government had permitted entry to the foreign investors on a provincial basis and guaranteed that from December 2006, the foreign banks could compete with the domestic banks under identical conditions. The government apparently decided that the foreign participation in the domestic banks via equity investment would be an effective way to enhance their competitiveness. But the PRC government had been very conservative with respect to allowing foreign investments in the banking sector. Chinese banks, specially the JSCBs and CCBs, typically used a range

of criteria to judge the potentiality of the foreign banks as a strategic investor (*Exhibit VI*).

In international joint ventures with Chinese firms, strategic fit was considered to be the foundation for exploring and reaping the benefits. The foreign banks needed to clearly understand the Chinese management style and have at least a minimum level of commitment towards the Chinese society. The Chinese management style was based on relationship building and development of trust. Thus, there was a strong overlap between the private life and business life. Still, the Chinese had a fast and task-oriented approach and they were meticulous time planners. They could juggle demands and were extremely flexible. International businesses differed hugely from their Chinese counterparts in terms of women employees. Chinese women were usually the first to be laid off from the businesses, economically losing their competitive edge, and very few businesses have women leaders. Chinese society also had a strong preference toward entrepreneurship. Running one's own business was appreciated more than working in a large multinational firm. Chinese businesses also had a relatively long-term view than foreign investors regarding employment. Thus, for an international partner, it was extremely important that it incorporated the values, objectives, and methods of the Chinese partners (*Exhibit VII*), and gradually modify those in order to fit strategically in the international joint ventures.

Chinese culture holds the Confucian values, which include loyalty to family and building interpersonal relationships. Chinese people were very sensitive in “maintaining face” in everything they did. Saying or doing anything that caused someone to lose face could instantly destroy a relationship and any business that might result from it. Openly criticizing someone was unappreciated in Chinese society. Chinese people were highly focused on acquisition of skills rather than on getting formal higher education. Thus, there were few highly educated managers and employees, who had the liberty to demand premium salaries. Managers with

⁹ “Chinese bank sees chances in ‘New Countryside’ initiative,” http://en.ce.cn/Industries/Financial-services/200608/04/t20060804_8008896.shtml, August 4, 2006.

EXHIBIT VI Criteria Commonly Used by Chinese Banks in Selecting Potential Investors

Categories	Criteria	Relevancy/Benefits
Profile	Asset size Market cap Financial strength/credit ratings	Strong world-class profile and powerful endorsement of Chinese banks Financial strength provides long-term stability
Strategic Fit	China strategy and presence International revenues/profits as % of total revenues/profits Expansion strategy (organic vs. mergers and acquisitions)	Level of interest in Chinese banks Only a subset of investors have an international mindset and knowledge of Asia Strategic fit as foundation for exploring and reaping benefits
Management/ Cultural Fit	Vision and capabilities Cohesive management culture and disciplined management system Interest in working with partners	Willingness and ability to help Chinese bank to reinvent itself by committing management resources
Core Competency	Business mix: retail banking, corporate banking, risk control, wealth management Infrastructure, Cross-selling capabilities Distribution: IT, MIS, back office, operating and financial results	Tangible benefits to Chinese banks in its execution of strategy Availability of international best practices
Acquisition Appetite	Mergers and acquisitions experience in financial services Experience in minority stake investments	Interest in committing to an investment in Chinese banks Willingness to negotiate reasonable terms
Ability to Pay	Market cap Impacts of potential investment on capital adequacy and earnings Accounting treatment	Indication of ability to pay for an investment Impact on transaction structure (composition of investors)

Source: <http://ideas.repec.org/p/wpa/wuwpma/0408001.html>

EXHIBIT VII Values, Objectives, and Methods of Chinese and Foreign Partners in International Joint Ventures

Objective of JV	Chinese Partners	Foreign Partners
Financial Outcomes	To increase foreign exchange reserves To invest for future development	To repatriate profits over the long term To maximize long-term returns
Investment	To minimize initial investment	To provide an acceptable minimum investment
Process of Negotiation	Holistic	Sequentially, step-by-step
Nature of the Contract	Adaptable Short term Ambiguous	Enforceable Long term Precise and unambiguous
Planning	To obtain congruence between state plan and aims of joint venture	To obtain maximum flexibility
Inputs	To focus on domestic suppliers	To minimize poor quality To minimize unpredictability
Outputs	To generate foreign exchange To increase exports	To access Chinese domestic markets To develop Chinese domestic markets
Strategic Intent	Short to medium term Domestic and international	Short to long term Domestic and international
Operations Emphasis	Stress on quality	Stress on quality
Personal Requirements	Maximum number of local employees	Fewest people possible for acceptable output Maximum productivity
Management Style	Traditional	Modern

Source: Jackson Terence, "International HRM: A cross-cultural approach," page 172.

