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**A study of pay for performance in China's non-public
sector knowledge-intensive industries**

by

Qi Wei

**Submitted in accordance with the requirements for
the Degree of Doctor of Philosophy
Department of Management
Sir John Cass Business School
City University of London
2009**

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CERTIFICATION OF DISSERTATION

I certify that the ideas, experimental work, results, analyses and conclusions reported in this dissertation are entirely my own effort, except where otherwise acknowledged. I also certify that the work is original and has not been previously submitted for any other award, except where otherwise acknowledged.

Signature of Candidate

Date

EMDORSEMENT

Signature of Supervisor

Date

ABSTRACT

Pay for performance (PFP) has been widely studied in the Western context; however, it has been paid very little attention with respect to China, especially in non-public sector knowledge-intensive industries. Research related to PFP has been strongly controversial. It is argued that the controversy surrounding PFP largely reflects that a well designed PFP programme must accompany effective implementation over time in order to run pay systems effectively.

This thesis explores PFP design and implementation issues from a management perspective within the context of China focusing on four specific areas, namely: the importance of PFP in the current pay system; characteristics of PFP plans; implementation and functions of performance appraisal (PA) and line managers' involvement in PFP. A qualitative multi-case study approach was applied to 12 non-public enterprises (POEs, JVs and MNCs) from investment, IT and pharmaceutical industries based in Shanghai consisting of more than 62 interviews with top managers, HR and line managers.

The empirical findings show that: 1) PFP was widely adopted in the non-public sector and performance played as a key norm in employee pay determinants. The major drivers for the management to use PFP were following the market practice and rewarding better performers. 2) PFP plans adopted were results-oriented, short term focused and poorly connected to further learning and development. 3) A more reward driven PA was adopted, however, PA served basically for salary administration and goal achievement evaluation in PFP; 4) line managers were more committed to the objectives they intended to achieve than to PFP systems. The nature of the project-based work in the cases could be a major factor that restricted their involvement in PFP.

Overall, the thesis studied PFP at principle, policy and practice levels and explored the content and context changes of PFP in knowledge-intensive industries, which helped fill the gap in literature on PFP in China. It is also interesting to note that ownership forms strongly impacted on firm's PFP taken up, however, we can not simply assume that Western MNCs are more progressive than domestic Chinese firm in PFP. Moreover, Chinese traditional culture values did not seem to have a profound and enduring influence throughout PFP design and implementation.

List of Abbreviations

COEs: Collective Owned Enterprises
FDI: Foreign Direct Investment
FIEs: Foreign Invested Enterprises
HRM: Human Resource Management
JVs: Joint Ventures
KPI: Key performance indicator
MBO: Management by objective
MNCs: Multinational companies
MSFS: Multi-source feedback system
NBSC: National Bureau of Statistics of China
OTC: Over the Counter
PA: Performance appraisal
PAR: Performance appraisal rating
PFP: Pay for performance
POEs: Private Owned Enterprises
SHRM: Strategic human resource management
SOEs: State Owned Enterprises
WTO: World Trade Organisation

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter lays the foundations of the thesis. In its broadest sense, this research is an enquiry into employee rewards in the context of the People's Republic of China (hereafter referred to as 'China') after its accession to the WTO in 2001. More specifically, the thesis seeks to explore the practice of pay for performance (hereafter referred to as 'PFP') in knowledge-intensive industries under a variety of ownership systems in China. This chapter states the aims and objectives of the thesis, and defines the research gaps and questions. In addition, the rationale and importance of the thesis are indicated. Finally, the research methodology and the organisations of the thesis are presented. These are all dealt with in full detail in their relevant substantive chapter.

