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The Employment Relations System in the Hong Kong Brand of Capitalism since 1997: Cases of Two Multinational Banks

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1. Introduction

Until 1997, the organisation of employment relations (ER) in Hong Kong has been characterised as highly decentralised with no institutionalisation of collective bargaining practices at the industrial/central level, particularly for the private sector with only few exceptions. Workers are free to join trade unions but recognition of trade unions is up to individual employers who, except only very few, choose not to do so. Employment contract is left to be negotiated between employers and individual employees. Such an ER system in Hong Kong is seen as the conception of voluntarism as diffused from Britain to her long-time Colony (Chiu and Levin, 1999[1]) After 1997, Hong Kong has experienced both significant political and economic changes. Politically since 1 July 1997, Hong Kong's sovereignty has returned by Britain to the People's Republic of China (PRC) and it has become one of the latter's Special Administrative Regions (SARs). While guaranteed under the Hong Kong Basic Law that the PRC's socialist doctrine would not be applied to govern capitalist Hong Kong for a period of 50 years after the sovereignty handover, significant economic and political transformation in the PRC has nonetheless brought about important changes in the institutional context within which Hong Kong

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[1] Chiu, S.W.K. and Levin, D. A. (1999) "The Organization of Industrial Relations in Hong Kong: Economic, Political and Sociological Perspectives" *Organization Studies,* 20 (2) pp. 293-321.

operates. Economically, Hong Kong is seriously affected by the 1997 Asian Financial Crisis (AFC), bursting of the real estate and dot-com bubble, outbreak of Severe Acute Respiratory Syndrome (SARS), further liberalistion of Chinese economy, and, more recently, the 2008 Global Financial Crises (GFC). Chiu and Levin (1999[2]), in their study of the organisation of industrial relations in Hong Kong, portray a possible scenario of the development of a more centralised industrial relations system after 1997 which formally regulated labour-management relations from the top down. Now that nearly 20 years has gone past, this scenario does not seem to materialise and the ER system in Hong Kong stays pretty much the same. The research question worth examining is: why have there been little changes to the ER system in question although Hong Kong has gone through significant political and economic changes since 1997?

The Varieties of Capitalism (VoC) approach (Hall and Soskice, 2001[3]; Carney, Gedajlovic, and Yang, 2009[4]) is used as a theoretical framework to examine the Hong Kong case of employment relations. While Hong Kong is not a country in its own right, it has demonstrated many institutional features as found in Liberal Market Economies (LMEs) included in the VoC framework. One major criticism on the VoC framework is that it is a static theory unable to explain the institutional changes occurred in many market economies over time. However, the counter argument is that institutional stability despite the impact of significant exogenous changes is not because of inertia but of policymakers' and employers' considered decision to retain existing pattern of institutions as a result of powerful system feedback (Thelen, 2010[5]) Here the important role of policymakers and, for that matter, of the state in impacting on institutional changes is highlighted. Hong Kong is a good case to bring the VoC framework to test as although it has experienced significant political and economic changes over the past 20

[2] Chiu and Levin (1999) *op. cit.*

[3] Hall, P. and Soskice, D (2001) "An Introduction to Varieties of Capitalism" in Hall P. and Soskice (eds) *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. New York: Oxford University Press.

[4] Carney, M., Gedajlovic, E. and Yang, X (2009) "Varieties of Asian Capitalism: Towards an Institutional Theory of Asian Enterprise" *Asia Pacific Journal of Management*, 26 (3), pp. 361-380.

[5] Thelen, K. (2010) "Beyond Comparative Statics: Historical Institutional Approaches to Stability and Change in the Political Economy of Labor" in Morgan, G, Campbell, J.L. Crouch, C., Pedersen, O.K. and Whitley, R. (eds). *The Oxford Handbook of Comparative Institutional Analysis*. London: Oxford University Press.

years or so, its decentralised employment relations system remains more or less intact.

Firm-level case studies are conducted to examine if there have been any changes over the past 20 years to employment practices in companies operated in Hong Kong, so as to provide more insights in answering the research question. Case study analysis is useful to examine development of the employment relations system in Hong Kong over time as it can capture rich contextual details and enable researchers to gauge how the changing contexts impact on policymakers and employers and the way they respond. Two multinational banks' retail businesses are examined as the retail banking sector is an important economic sector in Hong Kong, in terms of its contribution to the GDP and level of employment. Multinational banks are chosen as cases for analysis as they are more susceptible to global, regional, and local changes and therefore better able to reflect the changing contexts at various levels. Interviews were conducted in the two banks, between July 2005 and March 2006 and again between September 2012 and June 2013, with employees engaged in human resource management positions and line management functions at the senior, middle, and front-line levels. Interviews were also conducted with representatives of the Hong Kong Banking Employees Association, the only banking employee association at the industry level. Data collected from the interviews are supplemented by documentary information gathered from relevant government, industry and related institutions.

The paper is divided into six sections including this introduction. The VoC approach and its discussion of employment relations in various types of economies will first be outlined, followed by an examination of the Hong Kong brand of capitalism and its employment relations system before and after 1997. The Hong Kong retail banking sector will then be examined, covering its structure and employment, changing institutional context, corporate strategies and employment relations. Thereafter, changing employment practices of two multinational retail banks over a period of nearly 20 years will be presented and analysed, followed by the conclusions and theoretical implications of the paper.

2. Varieties of Capitalism and Employment Relations

According to the VoC approach, the main actor in different varieties of capitalist economies is the firms which maintain their competitive advantage by adopting strategies that are aligned with the opportunities and resources embedded in the institutional environments specific to these various economies (Hall and Soskice[6], 2001; Carney, Gedajlovic, and Yang, 2009[7]). Institutions in these economies help firms solve coordination problems arising from uncertainties, moral hazard and opportunism as a result of the incomplete and implicit contracts governing the economic relationship between various actors. Coordination problems in five different spheres are examined, covering employment relations, vocational training and education, corporate governance, inter-firm relations and workforce's internal coordination. Different institutions, which are inter-connected, deal with these five spheres separately and produce institutional complementarities reinforcing one other. Hall and Soskice (2001[8]) came up with two ideal types of capitalist models: liberal market economies (LMEs) and coordinated market economies (CMEs), each of which solve their respective coordination problems with a different set of institutions. Firms operated in LMEs tend to coordinate their economic activities through market and hierarchies. By contrast, firms operated in CMEs depend more on political and societal institutions to help coordinate their economic activities. Institutional complementarities provide a solid foundation sustaining the competitive advantage of firms and the capitalist economies to which they belong. Even in face of strong market pressures, the specific set of self-reinforcing institutions in these capitalist economies is rather resilient. Institutional changes, if they do occur, are likely to be incremental (Frege and Kelly, 2013[9])

Employment relations is among the five spheres examined in the VoC framework from which coordination problems related to employees' wage bargaining and work conditions, organised labour and employers' associations are to be solved by firms. In LMEs, firms coordinate their activities primarily through hierarchies or market arrangements to achieve competitive advantage. Relations between employers and employees are therefore governed by market relationship. Management has the autonomy to hire and fire according to market situation, with no obligation for firms to help organise and recognise trade unions. Without prominent trade unions and employer associations in place, economy-

