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# A systematic framework for performance appraisal and compensation strategy

Hai Ming Chen and Peng Chuan Fu \*

*Graduate Institute of Management Sciences, Tamkang University, Taipei, Taiwan, Republic of China*  
E-mails: [haiming@mail.tku.edu.tw](mailto:haiming@mail.tku.edu.tw), [mirdinfu@yahoo.com.tw](mailto:mirdinfu@yahoo.com.tw)

**Abstract.** Systematical strategic fit benefits organization's performance and makes the organization systemic. Researches of performance appraisal strategy and compensation strategy are extensive, but most of them only focused on the single subject without the synergy of them. An extensive literature review is provided in this research to build up a systematic theoretical framework for performance appraisal and compensation strategy. Four propositions of the criteria and methods of performance appraisal and compensation strategy are inferred in this systematic framework. Furthermore, four situations of  $2 \times 2$  combinations with the criteria and methods above are discussed for the new systematic performance appraisal and compensation strategy. Through this framework, an organization can appropriately focus on employees' representation or individual to evaluate and motive employees with rational or humanistic way.

**Keywords:** Performance appraisal, compensation, competitive advantage, strategy fit, systematic framework, contingency



**Hai Ming Chen** is a Professor at Graduate Institute of Management Sciences and she also is the Director of Personnel Office, Tamkang University. She holds a PhD degree of management sciences from National Chiao Tung University, Taipei, Taiwan. Her research interests include strategic management, human resource management, and management theory.



**Peng Chuan Fu** is currently pursuing his doctoral degree of management sciences at Tamkang University, Taipei, Taiwan. His research interests focus on organizational behavior and strategic human resource management, especially in performance appraisal strategy and compensation strategy.

## 1. Introduction

The rise in competitiveness in the changing business environment over the past several years has made the manipulation of organizational strategies more and more significant, especially in systemic management. In order to enhance profitability and competitive advantage, an organization must try to align all of its strategies. That is, each organizational strategy should be essential to the organization's mission. Effective and systematic strategic fit can be carried out by precisely constructing all dimensions of a strategy [42,61].

Performance appraisal and compensation are two strategies essential for organizational competitive advantage, and they directly connect the organization with its employees. These strategies have been discussed in several studies [15,19,22,28,57,65,71] and they must be considered together to impact an organization's competitive advantage [26,27,34,35,43,54,69]. In other words, the performance appraisal strategy and compensation strategy must systematically integrate in order to distribute resources effectively under this construct [12,13,62,75]. Just like other organizational strategies, the performance appraisal and compensation strategies are the sub-systems of organization strategic system. The combination of the strategic sub-systems is the main source of valid man-

\*Corresponding author: Peng Chuan Fu, Graduate Institute of Management Sciences, Tamkang University, Tamsui, Taipei 251, Taiwan, Republic of China. Tel.: +1 886 2-26215656, ext. 2186; Fax: +1 886 2-86313214; E-mail: [mirdinfu@yahoo.com.tw](mailto:mirdinfu@yahoo.com.tw).

agement and organizational competitive advantages. Thus, to design a systemic strategy of performance appraisal and compensation strategies is necessary.

Research of performance appraisal strategy and compensation strategy has previously suggested that pay based on performance, or merit pay, could easily combine the two strategies [6,23,30,44,48,57,71,77]. Researchers recommended ways to make this work. First, using diligent communication and pre-determined standards, compensation awarded based on performance appraisal feedback could be an element of organizational commitment and organizational success, working in harmony with the organization's strategic objectives [63]. Second, theoretical and empirical findings support the idea's effectiveness at improving organizational competitive advantage, productivity, morale, quality, participation, stability in the workplace, and the employee–employer relationship if it has been well designed and administrated [48,57,73].

However, the above studies are based on merit pay policies, a simple alignment of a performance appraisal strategy and a compensation strategy, and they lack strategic and systematic integration with the organizations' goals [9,10]; these two strategies can work separately, contributing their own objectives to an organization. From the concept of strategic fit and systemic management, however, these two strategies should systematically cooperate to be more than simple monetary pay for performance. All compensation and performance appraisal feedback (including benefits and uncountable feedback) should be considered. Therefore, to gain the best competitive advantage, an orga-

nization must develop systematic strategies for performance appraisal and compensation practices.

Performance appraisal and compensation strategy is a systematic plan for an organization. It focuses not only on inner organizational status, but also on outer environmental changes. Besides, these functional strategies, such as performance appraisal strategy and compensation strategy, are the strategic sub-systems of an organization which form the holistic strategic system to gain the competitive advantages for organizational survival. Therefore, the systemic fit of performance appraisal strategy and compensation strategy grows into the systematic framework to serve the organizational holistic system. The purpose of this article is to build a systematic framework of performance appraisal and compensation strategies from the perspective of strategic fit and contingency planning. It focuses on how these two strategies correspond to different situations which are here assessed by the status of an organization's competitive advantage and the explicitness of the characteristics of the job in question. The framework also emphasizes how an organization should adjust and coordinate those two strategic sub-systems to achieve its main system objectives. The research structure is shown in Fig. 1.