1.2 Aims and research questions

Paying people based on performance has been a salient topic in books, newspapers and magazines throughout the last century. Many organisations attempt to tie pay to performance measured at an individual, group and organisational level as a way to increase employee motivation and performance. This is further illustrated by Hewitt Associates who reported that the percentage of American companies with PFP programmes in place grew from 47 per cent in 1990 to 78 per cent in the year 2000 (Kuhn and Yockey, 2003). With the widespread use of PFP, much research has been done to understand why some firms adopt PFP and others do not, and why some firms offer more incentives than others (Gomez-Mejia and Balkin, 1992b, Bloom and Milkovich, 1998, Eisenhardt, 1989a, Heywood et al., 1997, Stroh et al., 1996, Gerhart and Rynes, 2003). However, research related to PFP has been strongly controversial. For instance, an examination of studies of PFP programmes in North America done by Heneman et al., (2000) suggests that performance improves in approximately two out of three programmes. On the other hand, Hendry et al., (2000) and IRS (2003) note that research into PFP in the UK over the past decade has failed to show that such systems have an effect on performance. Nevertheless, it is reported by Schuler and Rogovsky (1998) that PFP is more likely to be associated with cultures with higher levels of individualism as opposed to collectivism. This is further explained by studies of Hofstede as below.

Hofstede (1984)¹ argued that PFP would not be generally appropriate for Chinese organisations because he distinguished China in the 1980s as generally being a collectivistic culture. Moreover, the ‘Confucian Dynamism’ was identified in his later study (Hofstede, 1991)² p.173: ‘Confucian Dynamism’ or ‘long-term vs. short-term orientation’ concerns fiscal conservatism. In short-term oriented cultures social obligations are fulfilled regardless of cost, whereas in long-term oriented cultures financial resources are reserved and individuals subordinate needs to causes. Therefore, Hofstede's Confucianism further argues that short term rewards will not be very attractive to Chinese staff as they look for long term and group rewards.

Although Hofstede's (Hofstede, 1984, Hofstede, 1980a, Hofstede, 1980b, Hofstede, 1983, Hofstede, 1991) theories on culture have been widely applied in cross-cultural comparative studies³ on reward practices between Asia and the West, such theories of culture have been severely criticised⁴. Furthermore, even though Hofstede's work may be valid in the 1970s and 1980s of China, this aspect of culture is unlikely to apply to China post 2001 in that the more recent studies on rewards in China indicate the opposite to Hofstede's argument (Hofstede and Bond, 1988, Hofstede, 1991). For instance, studies on PFP in China's state owned enterprises (SOEs) and foreign owned multinational companies (MNCs) show certain employees' acceptance and managerial adoption of PFP (Baruch et al., 2004, Ding et al., 2006, Shen, 2004). This raises the following questions: What is the cause of the controversy regarding PFP in general? To

¹ The four dimensions Hofstede suggests are ‘power distance’ (strong vs. weak), ‘collectivism vs. individualism’, ‘masculine vs. feminine’ and ‘uncertainty avoidance’ (strong vs. weak). These dimensions are independently verified in similar form through an unrelated survey developed by a multinational research team (Hofstede and Bond, 1984). A collective culture is concerned with the well-being of an in-group individuals are born into. An individual culture, according to the Western scale, is one where people are concerned with immediate family and personal well-being, or ‘tolerance’, ‘conservatism’ and ‘solidarity’ in the Eastern scale’ (Hofstede, 1991 p. 163).

² The multinational research team above also recorded a fifth dimension, not measured by Hofstede, labelled ‘Confucian dynamism’ by Michael Bond and ‘long-term vs. short-term orientation’ by Hofstede (1991: 159-174).

³ Wei and Rowley (2009) note that Hofstede's theories have been widely used in studies on rewards in Asia. For instance, the comparative research on distributive justice values (Giacobbe-Miller, 1997), reward allocation preferences (Kim et al., 1990), managers' rewards policy capturing (Zhou and Martocchio, 2001), performance appraisal and culture (Snape et al., 1998), and pay satisfaction (Fong and Shaffer, 2003).