[6] Hall, P. and Soskice, D (2001), *op.cit.*

[7] Carney, M., Gedajlovic, E. and Yang, X (2009), *op.cit.*

[8] Hall, P. and Soskice, D (2001), *Ibid.*

[9] Frege, C. and Kelly, J. (2013) "Theoretical Approaches to Comparative Employment Relations" In Frege, C. and Kelly, J. (eds.) *Comparative Employment Relations in the Global Economy*. Oxon: Routledge. pp. 28-42.

wide coordination of wages is the rule rather than exception. A highly fluid labour market enable firms to adopt flexible labour strategies to pursue new opportunities as they arise from the economy and, at the same time, discourage labour to learn firm-specific skills not easily transferred across firms. By contrast, in CMEs, firms coordinate their activities through political and societal institutions. CMEs' firms usually adopt production strategies that require highly skillful labour force to exercise a significant degree of autonomy to make the strategies effective. Coordination problem emerges as to how best to manage these highly skillful employees who are open for poaching by other firms. To solve this problem, non-market institutions such as employers' associations and industry-level trade unions set wages through industry-level bargaining to come up with collective agreements covering all employees possessing equivalent level of skills. Wage inflation is therefore contained and poaching is made rather meaningless. Work councils, with elected employee representatives, are entrusted with the authority to govern job security and work conditions. By ensuring that there will not be arbitrary lay-offs and undesirable changes in work conditions, such institutional arrangement help encourage employees to work harder and to invest in company-specific skills to enhance further development.

The VoC approach is not without its criticisms. First and foremost is the paradoxically deterministic nature of the approach, reducing firms to mere actors that behave entirely under the control of the 'isomorphic power of institutions (Carney, Gedajlovic, and yang, 2009[10]). Closely related to the first criticism is the lack of variety in a theory of varieties of capitalism. As different economies are predicted to fit into only two viable forms of capitalism—LMEs and CMEs, critics therefore comment on the theory as advocating 'dual convergence' which is empirically not the case (Crouch, 2005[11]). Many recent studies engaged with the literature identify more than two types of capitalism characterising various national economies (Amable, 2003[12]; Martin and Thelen, 2007[13]), and highlight diversity within one single national economy at one particular point in time or across

[10] Carney, M., Gedajlovic, E. and Yang, X (2009)*, op.cit.*

[11] Crouch, (2005) *Capitalist Diversity and Change: Recombinant Governance and Institutional Entrepreneurs*, Oxford: Oxford University Press

[12] Amable, B. (2003) *The Diversity of Modern Capitalism*. Oxford and New York: Oxford University Press.

[13] Martin, C. J. and Thelen, K. (2007) "The State and Coordinated Capitalism: Contributions of the Public Sector to Social Solidarity in Postindustrial Societies" *World Politics*, 60 (1): 1-36.

different periods of time (Lane and Wood, 2009[14]; Schneiberg, 2007[15]). A third criticism is that the VoC approach does not differentiate between different types of firms operated in various national economies, totally ignoring the importance of MNCs in influencing employment practices (Deeg and Jackson, 2007[16]). Last but not the least important is the criticism of the approach as being a static model, particularly weak in explaining the institutional changes taken place in different economies over time. Changes, if that does occur, are taken as minor adjustments to restore the economy to a state of equilibrium through renewed pattern of coordination among various institutions. The role of the state and the result of political struggles among various social groupings in shaping and changing institutional configurations are grossly under-examined in the early version of the VoC framework (Thelen, 2010[17])

3. Hong Kong's Brand of Capitalism and the Employment Relations System

As a British colony, Hong Kong has been a world renowned liberal market economy until 1997 when its sovereignty was handed back to the PRC, becoming one of its Special Administrative Regions. Prior to 1997, many institutional arrangements in Hong Kong fit well into the description of a LME. Prior to the sovereignty handover, Hong Kong's industrial relations system is widely acknowledged as being influenced by the British tradition of voluntarism, which is well reflected locally in the 'positive non-interventionist' policy adopted by the government. Adhering to such a policy, Hong Kong government plays a significant role in providing the economy with only necessary support in services such as infrastructure, education, and social welfare (hence 'positive') while leaving businesses free to operate (hence non-intervention) (Wilkinson, 1994[18]). Determination of wages has never been coordinated by the government and the use of collective bargaining mechanism is rare in

[14] Lane, C. and Wood, G. (2009) 'Diversity in Capitalism and Capitalist Diversity", *Economy and Society*, 38 (4): 531-551.
[15] Schneiberg, M. (2007) "What's on the Path? Path Dependence, Organizational Diversity, and the Problem of Institutional Change in the US Economy, 1900-1950" *Socio-Economic Review*, 5 (1): 47-80.
[16] Deeg, R. & Jackson G. (2007) "Towards a More Dynamic Theory of Capitalist Diversity" *Socio-Economic Review*, 5 (1), pp. 149-79.
[17] Thelen, K. (2010), *op.cit.*
[18] Wilkinson, B. (1994) *Labour and Industry in the Asia-Pacific: Lessons from the Newly-Industrialized Countries*, Berlin: de Grugter, Ch. 5, pp. 150-186.

regulating employment issues, particularly for the private sector. Bargaining, if there is any at the enterprise level, is almost always employer-dominated (Chiu and Levin, 1999[19]). Before the outbreak of the AFC in 1997, although Hong Kong's manufacturing sector was steadily shrinking as many factories were closed down and moved to the Pearl River Delta region with plentiful supply of cheaper labour, the city was nonetheless faced with a tight labour market. During that time, surplus labour was quickly absorbed by the fast expanding service industries. Moreover, some 60,000 Hong Kong people, mostly professionals and managers, migrated annually elsewhere between the late 1980s and mid 1990s due to political uncertainty, decreasing the number of people in the workforce. In such a tight labour situation, while employers are free to hire and fire workers to tailor to emergent business needs, employees are reluctant to invest in company-specific skills as they can easily find jobs with higher pay and much better working conditions than what their current jobs could offer (Chiu, So and Tam, 2008[20]).

Even after the sovereignty handover since 1997, Hong Kong as a SAR of the PRC has continued to operate as a liberal market economy. Organised labour movement in Hong Kong has remained weak, as reflected in an increasingly fragmented nature of the trade unions and a persistently low density of trade union membership throughout the 1990s. Hong Kong government has continued to uphold the laissez-faire doctrine and maintain its non-interventionist stance towards industrial relations after the sovereignty handover. Although some trade unionists elected to the Legislative Council managed to put up the Employees' Right to Representation, Consultation and Collective Bargaining Ordinance and had it passed and gazetted literally on the last day of the colonial rule (i.e. 30 June 1997), this Ordinance was suspended by a bill, reviewed and reconsidered by the Labour Advisory Board, a tripartite body appointed to advise the government on labour-related matters. In October 1997, this Collective Bargaining Ordinance was repealed, by the enactment of the Employment and Labour Relations (Miscellaneous Amendments) Ordinance to remove, amongst other important provisions, the right of trade unions to engage in collective bargaining (Chiu and Levin, 2010[21]). Similarly, the Unfair Dismissal Ordinance passed in Hong Kong's final

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[19] Chiu and Levin (1999) *op.cit.*

[20] Chiu, S.W.K., So, A. Y. and Tam, M. Y. M. (2008) "Flexible Employment in Hong Kong: Trends and Patterns in Comparative Perspective" *Asian Survey*, 48 (4) pp.673-702.