The systematic strategy ties together a performance appraisal strategy and compensation strategy. These two strategies are influenced by organizational competitive advantage and the explicitness of the job's characteristics. Organizational competitive advantage affects what should be evaluated and motivated, and the explicitness of a job's characteristics determines how to

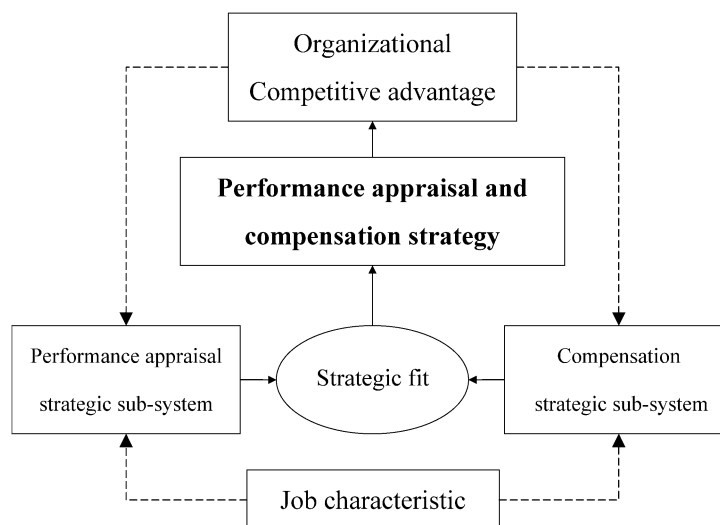


Fig. 1. The research structure for the strategic fit of performance appraisal and compensation strategic sub-systems.

evaluate and compensate employees. After taking into account these two factors, the two strategies can be fused into a single systematic performance appraisal and compensation strategy.

In order to understand why performance appraisal and compensation strategic sub-systems ought to be coordinated systematically, Section 2 discusses the criteria and methods of performance appraisal strategies and compensation strategies; different competitive advantage statuses and job characteristics require different criteria and methods for evaluating and rewarding employees. Section 3 outlines the systematic framework of the performance appraisal and compensation strategy; this framework takes into account the organizational competitive advantage and the explicitness of a job's characteristics. Based on these variables gives four strategic combinations are presented. Section 4 discusses the differences between pay for performance and this systematic strategy; the performance appraisal and compensation strategy is more comprehensive than a straightforward pay for performance policy. Section 5 concludes with suggestions for future research and practical applications of the framework.

## 2. Literature review

### 2.1. Performance appraisal strategy

Performance appraisal is one of the most complex and controversial techniques used to monitor workers [58] determine pay, retain workers, and promote excellence. It must ascertain the productivity of an employee and fairly measure the workers' effort. The raters could be superiors, colleagues, subordinates, other managers, or even the worker him/herself [14,56,68]. To effectively evaluate performance, the criteria and methods are important factors and should be used to support the organization's excellence [69].

A performance appraisal strategy should focus on employees' personal capability and their professional expression. First, the "personal capability criterion" focuses on the employees themselves and their intelligence and ability [26]. It also emphasizes the knowledge and aptitude of employees [37] and it is often delineated by past job specifications. Appraisal ought to take into account current job specifications as well as stressing continued excellence and future creativity [26,49]. Second, the "professional expression criterion" should be appraised as well. This factor centers on employees' behavior and outcomes. This criterion

highlights the attitude, course and representation and the result of their assigned labors [26,60].

There are two methods used to measure performance appraisal criteria. Researchers suggest that measurements could be norm-referenced, and absolute standards are used to judge performance [62]; other researchers proposed the evaluative measures and observational measures [17]. Carnap [20] suggested that "quantitative measures" and "qualitative measures" are the best way to measure performance, as they include all advantages of whole performance evaluation measurements from a contingency viewpoint [3,26,27]. Quantitative tools offer a rational approach with traditional performance appraisal while qualitative evaluation supplies a humanistic approach to observe employees' performance [3].

Figure 2 shows appraisal information for employees and jobs. Criteria and methods for the systematic performance appraisal are shown here. The appraisal information sourced from an employee's individual status and from the work situation. Individual status markers include intelligence, ability, knowledge and aptitude. This kind of appraisal information is not influenced by job characteristics. However, the other kind of appraisal information comes from the situation at work and measures such things as behavior, outcome, attitude and presentation, all of which might be affected by job differentiation. To appropriately evaluate these individual and work-based standards, there should be two criteria for performance appraisal: individual personal capability and professional expression. The personal capability criterion focuses on information which would not be influenced by job characteristics; the professional expression criterion concentrates on information regarding employees' behavior and outcomes based on their job specialties. The form of the appraisal should accurately present these two criteria. The choice of appraisal methods, both quantitative and qualitative, could be used to optimize the performance appraisal strategy. Quantitative measures deal with appraisal information which can be recorded by numerals; qualitative measures treat non-numeric data. Through these performance appraisal criteria and methods, the performance appraisal strategy would comprehensively monitor and improve employees' performance.