EXHIBIT VIII Human Resource Management Practices in the U.S. and China

HRM Practices	U.S.	China
Selection	Job interview is an essential step for filling major positions.	Most jobs are still allocated by the government or the university based on credentials. Interviews are not yet common.
Reward System	A wide variety of rewards are used in the incentive system.	The range of wages and salary is narrow. Bonus is not based on individual performance. Pay is more motivating than in U.S.
Performance Appraisal	Two-way communication and counseling are widely used in the performance appraisal system.	Superiors have absolute authority to evaluate subordinates. Standards of performance are vague and generic.
Participative Management	Participative management is welcome and encouraged, but is not particularly prevalent yet.	Collective leadership is widely used. Participation of workers in major decisions is superficial and symbolic.

Source: Jackson Terence, "International HRM: A cross-cultural approach," page 179.

degrees from international universities or with experience in foreign companies were in much demand. On the other side, there was high unemployment among the uneducated workforce and there was an extensive movement of population into the industrialized cities. Chinese firms had a traditional hierarchical structure, where superiors had the absolute authority over their subordinates. Workers' participation in decision making was very superficial. The universities and government followed the practice of allocating jobs to the students and the individual firms had a very limited role to play in the selection of trainees. Thus, the human resource management (HRM) practices in China were significantly different from those in the U.S. (*Exhibit VIII*).

The strategic partnerships with the banks were not limited to only their investments; they also extended to building their core competencies. As part of its agreement with BoA, CCB brought in 50 BoA experts to help upgrade CCB operations in risk management, global treasury services, and information technology areas, where BoA had strong expertise. The BoA experts also developed new products and services, such as wealth management and credit cards.¹⁰ In another deal, CCB acquired the Asian subsidiary of Bank of America, under which CCB retained all its senior management and BoA Asia's 750 staff members, including chief executive Samuel Tsien.¹¹ The deal supplemented the core competencies of both the banks in numerous ways. To start with, BoA (Asia) had a strong orientation on retail and SME (Small and Medium Enterprises) banking, while CCB focused on the wholesale banking market. BoA was one of the best global brand names and the Asian business had a valuable high net worth customer base. CCB had five branches in Hong Kong, but none in Macau. For CCB, this

was a rarely available target, which offered 100% control. BoA (Asia) was also lucrative for its impressive earnings growth and asset quality (*Exhibit IX*).

The investment cap of 20% also helped in the PRC government's objective of skill development and share of know-how. In order to get rid of the ownership restrictions, Citigroup formed a consortium with China Life, State Grid, CITIC Trust, Puhua, and, IBM to acquire an 85% stake in Guangdong Development Bank (GDB). Citigroup would be able to bring international management expertise and corporate governance standards, instill operational and lending best practices, improve risk management and internal controls, and further develop its customer service and product offerings.¹² IBM had brought business value and technology expertise to the clients to help them strengthen their infrastructure and viewed GDB as a similar opportunity. China Life was the largest insurer in China, with over 70 million individual and group life and health insurance policies.¹³ State Grid was a state-owned backbone enterprise, and the construction and operation of the national power grid was its core business. China Life and State Grid together had around one million employees.¹⁴ The consortium would enable the Chinese firms to be acquainted with world-class technology, management expertise, and banking products. On the other hand, Citigroup would be able to conceptualize the Chinese values, culture and practices, and, most importantly, employee relations.

¹² "Citigroup-Led Consortium Sign a Strategic Investment and Cooperation Agreement with GDB," <http://www.citigroup.com/citigroup/press/2006/061116a.htm>, November 16, 2006.

¹³ "China Life Insurance Co Ltd: Company Overview," <http://www.investor.reuters.com/business/BusCompanyOverview.aspx?sortby=0&sortorder=asc&ticker=LFC&symbol=LFC&target=%2fbusiness%2fbuscompany%2fbuscompfake%2fbuscompoverview>, December 31, 2005

¹⁴ "Fortune Global 500: State Grid," <http://money.cnn.com/magazines/fortune/global500/2006/snapshots/1271.html> and "Fortune Global 500: China Life Insurance," <http://money.cnn.com/magazines/fortune/global500/2006/snapshots/2490.html>

¹⁰ Stephen Thomas and Chen Ji, "Banking on Reform," *China Business Review*, May–June 2006; www.chinabusinessreview.com/public/0605/thomas.html

¹¹ "CCB announces acquisition of Bank of America (Asia)," *People's Daily Online*, August 25, 2006; http://english.people.com.cn/200608/25/eng20060825_296588.html

EXHIBIT IX A Comparative Analysis of Core Competencies of Chinese (CCB) and Foreign Banks (BOA Asia)

Source: "Acquisition of Bank of America (Asia) Limited," www.ccb.cn/portal/html/tz/2006/CCB's%20Acquisition%20of%20Bank%20of%20America%20Asia.pdf, August 24, 2006.