⁴ Hofstede's work (where he had questionnaires from IBM staff in Hong Kong- although Bond's contribution was wider than IBM it still was focused on HK) has been severely criticised. For instance, Child (1980) notes that cross-cultural research previous to Hofstede's work had very often not offered an explicit culture definition and had rather used ‘culture’ as a ‘trash-can’ residual variable. Also, Hofstede (1982) does not consider that within one culture there is the possibility of regional variation, subcultures and individual deviation. Braun and Warner (2002) argue that Hofstede sees the individual in quite a passive way, in which all actions are in fact predetermined by a mental ‘programme’.

what extent has PFP been applied to China? Do firms differ in their PFP plans in China? How do managers make sense of and make decisions about PFP initiatives in China? These questions were the researcher's initial interest and motivation for studying PFP in the context of China.

In the literature, PFP advocates argue that PFP is not a question of the incentive value of money per se. A well designed PFP programme is essential to avoid its pitfalls. Moreover, the controversy surrounding PFP in practice also largely reflects the fact that a good design must accompany effective implementation over time in order to run a pay system effectively (Gupta and Shaw, 1998, Kerr, 1999, Lawler, 1990, Luthans and Stajkovic, 1999, Pfeffer and Sutton, 2001). However, the existing literature shows that although research on PFP has widely covered Western countries, it still has not been well studied in the Asian contexts, such as China (Wei and Rowley, 2009, Werner and Ward, 2004). Therefore, the prime aim of this thesis is to help fill the gap by analysing and explaining the nature of PFP design and implementation in the context of China, specifically non-public sector knowledge-intensive industries. The non-public sector⁵ is defined by Tung (1981) as private-owned enterprises (POEs), joint ventures (JVs) and foreign owned multinational companies (MNCs). Knowledge-intensive industries⁶ chosen for the thesis are investment/marketing research, Information Technology (IT) and pharmaceuticals.

In order to identify the significant areas of the study, a pilot study of ten non-standardised interviews was necessary. The interviewees were four specialists on reward management from Chinese HR consultancy firms, two HR specialists from Mercer and Watson Wyatt (the world leading HR consultancies) and four senior managers from large (in terms of employees) investment organisations in Shanghai, including one JV and three POEs⁷. Finally, four objectives for the research were identified to explore PFP design and implementation in China based on the pilot study as below:

⁵ The development and definition of the non-public sector in China is presented in Chapter 2 section 2.3.

⁶ The introduction of the knowledge economy and knowledge-intensive industries in China can be found in Chapter 2 section 2.4.

⁷ The detail of the pilot study can be found in Chapter 5 section 5.6.

First, this study examines the state regarding PFP in the current pay systems of non-public sector knowledge-intensive industries in China. The current state of PFP is a fundamental issue that shows the extent to which PFP is adopted and the reasons for using PFP plans. Moreover, examining the current state of PFP in China is also likely to indicate the significance which the knowledge-intensive organisations place upon their PFP in the current pay system. Following this, the study discovers in what ways PFP plans are designed in the firms, whether or not internal and external factors impact on managers' decision making of PFP plans. Further, the study discusses issues regarding the implementation of PFP programmes. Finally, both the existing literature and the pilot study indicate there are gaps between what managers know about PFP and what they actually do. Therefore, it is highly necessary to examine whether and how the key deliverer, that is, line managers are involved in the whole process, and to evaluate line managers' role in PFP design and implementation.

It should be noted that PFP design and implementation can be studied from either a single perspective (the management or the employees) or from both parties' perspectives. However, this study is from the management perspective only. Employees' acceptance, preferences and views on fairness and effectiveness of PFP are not included. Furthermore, this study focuses on the characteristics of management's decision making on PFP plans choices and delivery, it does not attempt to evaluate the outcomes of PFP plans or assesses the effectiveness and/or success of PFP systems, although the research might indicate the positive impact of PFP design and implementation on employee motivation and performance.