### 2.2. Compensation strategy

Compensation strategy is an essential mechanism to integrate the efforts of employees and managers and

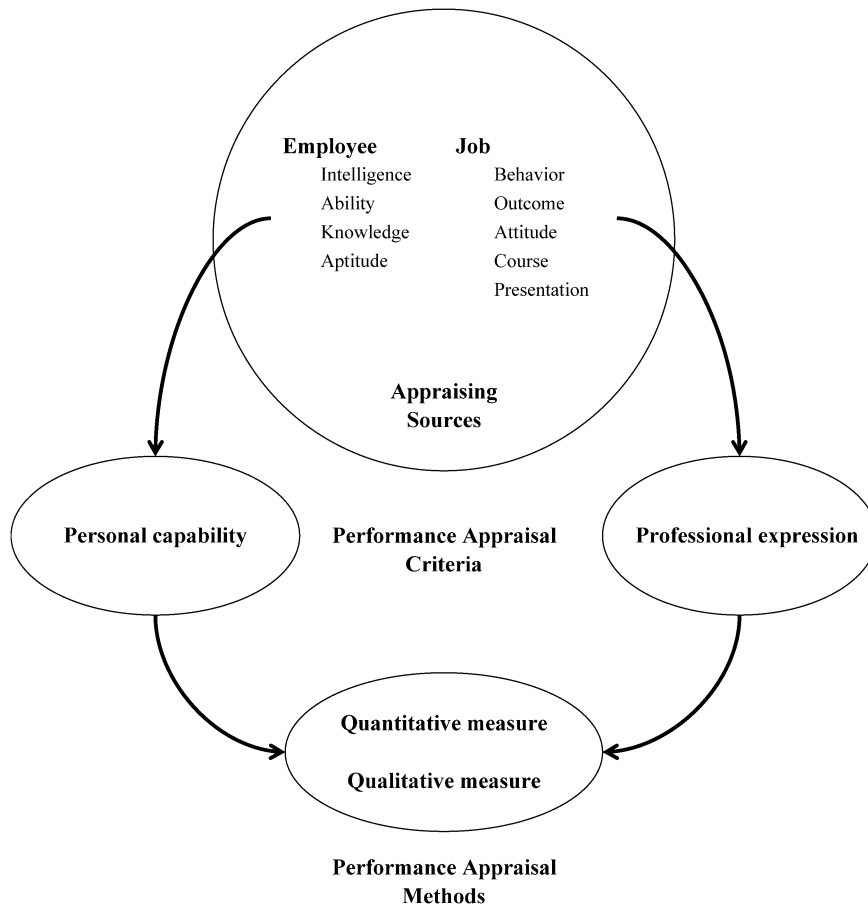


Fig. 2. The appraising sources, criteria and methods of the performance appraisal strategy.

to achieve organizational objectives [43]. It is critical for an organization to have an applicable and well designed compensation system of strategic contingencies [4,15,18,19,21,43,46]. Furthermore, the fit between top management compensation and organizational strategies makes for better business results [59]; this is why high-performing organizations are more likely use an incentive compensation system [19].

Carlson et al. [18] noted that compensation could be in the form of cash incentive, non-cash incentive, benefits and perks which would be tied to compensation strategies that would lead to higher performance. To understand an expanded definition of compensation, Jerez-Gomez [43] discussed five dimensions of compensation strategy: analysis unit (job-based vs. skill-based pay), pay level relative to the market, pay mix (fixed pay vs. incentives), basis for incentives (individual vs. group), and time criteria (short vs. long-term orientation). These dimensions have each been frequently analyzed in the literature. Above all, com-

ensation is directly related to human capital endowment of education and experience [2].

The above consideration of compensation strategy points to two criteria that could be adapted to satisfy employees' physiological and psychological needs, and to achieve different objectives that take into account the perception of justice. The advantage of employee satisfaction is best achieved by discussing the feedback of an employee's perceived work environment [66]. The perceptions of workplace environment could come from "hygiene factors" and "motivators" defined by Herzberg et al. [36] and Smerek and Peterson [66]. The hygiene factors might be physiological feedback, regarding company policy and administration for example, supervision, relationship with supervisor, work conditions, salary, relationship with peers and subordinates, personal life, status and security. The goal is to decrease employees' job dissatisfaction and turnover intention [36,66]. This can also be called the "job context" criterion for compensation

strategy. On the other hand, the motivator could be psychological feedback toward employees, for example, achievement, recognition, work itself, responsibility, advancement and growth. This can also be called the “job content” of a compensation strategy. The criteria above, job context and job content, are the indexes used to design a compensation strategy for rewarding an employee using hygiene factors and motivators to meet employees’ physiological and psychological needs.

How can an organization put these criteria into practice? Walker, Churchill and Ford [76] suggested that two methods to provide employees’ compensation. The extrinsic rewards, including salary, commissions, bonuses, fringe benefits, stock options, retirement plans and opportunities for promotion are mediated externally and bestowed on managers by the organization. They also satisfy lower-order needs (e.g. physiological, safety). However, the intrinsic rewards, such as the attitude of superiors, achievement of market goals, and retaining the respect of others, are gener-

ated internally by managers. These satisfy higher-order needs (e.g. esteem, competence, self-actualization) [52]. Cordero, Walsh and Kirchoff [31] suggested that when financial incentive plans are used extensively, intrinsically motivated jobs do not motivate performance along innovative dimensions. Asad and Dainty [5] found that unskilled workers demonstrate a desire for extrinsic rewards while professional employees are predominantly motivated by intrinsic rewards. Since extrinsic rewards, like salary, are incentive plans for financial payment, the systemic rules and an analysis of past data are important. Rational results are adapted to extrinsic rewards. On the contrary, an intrinsic reward plans focuses on the psychological needs of employees and the humanistic concept is used.