[21] Chiu, S.W.K. and Levin, D.A. (2010) "HRM in Hong Kong since 1997" *Asia Pacific Business Review*, 9 (4), pp.32-54.

colonial days was suspended after July 1996 and ultimately repealed (Chiu and Levin, 1999[22]). Without the legal right for trade unions to represent employees in collective bargaining and the protection of active trade unionists against unfair dismissal, pay determination has continued to be decentralised, in particular for the private sector. Negotiation of pay and other terms of employment have therefore continued to take place at the enterprise level individually between employers and employees.
The onset of the AFC in 1997, bursting of the real-estate and dot-com bubbles and outbreak of SARS between 1997 and 2003 ushered in a period of significant economic downturn in Hong Kong. Unemployment rate hit an all-time-high in 2003, reaching a historical record of 7.9 percent (CSD, 2015[23]). This period also witnessed the loss of a huge number of jobs from Hong Kong to the Pearl River Delta, mostly in servicing industries covering banks, airlines, and telecommunication companies employing large number of relatively unskilled labour to man call centres and perform back office duties. To sustain competitiveness within a context of economic downturn, there has been a rising trend for companies to outsource non-core functions to areas with cheap labour such as China and India to maintain the operations at low costs. A general state of an oversupply of labour is recorded. With a decreasing demand of labour, coupled with the return of some overseas migrants searching for jobs, it is not surprising that many organisations in various industries implemented labour adjustment strategies such as increasing part-time employment, requiring employees to work irregular hours, using more shift and overtime work, and cutting wages to maintain a higher level of numerical, temporal, and financial flexibility (Chiu, So and Tam, 2008[24]). When all these labour adjustment strategies failed to control costs, redundancy and mass layoffs resulted in both the manufacturing and the service sector including hotels (Chiu and Levin, 2010[25]). While there were instances in the late 1990s and early 2000s where employees and trade unions took action to fight against employers' measures implemented to threaten workers' job security, the few cases of industrial unrest was isolated, restricted to specific sectors where labour was more organised

[22] Chiu and Levin (1999) *op.cit.*
[23] Census and Statistics Department (CSD) (2015) *Labour Force Chart 006: Unemployment Rates (Seasonally Adjusted and Underemployment Rates* http://www.censtatd.gov.hk/hkstat/sub/sp200.jsp?tableID=006&ID=3&productType=9 (accessed August 24, 2015)
[24] Chiu, S.W.K., So, A. Y. and Tam, M. Y. M. (2008) *op. cit.*
[25] Chiu, S.W.K. and Levin, D.A. (2010), *op.cit.*

and failed to make significant impact on the existing employment relations system (Chiu, So and Tam, 2008[26]). So even after the sovereignty handover, Hong Kong's employment relations system has still been very much operated under the shadow of British tradition of voluntarism. The few federations of trade unions that exist in Hong Kong have continued to function more as pressure groups to bargain with the government, instead of employers, for policies that could bring more protection and benefits to the workers. Some active trade unionists have successfully found their way into the Legislative Council through election, seeking to influence government labour policies from within the governance structure.

Towards the end of 2003, Hong Kong's economy has gradually picked up as a result of a general economic recovery in the region, reinforced by positive outcomes brought about by the PRC's liberalisation policies implemented to enhance its economic integration with the Hong Kong SAR. Among the most important policies implemented was the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), an agreement effective on 1 January 2014 facilitating trade and investment between the two economies with new liberalisation measures introduced. To facilitate trade liberalisation in various types of services, an important provision in CEPA is the mutual recognition of professional qualification between the two areas in question. Up to 2013, 10 supplements to CEPA were signed to enhance the original agreement, covering various sectors including manufacturing, banking, insurance, retail and tourism (TID, 2013[27]). The Individual Visit Scheme (IVS) introduced under CEPA's tourism liberalisation measure has, until recently, been seen as bringing tremendous benefit to Hong Kong. Mainland residents from 49 cities, previously only able to travel to Hong Kong under business visa or by joining group tours, can now visit Hong Kong in their individual capacity if applications are endorsed by the local Public Security Bureau offices. (Tourism Commission, 2015[28]).

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[26] Chiu, S.W.K., So, A. Y. and Tam, M. Y. M. (2008) *op. cit.*

[27] Trade and Industry Department (TID) (2013) *Mainland and Hong Kong Closer Economic Partnership Agreement (CEPA), CEPA Legal Text* http://www.tid.gov.hk/english/cepa/legaltext/cepa_legaltext.html (accessed September 16, 2013).

[28] Tourism Commission (2015) *Individual Visit Scheme*, http://www.tourism.gov.hk/english/visitors/visitors_ind.html, Commerce and Economic Development Bureau (accessed October 13, 2015).

Hong Kong's economy continued to grow from late 2003 until 2007 when the GFC broke out as a result of a series of unexpected financial incidents including the demise of Bear Stearns, bankruptcy of Lehman Brothers, and nationalisation of American International Group (AIG). Though the economy of Hong Kong was hit hard by the GFC, the adverse economic impact of the crisis was rather short-lived. Unemployment rate in Hong Kong climbed from 3.3 percent in 2008 to 5.3 percent in 2009, but quickly went down to 4.3 percent in 2010 and 3.4 percent in 2011. Since then, unemployment rate has stablised to the level of low- to mid-three percent (CSD, 2014[29]). In the recent few years, the labour market in Hong Kong remained tight. In 2010, the Minimum Wage Ordinance was passed after years of active trade unionists' lobbying to the government. Low-paid workers who are paid mostly by hour in mainly four sectors including retail, restaurants, estate management, as well as security and cleaning services are now protected and paid the Statutory Minimum Wage (SMW) implemented in May 2011 (Minimum Wage Commission, 2012[30]). Despite the enforcement of the SMW, most employers can still be able to continue to determine pay unilaterally at the enterprise level, and to hire and fire employees freely to adjust to normal business cycles and unexpected economic crises.

4. Hong Kong's Banking Sector

4.1. Structure and Employment

In Hong Kong, only licensed banks are allowed to offer full banking services and take deposits of all different sizes and maturity period. As a renowned liberal market economy, foreign banks are free to set up subsidiaries to operate in Hong Kong. In 2014, approximately 70 of the world's 100 largest banks have an operation in Hong Kong (HKTDC, 2014[31]). The Hong Kong Monetary Authority (HKMA) acts as a de facto central bank and is vested with the authority to ensure prudential

[29] Census and Statistics Department (CSD) (2014) *Hong Kong Annual Digest of Statistics*, Hong Kong.
[30] Minimum Wage Commission (2012) *2012 Report of the Minimum Wage Commission*. Hong Kong.
[31] Kong Trade Development Council (HKTDC) (2014) *Banking Industry in Hong Kong*, Hong Kong Trade Development Council, Hong Kong http://hong-kong-economy-research.hktdc.com/business-news/article/Hong-Kong-Industry-Profiles/Banking-Industry-in-Hong-Kong/hkip/en/1/1X000000/1X003ULX.htm (accessed August 7, 2015).

operation and stability of the banking sector. As an important segment in the financial services industry, the banking sector has made significant contribution to the Hong Kong economy. Between 2000 and 2004, the sector accounted for around eight percent of the GDP in Hong Kong each year and recorded an average annual growth rate of nearly 10 percent in the five years before 2006 (CSD, 2006[32]). Despite the outbreak of GFC in 2008, the banking sector maintained a significant 10 percent contribution to Hong Kong's GDP in 2010 at basic prices, amounting to HK$162.6 billion of value-added (CSD, 2012[33]).