Citibank's consortium was viewed as one of the most successful achievements of the Chinese policymakers. But most of the strategic alliances failed to achieve the similar cross-cultural synergy. In spite of having strategic partners in the ranks of United Bank of Switzerland (UBS), Royal Bank of Scotland (RBS), Bank of America (BoA), Goldman Sachs, American Express, etc., the corporate culture of the SOCBs and some JSCBs still lacked a developed profit motive. Some old lending practices still persisted, such as focusing on market share, rather than profitability, and providing loans based on direct orders from the government, rather than the ability to repay. Shareholder accountability was also lacking and the senior management's loyalty was divided between the government and the stockholders. Successful implementation of the international joint venture was thus a huge challenge for all the banks. The foreign partner not only needed to be strategically fit and complementary to the Chinese bank but also had to adopt the Chinese culture and value system and had to gradually modify the system to make it more beneficial. In order to succeed, the foreign partner must design its HR policies on the lines of the prevalent practices in China. The biggest challenge of such international alliances remained in the alignment of the critical HRM functions such as HR planning, staffing, appraisal, training and development, employee retention, etc., with the Chinese culture (*Exhibit X*).

The main task of successfully building an appropriate HR system within such an international strategic alliance was to develop an understanding of stakeholder interests, aspirations, and needs. While the Chinese bank would expect to achieve

international benchmarking and compete in the international markets, the foreign partner might be interested in accessing the huge market potential in the world's largest emerging economy. The challenge of such alliances was to bring in community stakeholders, first by a rigorous stakeholder analysis and then by involving the different stakeholders in the process of developing relevance and by effective interaction among the stakeholders. This might lead the international strategic alliances to move from a convergence form of management toward a more hybrid process of cross vergence. While convergence was a movement toward a single approach for universalization of principles, policies, and practices, cross-vergence involved a number of different movements toward the development of the new forms of managing.¹⁵ The process of cross vergence was more adaptable in Chinese culture, in which the focus was on transfer of know-how and development of human skill, rather than increasing profitability and market share. It thus remains to be seen how much of a larger role the foreign strategic partners could play in the improvement of the banking expertise and technological development as well as in achieving rapid professional development and overhaul of their staff.

¹⁵ Jackson Terence, "International HRM: A cross-cultural approach," page 224.

EXHIBIT X HR Challenges in International Strategic Alliances in China

HR Function	Key Obstacles
HR Planning	• Short-term and static planning horizon • Lack of involvement by HR function and low priority of learning activities
Staffing	• Compulsory labor contract system in both private and public sectors at all levels • Insufficient lead-time for staffing decisions and low quality of staffing • Decentralization of employment practices, staffing dependent on the partners • Nepotism and over-hiring: Chinese partner influences HR policies • Transferring employees from state enterprises to joint ventures becomes problematic
Appraisal & Reward	• Appraisal focused on short term goals and the rewards are not tied to global strategy • No encouragement of learning and limited incentives for transfer of know-how • Difficult to dismiss people in case of unsatisfactory performance
Compensation	• Diversified wage packages with emphasis on enterprise profitability and performance • Position-and-skills wage system based on four factors: skills required, responsibility assumed, work involved, and working conditions
Training & Development	• Lack of cross-functional competence and unidirectional transfer of know-how • Career structure not conducive to learning, poor climate for transfer of learning
Labor Relations	• Right to form Trade Unions to protect employee rights and negotiate terms • Trade Union Labor Law contains no provision such as “worker’s right to strike” • No social security laws like ESI, provident fund, gratuity, etc. • Laborers work 7 days a week and get only 2 days off in a month • Though normal shift is of 8 hours, they have to submit in writing that they would work 10–12 hours when required at no extra cost and overtime
Employee Retention	• Difficult to retain good employees due to poaching • Lack of high compensation as a major deterrent for retention
Expatriate Relations	• Lack of cross-cultural training provided to the expatriates • Lack of career prospects and undervaluation of international experience • Lack of management succession planning (balancing of local and international staff)
Organizational Design & Control	• Responsibility for learning not clear, fragmentation of the learning process • Control over the HR function given away, no insight into partner’s HR strategy

Source: Compiled from the author, IBS Research center, Kolkata.

Assignment Questions

1. “China’s banking sector was regulated by the central bank, the People’s Bank of China (PBC), and the China Banking and Regulatory Commission (CBRC), and both of them were ultimately overseen by the State Council (the cabinet).” (Section: “Banking Industry in China,” paragraph 1 of the case study.) Analyze the banking industry in China.
2. “The Chinese government had been quite successful in attracting foreign investment, despite having extremely conservative FDI (foreign direct investment) guidelines.” (Section: “Introduction,” paragraph 1 of the case study.)

According to you, what factors attract foreign investors into China? Identify the pros and cons for a foreign player.

3. “This might lead the international strategic alliances to move from a convergence form of management toward a more hybrid process of crossvergence.” (Section: “Strategic Foreign Partnership: HRM Issues”, the last paragraph of the case study.) In light of the HRM challenges that foreign banks face in China, do you think crossvergence is a solution? If yes, why? If no, suggest other ways in which it can manage strategic alliances.