Figure 3 presents compensation using hygiene and motivator criteria, and shows the methods for a systematic compensation strategy. The perceived work environment feedback to employees comes from the organization. An employee perceives the work envi-

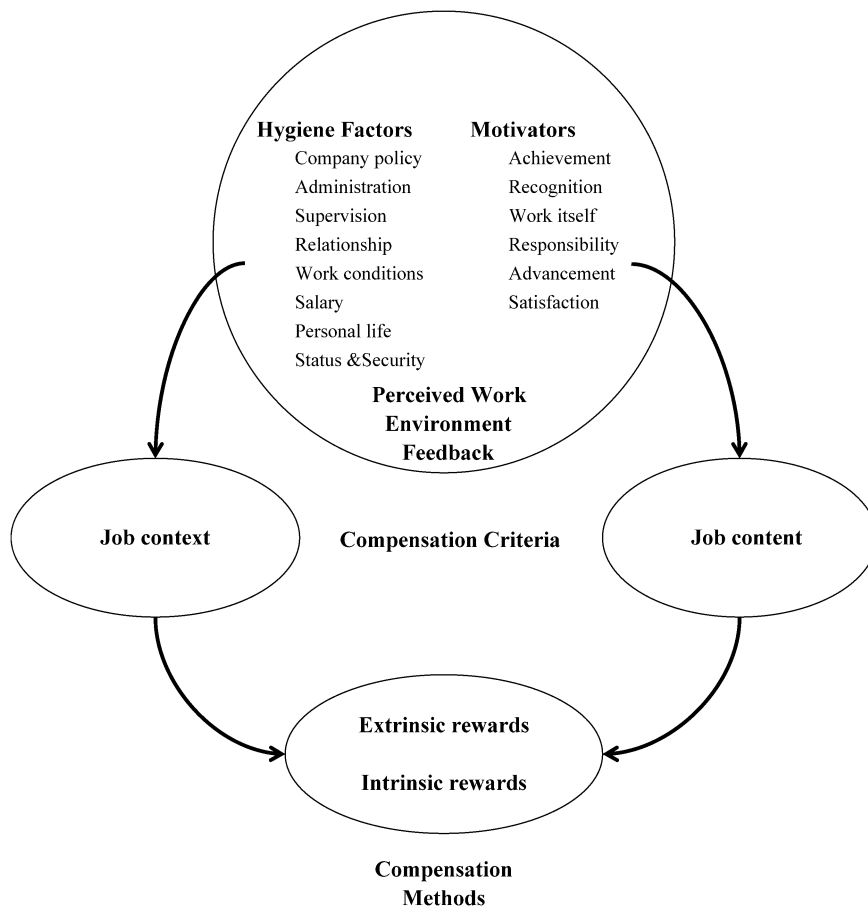


Fig. 3. The perceived work environment feedback, criteria and methods of the compensation strategy.

ronment feedback as a hygiene factor to prevent dissatisfaction as well as motivators for satisfaction. In order to supply hygiene and motivation, the compensation criteria could target “job context” and “job content” for rewards. The job context criterion deals with hygiene factors within the perceived work environment. The job content motivates employees for the work they do. However, the criteria of outlined here are still mere assignments which have to be put into practice using actual methods. The methods used to pursue this strategy could be extrinsic rewards and intrinsic rewards, the former concern physiological needs and the latter meet psychological demands. By capitalizing on the criteria and methods of the compensation strategy above, an organization could reap organizational benefits by meeting the needs of employees.

### 3. The systematic framework of performance appraisal and compensation strategy

To build competitive advantage, an organization might be expected to defeat its rivals [79], and it should always be concerned with developing and maintaining competitive advantage by offering value and uniqueness [80]. Competitive advantage produces sustained superior performance [81]. Still other studies have explained how competitive advantage influences organizational performance [81]. Some argue that human capital must be the starting point and ongoing foundation of a successful strategy [82]. For instance, human capital would be one of the keys to gaining competitive advantage [80].

Competitive advantage also comes from many tiny factors of an organization. It is important bring these factors into play by executing systematical strategies, and the idea of strategic fit implies as a systemic manager for the sensitive segmentation and higher commitment between strategies [83]. Atlanta and Leonard [84] indicated that strategic fit was important when strategy implementation was viewed from a micro systemic perspective. For example, organizational performance improves along with the level of compensation reinforcement or other matching organizational strategies [85]; i.e. a successful matching of each organizational strategic sub-system is beneficial to main organizational system.

To gain competitive advantage, operate effectively and improve organizational excellence, organizations need to implement systemic strategic fit to assign their technologies, capabilities, functional strategies and en-

vironment factors appropriately [86]. Strategic fit has significant positive implications for business performance [87,88]. It has the capacity to learn and change to fit new circumstances and needs for an organization to compete successfully in a highly competitive and constantly changing business environment [86]. It also systemic conducts the core concept in most normative models of strategy management [89] and the systematical fit between human resource management practice and the organizational model would be a significant contributor to the organization’s performance [90].

Above all, systematical strategic fit benefits organization’s performance and makes the organization systemic. It aligns the strengths of organizational knowledge and sharing, new skills or technologies, governance, the particular structures and culture, the complementary resources or capabilities, enriched human capital, dynamic core competences and valuable strategies which are profitable to an organization’s overall fitness, and, consequently, its competitive advantage.

From a strategic fit and contingency viewpoint, an ideal organization will make all of its strategic sub-systems fit systematically under a guiding holistic organizational strategic system that is flexible in different environments to gain competitive advantages. However, main strategic system could be based on the assumptions below. The performance appraisal strategy evaluates all employees hired by an organization, except for outsourced work teams. The compensation strategy provides base pay, incentive rewards, and benefits, along with achievement, recognition, responsibility, advancement and growth.