The number of banks operating in Hong Kong has grown quickly since the early 1990, reaching an all-time-high of 185 in 1995. As a result of the mergers and acquisition activities carried out by local banks and the closing down of foreign bank subsidiaries after the outbreak of the AFC in 1997, the number of banks shrunk in Hong Kong. After 2002, banks incorporated outside Hong Kong has slowly increased again. More recently even after the outbreak of the GFC in 2008, the number of banks in Hong Kong has grown steadily, maintaining a rather stable figure. By the end of June 2015, there were altogether 157 banks operating in Hong Kong, 21 of which were incorporated in Hong Kong and 136 outside the territory (HKMA, 2015[34]) (See Table 1).

Table No. 1 - Number of licensed banks in Hong Kong SAR

Month/Year	Number of Licensed Banks in Hong Kong		
	Incorporated in Hong Kong	Incorporated outside Hong Kong	Total
1993	32	140	172
1995	31	154	185
1997	31	149	180
1999	31	125	156
2001	29	118	147
2003	23	111	134
2005	24	109	133

[32] Census and Statistics Department (CSD) (2006) *Composite Employment Estimates, National Income Section (2)1*, Census and Statistics Department, Hong Kong.
[33] Census and Statistics Department (CSD) (2012) *Hong Kong Monthly Digest of Statistics—Feature Article: The Financial Service Sector in Hong Kong*. Hong Kong: Hong Kong Census and Statistics Department, pp. 1-34.
[34] Hong Kong Monetary Authority (HKMA) (2015) *Monthly Statistical Bulletin*, July 2015—Issue No. 251, Hong Kong Monetary Association, Hong Kong http://www.hkma.gov.hk/eng/market-data-and-statistics/monthly-statistical-bulletin/table.shtml#section3 (accessed July 21, 2015).

2007	23	119	142
2009	23	122	145
2011	23	129	152
2013	21	135	156
2014	21	138	159
June 2015	21	136	157

Source: HKMA, 2015, *Monthly Statistical Bulletin (July 2015 – Issue No. 251)*, Number of Authorised Institutions and Local Representative Offices, Hong Kong: Hong Kong Monetary Association, http://www.hkma.gov.hk/eng/market-data-and-statistics/monthly-statistical-bulletin/table.shtml#section3 (Accessed on 21 July 2015)

With the opening up of the financial sector in China, many locally incorporated banks in Hong Kong are eager to expand their operation into China. By the end of 2013, there were 13 banks incorporated in Hong Kong having business operations in China, eight of which with their subsidiaries incorporated in China. These 13 banks altogether opened and maintained over 400 branches and sub-branches in China, directly or through their subsidiary banks (HKTDC, 2014[35]).

The number of people employed in the banking sector dropped from 78,710 in 1994 to 71,451 in 2002, as a result of the local merger activities and the continued decline of Hong Kong's economy since 1997 (HKAB, 2006[36]; VTC, various years[37]). There were 72,121 people employed in the banking sector in 2004, the number of which increased steadily to 95,136 in 2007 as a result of the gradual recovery of Hong Kong's economy after it hit the rock bottom subsequent to the outbreak of SARS. While there was a slight decrease of the banking sector employees in 2008 to 93,479 because of the onset of the GFC, the total number of banking staff has since then grown steadily and reached 99,081 by the end of 2013 (CSD, 2014[38]). Over the last decade or so, there has been a notable trend for Hong Kong people to cross the border to work in Hong Kong-based

[35] Kong Trade Development Council (HKTDC) (2014) *Banking Industry in Hong Kong*, Hong Kong Trade Development Council, Hong Kong http://hong-kong-economy-research.hktdc.com/business-news/article/Hong-Kong-Industry-Profiles/Banking-Industry-in-Hong-Kong/hkip/en/1/1X000000/1X003ULX.htm (accessed August 7, 2015).

[36] Hong Kong Association of Banks (HKAB) (2006) "The Chief Executive's Speech at Hong Kong Association of Banks Luncheon", *Press Release*, 26 April, Hong Kong Association of Banks, Hong Kong.

[37] Vocational Training Council (VTC) (various years) Banking and Finance Industry Training Board, *Hong Kong Manpower Survey: Banking and Finance Industry*, Vocational Training Council, Hong Kong.

[38] Census and Statistics Department (2014), *op.cit.*

banks operating in China and for Mainland Chinese nationals employed in banks operated in Hong Kong. In the financing, insurance, real estate and business service sector, for instance, the number of Hong Kong employees working in China has increased steadily from 18,000 (9.5 percent of employees in the sectors concerned) in 2001 to a peak of 26,500 (11.4 percent) in 2005, and thereafter scaled back to 14,000 in (8.0 percent) in 2010 (CSD, 2001[39]; 2005[40]; 2011[41]). In a survey conducted by the Financial Services Development Council in 2015, 18 percent of the surveyed retail banking companies in Hong Kong reported that there was an over 20 percent increase in the total number of Mainland Chinese nationals employed in these firms over the past 10 years (FSDC, 2015[42]).

4.2. Changing Institutional Context since 1997

While the banking sector is highly concentrated in Hong Kong SAR, competition in the retail banking sector has always been fierce. As there is no geographical barrier of entry, the banking sector is crowded with players of different sizes and nationalities. The outbreak of the AFC in 1997 and the ensuing economic downturn as a result of property market crash and public health crises weakened credit demands as well as foreign currency, syndicated and mortgage loan businesses. (Thomas. 2004: 63[43]). Further deregulation of the Interest Rate Rules (IRRs) in 1998 to remove interest rate caps by phases on time, saving, and current accounts put even more pressure on banks to save costs to compensate for the revenue loss because of lower interest margin (HKIB, 1999[44]). Deflation and the rising real interest rates in Hong Kong since 1997 has jeopardized borrowers' ability to repay their debts, affecting banks' asset quality (Jiang et al. 2003:

[39] Census and Statistics Department (CSD) (2001) Social Data Collected Via the General Household Survey, Special Topics Report No. 30, *Hong Kong Residents Working in the Mainland of China*, Census and Statistics Department, Hong Kong, pp.42.
[40] Census and Statistics Department (CSD) (2005) Social Data Collected via the General Household Survey, Special Topics Report No. 42, *Hong Kong Residents Working in the Mainland of China,* Census and Statistics Department, Hong Kong, pp.16.
[41] Census and Statistics Department (CSD) (2011) Social Data Collected Via the General Household Survey, Special Topics Report No. 57, *Hong Kong Residents Working in the Mainland of China*. Hong Kong: Census and Statistics Department, pp.19.
[42] Financial Services Development Council (FSDC) (2015) *Developing Hong Kong's Human Capital in Financial Services*, FSDC Paper No. 13, January, FSDC.
[43]Thomas, H. (2004) "The Banking System" in Ho, S., Scott, R. H., & Wong, K. A. (eds) *The Hong Kong Financial System: A New Age*, New York: Oxford University Press.
[44] Hong Kong Institute of Bankers (HKIB) (1999*)Hong Kong Banking System and Practice*, 4th edition, Hong Kong: HKIB.