Following the above line of reasoning, the four areas of research focus are investigated by considering the following research questions:

Question 1: How important is PFP in the current pay system?

Existing literature shows that the current pay system in China was transformed from the traditional system (before the economic reform in 1978)⁸, which was strongly egalitarian with no performance related payment. PFP emerged after the reform in 1978 with strong state led in practice. However, there has been very little research on PFP on

⁸ The economic reforms since 1978 and the evolution of reward systems in China can be found in Chapter 2 section 2.2 and Chapter 3 section 3.4.1 respectively.

the current pay system (after China's accession to the WTO in 2001) of the non-public sector (see Chapter 3 for details). Therefore, the two sub-questions are:

Ia: To what extent is PFP adopted?

This question examines whether or not firms adopt PFP at all levels in the organisation, which indicates the current state of PFP in non-public sector knowledge-intensive industries of China. This question enables the researcher to examine the meaning and content of PFP for management in the context of China, and specify how management formulates PFP in the payment and the importance of the latter. Therefore, this question may also lead to an indication of the key characteristics between the traditional and the current pay systems.

Ib: Why do firms use PFP?

Previous research on PFP in the context of China examined employee rewards preferences and rewards allocation by using expectancy and equity theories (Baruch et al., 2004, Bozionelos and Wang, 2007, Giacobbe-Miller et al., 1997). However, management's drive and preferences for PFP plans have not been investigated. This question seeks the motivations and reasons for firms' adoption of PFP plans, and illustrates whether PFP is desirable and necessary for management in the context of China.

Question 2: How is PFP designed?

The research moves on to the concept of pay plan design. PFP plans, such as piece rates bonuses, were restored to the pay system in China after the Economic reforms in 1978. Proportions of PFP in the pay system and the enterprises' autonomy over the distribution of PFP have been increased since the 1980s (Han and Morishima, 1992; yuan, 1990). In addition, the level and structure of employee rewards vary by the ownership of the firm, and differ across firms from different industries (Ding et al., 2006). However, previous literature on PFP in the context of China favoured studies from employees' perspective rather than the PFP design issues which are considered important by management. Therefore, the two sub-questions are:

2a: What types of PFP plans are adopted?

Different PFP plans vary along two dimensions: performance measure and measurement level. Performance measure refers to the type of measurement that is used by organisations to assess the contribution of employees to the organisation. Measurement refers to the level and content at which employee performance is measured. This question identifies management's choices of the above in their PFP plans they have adopted, including the coverage, focus, uniformity of design, and forms of review and measures.

2b: What are the contextual factors that impact on the adoption?

This question focuses on the integration of PFP design. The most popular models of rewards management focus heavily on the alignment between rewards and business strategies. However, Werner and Ward (2004) argue that we know very little about the connections between business strategy formulation and how this affects reward strategy. In the context of China, Ding et al., (2006) explored factors that affect the components of managerial pay. However, there has been very little research on factors that influence variable pay design. Therefore, this question aims to improve our understanding of possible elements of the internal and external environment that might be associated with PFP plans design in the context of China, and to further examine whether the classical approach within contingent theory is supported.

Question 3: How is PFP implemented?

The process of PFP implementation can be complex. Pfeffer and Sutton (2001) argue that potential barriers to implementing PFP can be measuring performances, employees' perceptions of unfairness and inequity, and factors outside the control of individuals and teams etc. Again, this question focuses on the implementation issues from management's side. Moreover, performance appraisal (hereafter referred to as 'PA') is defined as the key part of PFP implementation practices to be examined. Therefore, the two sub-questions are:

3a: In what ways is performance measured?

PA practices have long existed in China with strong Chinese characteristics (Zhu and Dowling, 1998). However, it is also evident that Western PA systems have been influencing the Chinese system since the economic reforms in 1978 (Bai and

Bennington, 2005, Cooke, 2003). Thus, an attempt is made to investigate the current PA practice in the context of China, such as elements, instruments and process of PA systems.