The systematic framework uses a contingency view to associate these strategic sub-systems that make an organization thrive. Thinking long-term, it is necessary to understand the organization’s external and internal environment [24]. These environments are the factors to affect holistic organizational strategic system, included the main system strategy and functional sub-system strategies. The external environment is related to the competitive market. The internal environment is the conditions of resource distribution [24]. However, an organization’s resource distribution is affected by how it defines its employees’ job duties.

#### 3.1. External environment

Competitive advantage is an important element of the external environment for an organization to consider when creating a systematic framework of per-

formance appraisal and compensation strategy. Competitive advantage can be termed strong or weak with regard to the external environment. A strong competitive advantage is defined here as an organization with specific assets (unshared and unique), knowledge assets (with knowledge-sharing routines), complementary assets, core competences, superior human capital, valuable strategies, new manufacturing and information technology and excellent organizational culture (e.g. a learning and innovative culture) all of which create better organizational performance. A weakly competitive organization doesn't have the properties above to improve its performance. In order to coordinate with a changing environment, the organizational purposes must be established clearly, i.e. their criteria would focus on a defined purpose.

Table 1 illustrates the combined criteria of performance appraisal and compensation strategies taking into account different kinds of organizational competitive advantage. Competitive advantage is an obvious symbol of the organization's status in the market. It indicates the key success factors of an organization, such as resources, special strategies or properties superior to its competitors. The objectives of the organizational strategies also change as to adapt to the market. Thus, the criteria of performance appraisal and compensation strategy can vary with a stronger or weaker competitive advantage.

When the competitive advantage of an organization is strong, experiencing rapid growth along with maturity in the organizational life cycle, the profits of the organization are high and stable [27]. The source maintenance would be a major issue for maintaining a strong competitive advantage [26]. Thus, the criterion of performance appraisal strategy might center on the expression of employees with their behavior and outcomes [26,27], i.e. the professional expression criterion. The priority of this compensation strategy would emphasize motivating employees for their performance outcomes [25,78] by providing them achievement, recognition, work itself, responsibility, advancement and growth (the job content motivators). To summarize briefly, these strategic criteria aim to de-

velop employees to reach their maximum effect. The performance appraisal and compensation strategy of an organization with a strong competitive advantage should do more to boost professional expression and job content.

Therefore, the following proposition is proposed.

**Proposition 1.** *When the competitive advantage of an organization is strong, it ought to motivate employees by job content with their professional expression; this will be termed the "representation criterion" for the performance appraisal and compensation strategy.*

If the competitive advantage of an organization is weak, it may be losing core competency in the battle of business competition, and its task to regain organizational competitive advantage might be "sources creation" [26]. Here, an organization should strengthen employees' competency with suitable assessment and support [27]. Accordingly, the criterion of performance appraisal strategy should focus on the personality of employees, especially their intellect, skill, and competency [1,26,27,29,45,74], i.e. the personal capability criterion. Furthermore, in a competitively weak company, the compensation strategy should center on how to decrease agitation, retain present human capital and keep employees satisfied, in contrast to a strongly competitive company [32]. Thus, maintaining internal equality for hygiene and job context should be emphasized [25], i.e. the job context criterion of compensation strategy. To sum up, these criteria might focus on a main concept of evaluating and compensating employees by their personal capability and job context.

From this we can formulate the following proposition.

**Proposition 2.** *When the competitive advantage of an organization is weak, the organization might act to remain employees using job context compensation according to employees' personal capability; this will be presented as the "individual criterion" for the performance appraisal and compensation strategy.*

Table 1

The integrated criteria of performance appraisal and compensation strategy

	External environment	Performance appraisal strategy	Compensation strategy		Integrated criteria
Proposition 1	Higher competitive advantage	Professional expression criterion	Job content criterion	→	Representation criterion
Proposition 2	Lower competitive advantage	Personal capability criterion	Job context criterion	→	Individual criterion

### 3.2. Internal environment

One aspect of the internal environment is the explicitness of job characteristics. Clear descriptions of job analysis can emphasize the job itself, furthermore, such descriptions help an organization have a better understanding of its jobs and workers, and they serve as important input in performance appraisal decisions [33,51]. The information collected during a job analysis includes the behaviors, duties, knowledge, skill, abilities and requirements of the job [64]. However, the explicitness of a job's characteristics can vary. For the performance appraisal and compensation strategy, the explicitness of the job's characteristics should be a referable dimension in our systematic framework.

Table 2 illustrates the combined methods of performance appraisal and compensation strategy with job descriptions of varying explicitness. The more explicit the expectations, the more quantitative appraisal will be used. Hence, the methods of performance appraisal and compensation strategy would change with the explicitness of a given job's characteristics. Higher degrees of explicitness are easier to examine than less explicit job descriptions.

In each organization, different jobs carry different degrees of specificity in their expectations. Job analysis methods make it possible to describe the job clearly. When the job description and specification are clearly defined, performance appraisal strategies exercise more quantitative measures by fixed standards. A higher degree of job explicitness also provides definite information for extrinsic rewards in compensation strategies. The "rational method" of performance appraisal and compensation strategy runs like this: "satisfy employees by extrinsic rewards based on quantitative performance". The rational method emphasizes collection of information and extensive analysis from the past to reduce the risk inherent in all major strategic decisions [39].

Therefore, based on this analysis, we make the following proposition.