3–4[45]). Banks were faced with a growing pressure to enhance revenue but, at the same time, maintain asset quality. The percentage of incomes coming from interest-based sources has significantly dropped, forcing banks to expand the share of non interest-based incomes coming mainly from fees earned by selling to retail customers a diverse range of financial products including mutual funds, bonds, and structural products (Carse, 2003[46]). More banks perceived themselves as financial services providers, venturing into wealth management and private banking services to boost their retail businesses (Carse, 2001[47]).

Adversely affected by the AFC, there has been an increasing trend for banks to acquire or merge with other banks to increase both the economy of scale and scope to control costs and increase income. Multinational banks operated in Hong Kong, in particular, were affected by the merger and acquisition activities carried out by their parent companies in home countries. These consolidation activities gave rise to a gradual decrease in the number of people employed by Hong Kong-based banks in the early 2000s. Besides consolidation, a significant number of banks in Hong Kong took action to close branches, centralise bank operations, and outsource processing tasks to areas with lower labour costs. Bank staff engaged in back office work and relatively low-skilled tasks were most at risk. Surplus staff was usually reduced by redeployment before being retrenched and made redundant. While an oversupply of clerical and supporting staff in the retail bank sector was recorded, there was at the same time a high demand for qualified people who were required to possess the requisite knowledge and licences to fill the newly created positions of customer service managers (CSMs), customer service officers (CSOs) and financial consultants.

It is not surprising for banks to stage redundancy programme to cut current employees but at the same time recruit new staff to fill newly created positions. The changing employment structure in the retail banking sector is obvious. With the implementation of CEPA in 2004, allowing Hong Kong-based banks to enter into the China market two years earlier than their foreign counterparts, almost all major banks ventured across the border to open new branches in strategic locations

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[45] Jiang, G., Tang, N., Law, E., & Sze, A. (2003) "The Profitability of the Banking Sector in Hong Kong" *Hong Kong Monetary Authority Quarterly Bulletin*, September, Hong Kong: Hong Kong Monetary Authority, pp. 5–14.

[46] Carse, D., 'The State of the Banking Industry in Hong Kong' (2003) 21 *BIS Review* 1–4

[47] Carse, D., 'The Changing Landscape of Banking in Hong Kong' (2001) 71 *BIS Review* 1–4.

such as Shenzhen, Guangzhou and Shanghai or simply upgrade their existing representative offices into branches. Smaller banks merged with one another to attain the scale required to enter the China market. Expanding into a new market, many banks redeployed existing supervisory or managerial staff to take up new positions in their Chinese operations, creating vacancies in Hong Kong branches. Between 1994 and 2004, the proportion of managerial and supervisory staff employed in the banking sector has therefore increased from 39.4 percent to 51.9 percent (VTC, various years[48]).

Having survived the 1997 AFC and a rather lengthy period of economic downturn, Hong Kong retail banks' performance has since 2004 gradually improved. In 2007, financial problems began to surface initially in the US as a result of the subprime mortgage crisis and significant depreciation of toxic mortgage-based securities and structural assets, challenging seriously the survival of even famous investment banks and financial companies worldwide. Because of Lehman Brothers' bankruptcy, structured investment products (known as minibonds) offered by Lehman Brothers and sold to customers through 13 Hong Kong banks' retail distribution channels became almost worthless (Wang, 2008[49]). The outbreak of the GFC and the global financial failures were translated into public protests staged by retail banks' customers in Hong Kong. At a time of great uncertainty and huge loss of public confidence, even rumours spreading around could lead to a major bank run. Bank of East Asia, a local medium-sized retail bank, was falsely accused of heavily exposed to the troubled US financial institutions, Lehman Brothers and AIG, resulting in a run on the bank in September 2008 (England, 2008[50]). Multinational banks operating in Hong Kong was seriously affected because of their global nature as they had businesses in the US and other foreign countries that were in great financial turmoil. As a result of global business restructuring, large multinational banks, including HSBC and the Citigroup, shed their international workforce covering hundreds of people in Hong Kong. Compared with their multinational counterparts, local and

[48] Vocational Training Council (VTC) (various years), *op.cit.*

[49] Wang, L. (2008) "Lehman Brothers' Minibonds Teach Hong Kong Investors a Big Lesson" *China Stakes*, 29 September http://www.chinastakes.com/2008/9/lehman-brothers-minibonds-teach-hong-kong-investors-a-big-lesson.html (accessed September 16, 2013

[50] England, V. (2008) "Hong Kong Bank Recovers from Run" *BBC News*, Hong Kong, 25 September, http://news.bbc.co.uk/2/hi/7634895.stm (accessed September 16, 2013).

Chinese banks operating in Hong Kong were not as seriously affected by such a global turmoil.
While Hong Kong's economy has quickly bounced back since 2009, some multinational banks were still active in implementing redundancy programmes already phased in under their Headquarters' directive. As a result of the outbreak of the GFC, HKMA has strengthened its "continuous supervision" policy aiming for early problem detection in supervising banks operated in Hong Kong. New supervisory policies and practices issued to banks by HKMA after 2008 covers a diverse range of important areas including corporate governance, employees' competence and ethical behaviour, risk management and control, stress testing, internal audit, use of consumer credit data, as well as anti-money laundering and counter-terrorist financing (HKMA, 2013[51]). With an increasing emphasis on corporate governance, there has now been serious labour shortage in areas requiring employees to work in the mid- and back-office, providing support for regulatory compliance and risk management (FSDC, 2015[52]).

4.3. Corporate Strategies and Employment Relations

Operated within a constantly shifting institutional landscape, retail banks' operators in Hong Kong had to adjust continuously their corporate strategies in order to survive and stay competitive in the sector. Throughout the last two decades or so, many banks have sought to contain operational costs by consolidating existing back-office operations locally or relocating such operations to low labour-cost countries. Bigger multinational banks have sold off unprofitable businesses, outsourced non-core functions, and increasingly focused on high growth businesses and markets. With a notable decline of interest-based income, banks have long been expanding their wealth creation services and sell various kinds of financial products to customers, segmented into at least the mass and high net-worth categories. More banks have recently started or expanded their private banking businesses to target exceptionally wealthy customers possessing at least US$ one million to invest. Mergers and acquisitions are

[51] Hong Kong Monetary Authority (HKMA) (2013) *Supervisory Policy Manual*, 21 August, Hong Kong Monetary Authority, Hong Kong http://www.hkma.gov.hk/e)g/key-functions/banking-stability/supervisory-policy-manual.shtml, (accessed September16, 2013).
[52] Financial Services Development Council (FSDC) (2015) *Developing Hong Kong's Human Capital in Financial Services*, FSDC Paper No. 13, January, FSDC.

commonplace among banks to achieve greater economy of scale and scope, and to reach the requisite size needed to expand into the China market. Overall speaking, retail banks in Hong Kong adopted, over the last two decades or so, rather similar strategies to minimise costs, enhance revenue, improve operational efficiency, and explore new and high growth markets and business areas, bringing significant impacts to the employment relations practices implemented.

Hong Kong's retail banking sector has continued its practice of highly decentralised employment relations within a context of significant political changes and economic crises after 1997. Employers can hire and hire freely, negotiate pay and other employment terms with employees at the enterprise level, and offer incentive and bonus packages to retain talent. Retail banks in Hong Kong have increasingly adopted the performance-based pay system which was initially brought in by large multinational banks and subsequently adopted by Chinese and local banks. The old practice of paying mandatory annual bonuses to all staff, irrespective of branch and individual performance, has long been scrapped and substituted by various types of inventive plans. Incentives for employers to provide more training than the required basic job-related knowledge are very low, for fear of trained employees being poached by competitors or wasting resources unnecessarily on contingent staff. In some period of time when a general tight labour market is recorded in the retail banking sector, employees who are not satisfied with their jobs can easily find better jobs elsewhere. Those who choose to stay accept employers' demands to work overtime, more intensively for longer and irregular hours. In other period of time when there is an oversupply of labour in the sector, employees can do nothing but accept flexible employment practices imposed by their employers such as working part-time or in shifts, and taking up temporary contracts (Chiu, So, and Tam, 2008[53]).

Up until the early 2000s, very little open labour-management conflict has been found in retail banks operated in Hong Kong. However, overt labour conflict broke out in late 2001 due to mass layoffs as a result of a big merger to combine businesses of 10 out of 12 banks originally belonged to a Chinese banking group, threatening the job security of many employees and triggering the formation of the Hong Kong Banking Employees Association (HKBEA) in 2002. The association attracted initially many employees to join as members whose job security was under threat because of the Chinese Bank Group's mega-merger. At present, the

[53] Chiu, S.W.K., So, A. Y. and Tam, M. Y. M. (2008) *op. cit.*

Association has more than 7000 paid-up members the profile of whom has been diversified to cover more employees from local and multinational banks. HKBEA has since its formation represented its members in several major negotiations with bank management for retrenched staff's entitled bonuses, job transfer arrangement before layoff due to outsourcing, and staff dismissal because of perceived poor performance. Despite its effort, the Association is not able to boost the solidarity of its members, many of whom joined the association only because of the risk of losing their jobs. When the perceived problem is solved, support given to the association by these members is much weakened. Without a strong base of membership, HKBEA has never been formally recognised by the industry as representing all staff as employed by the banks operated in Hong Kong.

5. Changing Employment Practices in Two Multinational Bank Cases since 1997

5.1. History, Development and Corporate Changes of the Cases Since 1997

Both of the multinational banks (Bank X and Bank Y) examined here have operated in Hong Kong for well over a century. 'Employment practices' is defined as a term covering areas including staffing and labour adjustment; performance and compensation management, employee training and development; as well as labour-management communication and industrial relations. Bank X is a wholly-owned subsidiary of a holding company of a large British multinational financial services group. It is the flagship member of the Group in the Asia-Pacific region and the largest bank incorporated in Hong Kong. Bank Y, a large multinational bank of US origin, is also among the largest foreign financial institutions in Hong Kong. Retail banking is an important line of business for both Bank X and Bank Y, currently operating 19 branches and premier centres for high net-worth customers (and many express banking centres with ATM machines installed) and 41 retail outlets in Hong Kong respectively. As the two MNC banks are highly globalised, they are greatly affected by the aftermath of the AFC and the GFC.

After the outbreak of the AFC, senior management of both Bank X and Bank Y were under pressure to increase cost control but, at the same time, enhance revenue. Fee-based income is seen as a good means to increase revenue as businesses returning interest-based incomes have very much dwindled in a shrinking economy. Since the early 2000s, both banks have upgraded their wealth management services, recruiting a great number of

CRMs/CROs, financial planners and consultants, selling financial products to retail customers in different net-worth segments. Both Bank X and Bank Y had a long history to serve the financial needs of private banking customers who are now required to have an asset under management (AUM) of more than US$3 to 4 million, higher than the industry average. Taking advantage of the gradual opening up of the PRC's banking sector to foreign banks since 2001 and the implementation of CEPA in 2004, Bank X and Bank Y expanded their operation in the PRC. They set up their wholly foreign-owned subsidiaries in the PRC to operate branches and outlets in a number of cities across China. To save costs, there has been a notable trend since the 2000s for both Bank X and Bank Y to outsource low-skilled back office processing tasks to China or other areas offering cheap labour. This outsourcing trend has well continued after the GFC. With the development of e-banking services by the application of advanced information technology, there has been a trend for both Bank X and Bank Y to close some branches and reorganise others to become customer centres serving solely high net-worth customers.

After the outbreak of the GFC, the financial services group to which Bank X belong suffered from serious reputation damage and had to undertake internal reforms. In 2012, Bank X's Headquarters announced the decision to restructure, sell off some businesses and further cutting costs, resulting in a reduction of staff numbers by 10 percent. The number of positions to be cut amounted to 30,000 worldwide. Bank Y's parent financial group fared even worse as it had to be rescued by a massive stimulus package offered by the US government in November 2008. To recover financially, the group had to slash assets, businesses and jobs, and to cut 25 percent of its workforce since 2008. The group further announced in 2012 that it planned to cut more than 11,000 jobs worldwide, amounting to yet another four percent of its global workforce so as to reduce costs and enhance profitability. For both financial groups, strategic priorities after the GFC are to save costs, improve efficiencies and focus on the businesses where the future growth will be. Both financial groups to which Bank X and Bank Y belong see China as among the high-growth markets in the Asia Pacific region.

5.2. Staffing and Labour Adjustment

With an expanding wealth management services since the early 2000s, both Bank X and Bank Y needed to recruit more CRMs, CROs and financial planning consultants. In 2002, Bank X recruited 100 more qualified people to add to the existing team of 400 financial planning managers In Bank X, a CRM was supported by a CRO to take care of a portfolio of 300 to 400 customers. In Bank Y, a CRM and his/her associate worked closely with a team of specialists comprising Investment Consultants, Financial Consultants and Treasury Portfolio Consultants to advise customers on investment in funds, insurance products and foreign currencies respectively. There is a set quota in terms of sales volume or target revenue/profit for CRMs /CROs, financial planners and branch managers to meet. Work pressure has been intensified as computerized systems generate periodical monitoring reports, reminding staff to catch up quickly if they fall too much behind achieving the set quota. With intensified work comes long working hours. It is common for various categories of staff in bank branches to work overtime, ranging from two to three hours a day. It is also common for CRMs and financial planners to work outside office hours as they need to arrange appointments to meet with their potential customers at a convenient time and place, very often after office hours in locations chosen by the clients.

By the end of 2002, Bank X employed 1,900 staff in Guangzhou and 500 employees in Shanghai for the outsourced processing work. By 2011, the number of staff employed by Bank X reached 5000 employees in various Chinese cities. Bank Y also operates a call centre in Guangzhou. The outsourcing of back office work and the closing of branches in both Bank X and Bank Y has made some categories of employees redundant. For instance, many tellers who used to carry out counter transactions were found superfluous with the closing of bank branches. For both banks, redeployment is the preferred means to reduce surplus staff. In Bank X, for instance, surplus tellers found suitable were transferred to fill the posts of CSOs and staff affected by the relocation of processing centres to Shanghai and Guangzhou were placed to other jobs first before retrenchment was made. However, there was still about 100 staff involved in processing tasks being retrenched in 2003. The bank chose not to actively offer a voluntary redundancy programme to cut surplus staff.

Subsequent to the liberation of the banking sector and the implementation of CEPA since 2004, Bank X and Bank Y have expanded their businesses into the PRC and employed more people to work across the border. While having to cut positions in Hong Kong operations after the outbreak of the GFC, Bank X and Bank Y has continued to see China as among the high-growth markets in the Asia Pacific region. There is therefore an expansion to both the number of branch networks and of employees working in China.