**Proposition 3.** *A highly specific job description will use more quantitative measures and extrinsic rewards for performance appraisal and compensation strategy; i.e. the rational method of performance appraisal and compensation strategy is suitable for jobs with higher explicitness.*

Provided a lower job explicitness, an organization might measure job performance more qualitatively. The qualitative method defines unclear information by the interaction between raters and ratees; i.e. it is suitable for the job where the requirements and performance standards are less explicit. In such a situation, intrinsic rewards would be a suitable way to motivate employees. These satisfy the psychological needs of employees. The logic here goes: "satisfy employees using intrinsic rewards for qualitative performance", which is presented as the "humanistic method" of performance appraisal and compensation strategy in this paper. The humanistic view sees people as having a value in them [40,41]. It emphasizes common human needs, motivations and organizational culture, and it considers a business enterprise as a community [53].

Therefore, we make the following proposition:

**Proposition 4.** *If the explicitness of job's characteristics is lower, the methods of performance appraisal and compensation strategy should be qualitative measures and intrinsic rewards; i.e. the humanistic method of performance appraisal and compensation.*

The systematic framework of performance appraisal and compensation strategy is exhibited in Fig. 4. It shows all the associations of criteria and methods for organizations with variable competitive advantage and explicitness of job characteristics.

Four combinations of criteria and methods are presented in the systematic framework. They are explained clearly below.

Table 2  
The integrated methods of performance appraisal and compensation strategy

	Internal environment	Performance appraisal strategy	Compensation strategy		Integrated methods
Proposition 3	Higher explicitness of job characteristic	Quantitative measure	Extrinsic rewards	→	Rational method
Proposition 4	Lower explicitness of job characteristic	Qualitative measure	Intrinsic rewards	→	Humanistic method



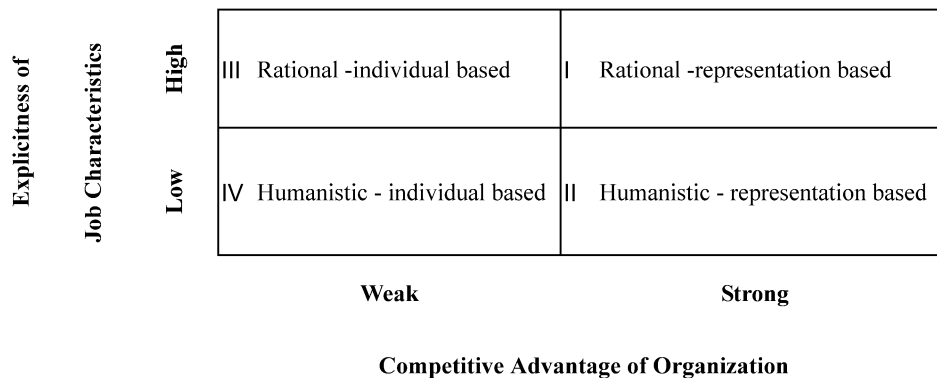


Fig. 4. The systematic framework of performance appraisal and compensation strategy.

3.2.1. *Combination 1: Rational-representation based*

When the “competitive advantage of organization” is strong and the “explicitness of job characteristic” is high, the performance appraisal and compensation strategy should emphasize the employees’ representation rationally. This situation asks an organization to keep its important organizational abilities and remain strongly competitive for jobs with clear standards. For a strongly competitive organization, it is important emphasize the representation criteria of employees, and the rational method is best suited to explicit jobs for performance appraisal and compensation strategy. The rational-representation method for these strategies tries to motivate employees’ appropriate behavior and satisfactory outcomes using job content criterion and quantitative measures to appraise performance, and then satisfy employees using extrinsic rewards.

Thus, Proposition 5 states as follows.

**Proposition 5.** *The performance appraisal and compensation strategy of an organization which remains strongly competitive tends to adopt the “Rational-representation based” strategy for more explicit jobs.*

The operating staff of a highly profitable organization would be an example of this combination. Performance appraisal in this case would give positive marks for adaptable behavior and focus on the quantity and the yield rate of individual production. The staffs are also motivated by achievement; they are compensated by extrinsic rewards, like salary, commission, bonus, fringe benefits, stock options, and so on.

3.2.2. *Combination 2: Humanistic-representation based*

When the “competitive advantage of organization” is strong and the “explicitness of job characteristic” is

low, the organization wants to remain strongly competitive, while assessing and rewarding employees with less explicit job duties. To retain a strong competitive advantage in this situation, it is necessary to use representation criteria for employees, and the humanist method is suited to assess these types of jobs. The humanistic-representation based strategies motivate employees’ to perform appropriate behavior and achieve satisfactory outcomes in their job content using qualitative methods to appraise performance, and compensating employees with intrinsic rewards.

This analysis leads us to the following proposition.

**Proposition 6.** *The performance appraisal and compensation strategy for an organization which has a strong competitive advantage tends to adopt the “Humanistic-representation based” strategy for jobs with less explicit characteristics.*

An example of workers in this situation might be managers of a highly profitable organization. The policies set out for their performance appraisal focus on their appropriate behavior and utilize qualitative standards. Moreover, these managers are motivated not only by profit, but also by achievement, recognition, the work itself, responsibility, advancement and growth, and they are compensated not only with regard to basic salary or wage, but also with intrinsic rewards to satisfy their higher-order needs.

3.2.3. *Combination 3: Rational-individual based*

When the “competitive advantage of organization” is weak and the “explicitness of job characteristic” is high, this combination aims to create competitive advantages over competitors and emphasizes employees’ capability rationally. In order to gain a competitive advantage and keep the employees working in explicitly

defined jobs, a rational-individual based performance appraisal and compensation strategy is the best fit. Employees' core competencies are evaluated with a job context criterion using quantitative performance standards, and then satisfy employees with extrinsic rewards.

Therefore, we state the following proposition.

**Proposition 7.** *The performance appraisal and compensation strategy of an organization which has a weaker competitive advantage tends to adopt a "Rational-individual based" strategy for the jobs with more explicit characteristics.*

An engineer in a small technology company is an example of this combination. The policy for the performance appraisal strategy concerns whether the engineer has the required skill, competency and work capability to help the organization. These can be quantitatively determined by the diploma and certificate. His or her compensation would provide basic needs with extrinsic rewards, such as salary, and would also motivate the employee within the job context as policies and administration, supervision, work conditions, life, status and security, all of which decrease the engineer's job dissatisfaction and turnover likelihood and instead motivate his or her usefulness to the organization.

#### 3.2.4. Combination 4: Humanistic-individual based

When the "competitive advantage of organization" is weak and "the explicitness of job characteristic" is low, the performance appraisal and compensation strategy should put emphasis on developing the competitive advantage by providing humanistic intrinsic rewards that highlight the individual criteria of the employees. In this situation, in order to gain a competitive advantage and keep the employees that work in less-explicitly defined jobs for the organization, it evaluates employees using qualitative standards to determine whether they have the core competencies to increase the competitive advantage and it focuses on context motivators and satisfies employees with intrinsic rewards.

Thus, the final proposition states as follows.

**Proposition 8.** *The performance appraisal and compensation strategy of an organization which is weakly competitive tends to adopt the "Humanistic-individual based" strategy for jobs with less explicit characteristics.*

Managers or assistants in a small profitable firm are examples of this combination. The policies for their performance appraisal focus on whether they have the required skill, competency and work capability to do their job well, using qualitative measurements. The way to set employees compensation would motivate them in their job context: typical compensators could be policy and administration, supervision, work conditions, life, status and security, all of which decrease their job dissatisfaction and turnover intentions and retain them by giving them intrinsic rewards to satisfy their mental requirements.

## 4. Discussion

### 4.1. Distinguish between pay-for-performance policy and the systematic framework

Several researchers have suggested implementing "pay-for-performance", "performance-related pay" (PRP) or "performance pay", lately called merit pay [8,47,48,71]. This system is regarded as an important source of competitive advantage [48] and is an instrument used to improve productivity, profitability, individual performance, organizational performance, firm performance, the investment of employees and the effectiveness of incentives [7,8,11,16,47,50,67,70].

Long and Shields [48] discussed pay-for-performance from an organizational level and regarded it as a combination of "structural" and "action" factors. The former include the characteristics of the organization, such as size, unionization and so on, while their human resource strategies would be considered later [48]. Summers [71] suggested some essential ingredients used in pay-for-performance: establishing performance and compensation plans; managing performance in an ongoing manner; evaluating performance; and linking performance assessments to established financial rewards. However, prerequisites should include an understanding of the relationship between performance and potential reward [71]; moreover, the payout level (the amount an employee can earn under the pay plan) and payout frequency (frequency with which incentive pay is distributed to members) can be used to adjust the intensity of motivation in a group performance-related pay plan [38]. On the other hand, for pay-for-performance, the sensitivities of performance standards are important when designing the fitness of those two strategies [55]. One standard is the "internally determined" standard, which is directly af-

affected by management actions, while the “externally determined” standard is less easily affected [55].

Although pay-for-performance is one possible strategy that can integrate performance appraisal and compensation strategies, there are still many limitations discussed in the relevant research. First, it requires clear standards for jobs and provides the monetary rewards to employees [9,10]. Second, it would not be useful for different organizations, or complex and explicit job characteristics, especially to a manager whose performance could not be easily evaluated and compensated quantitatively. To motivate and monitor employees, the strategic fit between performance appraisal strategy and compensation strategy must focus not only on a monetary reward for a specific, quantifiable job, but on other strategic motivators as well. Figure 5 shows the boundary of pay-for-performance. Its criteria and methods correspond to the systematic methods mentioned earlier in this article.

To sum up, pay-for-performance includes only the representation criteria (the professional expression criterion of performance appraisal strategy and the job content criterion of compensation strategy), and it uses rational methods (the quantitative measure of performance appraisal and the extrinsic compensation methods). Pay-for performance is best suited to highly explicit jobs in strongly competitive organizations. On the other hand, the systematic framework satisfies more extensive demands for employees, and it fits a

variety of organizations and positions. Thus, if an organization cares about the total needs of its employees and itself, the systematic performance appraisal and compensation strategy is better than the pay-for-performance policy.

### 5. Conclusion

Recently, the practices of performance appraisals and compensation strategies have gained importance among organizational policies. Integrating systematically these strategies is also central to effective administration. No organizational strategy should be independent of any other one. They should fit together like pieces of a jigsaw puzzle. Therefore all strategies, including those dealing with the performance appraisal and compensation, have a role to play and must work each other to support the needs of the organization.