The aftermath of the GFC has seen another phase of staff cut in both Bank Groups' Hong Kong operation in support of their parent companies' decision to undertake corporate restructuring to contain costs. Bank X committed to cutting 3000 positions in Hong Kong starting 2011, to spread over a period of three years. Both front and back office employees who worked in Hong Kong's retail operations were to be cut by phases. The information technology function is seriously affected. Shortly before the outbreak of the GFC, Bank X underwent a broad banding exercise to consolidate more than 20 grades into eight bands. The eight-grade structure has been further refined to become an eight times eight structure, which means that the span of control under each of the eight grades is limited to eight employees. After the GFC, Bank Y has embarked on a transformation initiative to reengineer work practices. The marketing teams in Bank Y's retail business set up for different products are centralised and the Operation and Technology function in the bank is consolidated. Jobs cut in Bank Y came from six of its branches and from the Operation and Technology Function. Redeployment of affected staff to other jobs within the banks was first carried out by both Bank X and Bank Y before redundancy was considered.
With mounting complaints received from retail customers who accused bank employees of inappropriately selling to them high-risk financial products, retail banks are required by HKMA to establish a system of procedures when selling investment products to retail customers to meet stricter compliance requirements. Bank staff previously involved in investment product control at the back office is, according to new HKMA regulations, not allowed to move into front office positions selling financial product to prevent bank staff from engaging in unethical sales behavior.

5.3. Performance and Compensation Management

Bank X carries out mid-year and year-end appraisals, with continuous feedback throughout the year emphasised. A balanced scorecard is used to evaluate employees' performance on four different dimensions, including the financial aspects, customers, internal business processes, as well as learning and growth. Weightings assigned to the four dimensions mentioned are different for jobs of different nature. Customer Relationship Managers are used to be assessed according to three performance indicators: the sales targets attained, growth of customers' wealth portfolio with the bank, and customer satisfaction. As a result of more stringent regulatory control after the outbreak of the GFC, performance metrics of employees responsible for product sales has changed to focus not only on sales volume, but also to cover important aspects such as the quality of sales and customer services. For Bank Y, employees are required to set both financial (quantitative) and non-financial (qualitative) goals with their superiors. These goals are subject to mid-year discussions to see if adjustments should be made before annual performance reviews are carried out. New dimensions of employee performance are to be evaluated after the GFC, including the quality of people management and control. Bank Y assessed the performance of CRMs based on three performance criteria, namely, the sales target achieved by categories, level of service provided and compliance with regulations. These three performance criteria are used by sales-based staff in their self-assessment first, to be followed by their supervisors' assessment.

After the outbreak of the GFC, Bank X's incentive plans based mostly on product sales volume have been recently removed. Incentive payments have now been replaced by discretionary bonuses to be calculated according to different metrics adopted for the individual, business, and group levels. The size of the discretionary bonus pool is determined each year according to the Group's performance and its profitability and affordability. Individual level of discretionary bonus is determined based on the outcome of individual employees' work appraisal results, on both their quantity and quality of services, and the overall performance of the lines of business to which the staff belong. For Bank Y, incentive compensation schemes have continued to operate, covering the deferred incentive compensation. For the deferred incentive compensation scheme, it is now the practice for Bank Y, as well as other Hong Kong-based banks, to offer a scheme which mirrors that of their competitors, according to the new HKMA regulations implemented after the GFC. The major objective of this regulation is to prevent Hong Kong banks from cashing employees out of the deferred compensation schemes administered by their existing employers, thus rewarding the employees concerned to leave their existing employers regardless. Bank X positions itself as Employer of the Choice and the pay market leader for high-performing employees. Bank Y, by contrast, chooses to offer employees remuneration packages at an average industry level.

5.4. Employee Training and Development

With an increasing demand of employees to fill positions of CRMs and financial planners, Bank X provided educational subsidies amounting to a total of HKD 15 million to support qualified staff to acquire the Certified Financial Planner (CFP) qualification in 2002, aiming to equip the existing 350 CRMs with a CFP qualification by the end of 2003. As it was difficult to recruit staff equipped with the skills to provide customers with investment advice from the external labour market, Bank Y recruited more than 40 fresh university graduates in 2004 to take up sales-based positions and put them through the one-year 'Banker Trainee Programme' to acquire the skills needed for their positions.

Bank X places learning, talent management and organisation development together under the same section. Globally driven by the Group, talent management is linked to the succession planning of key positions at the country, region and global levels. Besides technical skills, competencies identified as important for bank employees included a wide range of soft skills and leadership skills to enable staff to work effectively with both the internal and external organisational stakeholders. After the outbreak of the GFC, there has been a greater emphasis on employee ethics, and understanding work roles and relevant behaviour. As Bank X has gone onto a brand banding structure of having eight levels and eight span of control in each level, horizontal career movement is greatly emphasised as an important means of career development. To provide employees with better opportunities to move horizontally across various positions is also seen as a way to maintain staff employability in a highly volatile and unpredictable business environment.

Bank Y offers their employees ample opportunities to develop within the company to compensate for the relatively less attractive salary packages as compared with their competitors. Bank Y runs a reputable Management Associate programme to train new recruits and this programme is regarded as an initial stage of the talent management process. To retain talents, employees who are identified as having high-potential are handpicked to attend the leadership and management development programmes run by the Group. However, there is no local training team for Bank Y which had to leverage the regional training team and resources located in Hong Kong.

5.5. Labour-Management Communication and Industrial Relations

Job cuts in Bank X as a result of the Group's strategic objectives to reduce costs and increase efficiency after the outbreak of the GFC has raised HKBEA's concern. However, Bank X's management does not recognise HKBEA as representing their staff because of the Association's weak membership base. Bank X employs over 20,000 staff in Hong Kong the number of which is much bigger than the size of paid-up members of the Association. With retail banks generally offering a better-than-average compensation package compared with firms in other industries, there is little incentive for bank employees to join as members of the Association unless and until significant labour-management issues arise.

Maintaining good communication with employees is seen by both Bank X and Bank Y as of salient importance in fostering harmonious employment relations in banks. To understand employees' concern and grievances, Bank X conducts employee attitude surveys periodically to gauge staff opinion on various aspects of the bank's operation. Bank X also uses a variety of communication channels to promote good communication between management and staff at different levels. Communication channels included the CEO blogs, town halls which are meetings conducted by the CEO directly with hundreds of employees at all levels, and skip level meetings for staff to meet with managers one level above that of their supervisors. Bank Y conducts an annual Voice of Employee (VOE) survey to solicit employees' feedback towards management and gauge their overall degree of job satisfaction. A pulse survey is conducted every six months to 'feel the pulse' before the annual VOE is carried out. Bank Y sees these surveys as part of the talent retention process because employees can take this opportunity to voice out their career and other aspirations. By maintaining good communication between management and staff and having staff grievances resolved earlier at the lowest level, potential conflict emerged between the two parties concerned can be prevented.

5.6. Changing Employment Practices: A Summary

Employment practices of the two MNC banks' retail businesses operated in Hong Kong has undergone rather similar changes since 1997. Back office tasks are centralised or outsourced; branches' work reorganised or closed down; and positions of new customer relationship management and financial planning created. There has been a trend of intensification of work, and longer and irregular working hours for most bank employees.