The framework established in this paper provides conceptual implications for the systematic fitness of the performance appraisal strategy and compensation strategy, as follows:

First, from the contingency viewpoint, neither the organization’s competitive advantage nor the specific demands of a given job are fixed – instead they are variable. Competitive advantage differs with time and environment, and the explicit characteristics of a job can change as the organization changes. These two dimen-

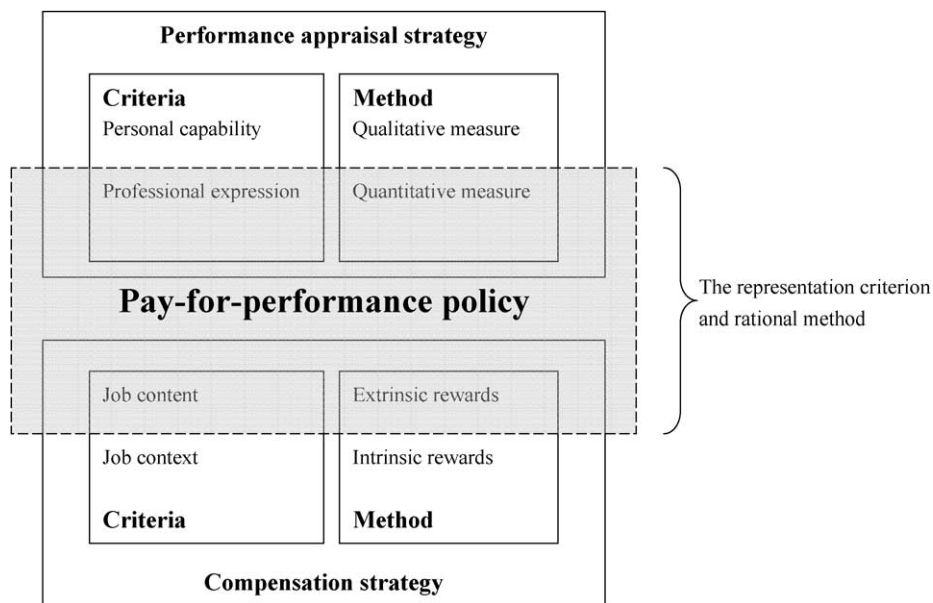


Fig. 5. The boundary of pay-for-performance with performance appraisal strategy and compensation strategy.

sions of an organization can vary with the time, external environment and internal environment; therefore, this framework is suitable for any organization.

An organization's competitive advantage is based on its capabilities compared to other businesses. Stronger competitive advantage yields higher status in the competitive market. From a contingency viewpoint, job characteristics are dependent on the results of the job analysis. More explicit job characteristics make for clearer rules and better feedback. These two dimensions of an organization directly influence the employer/employees relationship, and they should be considered when performance appraisal and compensation strategies are planned.

Second, the objectives of performance appraisal and compensation strategies within the framework are based on the strength or weakness of an organization's competitive advantage. If the competitive advantage is strong, the objectives of these two strategies focus on a representation criterion to evaluate the professional expression of employees and motivate them by the job content. If the competitive advantage is weak, the goals of these strategies would put emphasis on the individual criterion to evaluate the personnel capability of employees and compensate them by the job context.

Third, the framework also considers the specificity with which job duties are described. Highly explicit job characteristics mean that the practice of performance appraisal and compensation would tend to evaluate and compensate employees by a rational method of quantitative performance measurements and use extrinsic rewards. On the contrary, for a job in which duties are less explicitly defined, it would be preferable to evaluate and compensate employees using a humanistic method of qualitative performance appraisal and intrinsic rewards.

Fourth, the strategic fit combinations of this framework do not provide a single right way to achieve desired results; they act as a floating weight between the strategies. The emphases of these combinations differ from each other, but basic evaluations must be carried out, and rewards must be distributed. The basic policies of performance appraisal and compensation are necessary organizational tools. Moreover, when used in a strategically fitting combination using the systematic framework, the strategies are more effective than they would be separately; i.e. the fitness of all the strategies of an organization is essential to maximize job effectiveness and motivate employees to achieve at the highest level.

Fifth, systematical strategic fit benefits organization's performance and makes the organization sys-

temic. The strategic sub-systems are the elements of holistic organizational strategic system; also, factors of these sub-systems are important to compose organizational competitive advantages. In other words, the criteria and measurements of performance appraisal and compensation strategy form the effective sub-system to holistic organizational system. The systematic framework for performance appraisal and compensation strategy we presented here provides the ways to deal with these tiny factors becoming systemic characteristic of an organization which brings competitive advantages.

Finally, the systematic framework of performance appraisal and compensation strategies provides a harmonious transition from theory to practice from the viewpoint of contingency. The "rational-representation based" targets employees' representation and evaluates and motivates employees in a rational way. The "humanistic-representation based" also targets employees' representation but evaluates and motivates them in a humanistic way. The "rational-individual based" concerns individual criterion and evaluates and motivates employees in a rational way; the "humanistic-individual based" also targets individual criterion but evaluates and motivates employees in a humanistic way. An organization could be more competitive by designing proper strategies to achieve its organizational vision.

The systematic framework developed in this paper does have some limitations. One is that organizational strategies are not limited to the two strategies discussed here. No organization or business could live only by performance appraisal and compensation strategies. When more strategies are considered, strategic fitness becomes more complex. Many factors both within and without the organization must be considered, among them group interaction, organizational culture and economic change. This systematic framework has not yet found real-life application in an organization. Verifying the practicability of this framework from a more empirical viewpoint will be an essential assignment for future research.

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