While more staff is employed to work in China to carry out processing jobs or fill the newly created positions in Chinese operations, surplus staff is found in Hong Kong as a result of job outsourcing, centralisation, branch closure and the negative impact of the AFC and GFC. Global business restructuring plans carried out by the two MNC banks' parent groups after the GFC put great pressure on both banks to centralise further their operations and implement redundancy programme by phases. Preferred labour adjustment strategies are redeployment and retraining of staff, certainly not redundancy. Formal performance appraisal systems are used and performance-related pay packages implemented. Performance evaluation criteria have been widened to cover not only quantitative (such as sales volume) but also qualitative (such as quality of transactions) metrics, in particular after the GFC. With tighter requirement on compliance and risk management after the outbreak of the GFC, incentive schemes are designed and operated to discourage staff's unethical sales behavior. Staff development and talent management are carried out to motivate and retain staff with great potential. Operated within a highly volatile business environment, bank management can at best offer staff employability, not job security. Various types of communication channels are used and employee surveys carried out to gauge staff feedback on bank management and operation. While HKBEA pushes for the recognition of its status to represent banking staff, the association is not taken seriously by both Bank X and Bank Y as having a formal status in representing their employees collectively.

6. Conclusions and Theoretical Implications

Examining the employment relations system in Hong Kong since 1997, one can certainly confirm that the highly decentralised system without collective bargaining mechanism institutionalised at the industrial/national level has stayed intact despite significant political and economic changes taken place in Hong Kong over the period. While the PRC has resumed the exercise of sovereignty over Hong Kong since 1997, it is however guaranteed under the Basic Law that Hong Kong can maintain its capitalist system for a period of 50 years to ensure peaceful national reunification. After 1997, Hong Kong government still adheres to the non-interventionist policy implemented during the colonial time. No doubt some trade unionists elected to the Legislative Council were successful in pushing for the enactment, just before Hong Kong's sovereignty handover, of the Employees' Right to Representation, Consultation and Collective Bargaining Ordinance and the Unfair

Dismissal Ordinance. These Ordinances, however, were quickly suspended afterwards and never materialised. Since the year 1997, the tight labour market conditions in Hong Kong, due to the fast expanding servicing sector and an increasing number of professionals and managers migrated elsewhere before the sovereignty handover, had quickly been reversed with the onset of the AFC, bursting of the real estate and dot-com bubbles and the outbreak of SARS. A shrinking economy, coupled with the huge loss of jobs outsourced to low-cost areas, has brought about a burst of mass layoffs in the early 2000s, triggering affected employees to take collective actions against their employers to fight for their job security. With the gradual recovery of Hong Kong's economy since 2003 and further liberalisation of various economic sectors in the PRC, more Hong Kong-based companies commence or expand their operations in China, bringing increasing opportunities for Hong Kong employees to work across the border. While Hong Kong was seriously affected by the outbreak of the GFC in 2007, the negative economic impact was however only short-lived. Despite successful enactment of the Minimum Wage Ordinance in 2010 after years of struggle by active trade unionists, the scope of protection for low-paid workers is only very limited, covering mainly four sectors that employ workers mostly paid by hour.

Detailed examination of employment practices in two multinational bank cases operated in Hong Kong since 1997 has provided further insights into why there has not been much significant change to the decentralised ER system in Hong Kong over the past 20 years. Having experienced two major economic crises within only a short 10-year time span, senior management of these multinational banks certainly understand that they are operating in highly complex, turbulent and unpredictable local as well as regional and international contexts. In times of great economic turmoil, the multinational banks examined are under huge market pressure to set strategic priorities to control costs, improve efficiencies, enhance revenue, and focus on growing businesses and areas to maintain their competitive advantage. After the implementation of CEPA, the multinational banks examined take quick action to seize the opportunity emerged as a result of further liberalisation of China's banking market to expand their operation across the border. Employment practices carried out by the banks to support these various corporate strategies are found to be highly flexible which can be quickly adjusted according to market changes and operational needs. A decentralised ER system, as has been practiced since 1997, is most suited to the demand of employers to unilaterally design and implement highly flexible employment practices to support whatever corporate decisions made to cope with volatile market conditions.

From the above analysis, it can be concluded that the VoC framework is useful in explaining why Hong Kong's employment relations system is so enduring over the past 20 years. However, the Hong Kong case does reveal the problems as highlighted in the major criticisms on the VoC framework which are discussed earlier in the paper. No doubt since 1997 Hong Kong has experienced significant political transformation and economic turmoil, these exogenous changes, however, have reinforced policymakers to reach a conclusion that the free market doctrine and non-interventionist policy are still the cornerstone of Hong Kong's success and the basis upon which its comparative advantage is built. So even after 1997, Hong Kong has continued to demonstrate many of the institutional features as found in a LME, though with features specific to this Special Administrative Region of the PRC which is being classified as an advanced city state capitalism (Witt and Redding, 2013[54]). That the view of all economies fitting into only two viable forms of capitalism—LMEs and CMEs—certainly need to be reappraised. As this criticism on the VoC framework is not very much related to what is examined in this paper, the institutional features specific to Hong Kong have not been investigated here.

Actors such as policymakers and employers do not respond passively to institutional demands. They are constantly evaluating the effect of exogenous changes on the economies and corporations, making considered decisions that may result in either sustaining or changing existing institutions. There is however not always agreement on what decisions should be made, especially among different political and social groupings, many of which have opposing interests. Exogenous changes such as Hong Kong's sovereignty handover and the impact of various economic crises open the floodgate for active trade unionists and workers to challenge the decentralised employment relations system, by pressing for legislations to legalise collective bargaining and refute unfair dismissal and by taking collective actions against employers' unilateral decision to implement corporate strategies resulting in mass lay-offs in periods of economic downturn. These attempts to fundamentally change the employment relations system all fail as the few instances of collective actions taken by workers against their employers are isolated, restricted to

[54] Witt, M. A. and Redding G. (2013) "Asian Business Systems: Institutional Comparison, Clusters and Implications for Varieties of Capitalism and Business Systems Theory" *Socio-Economic Review*, 11 pp. 265-300. 1

specific sectors and therefore have only weak societal impact. More importantly, the government is quick to take action to suspend and repeal the Ordinances which will, if successfully put in force, challenge the integrity of the decentralised employment relations system in place. The impact of political struggles between policymakers and trade unionists (and the workers to which the unions represent) on shaping existing employment relations institution should not be overlooked.

Operated in a highly complex and uncertain environment, employers certainly find a free hand to solve coordination problems arising from uncertainties, moral hazard, and opportunism due to incomplete contractual economic relationship to their own benefit. Multinational corporations operated in Hong Kong, such as the bank cases examined, particularly welcome such an autonomy as their operations are subject to highly unpredictable changes not only in the local, but also regional and international contexts. Decisions made by multinational corporations' subsidiaries in Hong Kong are often subject to their headquarters' influences, especially in times of economic crises when these multinational companies tend to have their operations centralised and headquarters' power strengthened. A decentralised employment relations system which enable employers to hire and fire workers freely according to market situation, negotiate pay and other terms and conditions of work individually with employees, shy away from recognising trade unions and use flexible labour strategies whenever needed to sustain their competitive advantage is more than welcome. These employment practices are often diffused from multinational corporations to local companies, becoming eventually more or less standardised practices. The problem of treating firms as amorphous in the VoC framework, without acknowledging the important role assumed by multinational corporations in shaping institutional changes, should not be easily dismissed.

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