3b: What functions does PA serve in PFP?

Drawing from the literature review, PA as a system performs many functions. It helps managers make administrative decisions, especially regarding record keeping, pay and promotions, and meet developmental objectives, such as coaching staff and assessing training and development needs (Brumback, 1988, Jacobs et al., 1980, Taylor and O'Driscoll, 1993). The existing literature shows that PA outcomes have not been well utilised by management in China (Chou, 2005, Ding et al., 1997, Chen, 2003). This question seeks to identify the functions of PA results in China's knowledge-intensive firms.

Question 4: How are line managers involved in PFP design and implementation?

One of the characteristic features of the HRM literature is the pivotal role which has been given to line managers as a delivery point for a variety of employment policies that are intended to raise workforce performance (Storey, 1992, Legge, 1995). Devolving HRM to the line is seen as a key issue in successful HRM practices and has been received much attention from both academics and practitioners (Cunningham and Hyman, 1999, Larsen and Brewster, 2003, Gibb, 2003, Renwick, 2003). Gerhart and Rynes (2003) further note that pay programmes are not simply determined by forces in the external environment. Instead, managers play a significant role in the adoption, modification, or even discontinuation of PFP. However, there has been no literature on the involvement of line managers in PFP in the context of China. Therefore, the two sub-questions are:

4a: How do line managers understand their role in PFP?

McGovern et al., (1997) note that devolving HRM to line managers has been problematic. Renwick (2003) highlights that a partnership approach to HRM requires the integration of HRM activities into the work of line managers, which implies that there needs to be a shared understanding between HRM and line managers. Therefore, in order to examine line managers' involvement in PFP programmes, how line

managers understand their responsibilities with PFP plans, their views, attitudes towards PFP and participation in PFP are to be explored.

4b: What are the key supports and barriers to their involvement in PFP?

Challenges to devolving HRM to the line managers lie not only in the relationship between HRM and line managers, but also the ability and willingness of the line managers to carry out HRM tasks, and the line managers' knowledge of company policies and government laws and regulations (Renwick, 2003, Renwick and MacNeil, 2002, Bond and Wise, 2003). Thus, this question critically evaluates the extent to which line managers are involved in the PFP design and implementation, as well as the difficulties they face and the support they have from HR and top management in the context of China.

1.3 Background and rationale

Nowadays effective reward strategies are critical to firms, especially in knowledge-intensive industries (Zingheim and Schuster, 2000). However, organisations continually struggle to design and implement successful and credible reward strategies (Corby et al., 2005, Cox, 2000, Cox, 2005). Developing a reward strategy at all is a challenge for many organisations. Given the centrality of rewards to the employment contract, one would expect widespread attention to be given to formulating and implementing appropriate strategies. However, survey data by CIPD⁹ (CIPD, 2006, CIPD, 2007, CIPD, 2009) shows that in the UK only 26 to 35 per cent of 520 organisations have a written reward strategy, while 91 per cent of managers believed that implementing a reward strategy was difficult or extremely difficult. UK data also shows that less than 10 per cent of organisations involve line managers in designing reward strategies (CIPD, 2006, Towers, 2000). It is hard to think of another management scenario where the key customer and deliverer of the intervention are so emphatically excluded from the design process. This situation is rather like devising a marketing strategy without conducting consumer research or a new supply chain process without involving the purchasing department.

⁹ The annual reward management survey report by CIPD is based on responses received from 520 UK organisations, across all industrial sectors, employing around 1 million employees. The research was carried out between August and October each year. The main aims of the research are to provide readers with an invaluable information and benchmarking resource in respect of current and emerging practice in UK reward management.

Immense pressure for higher performance has led knowledge-intensive firms to search continually for managerial practices that will enhance competitiveness. An increasingly large number of corporations have explored how rewards, particularly PFP could be linked to desired behaviour and/or performance outcomes to improve effectiveness (Gerhart and Rynes, 2003, Pfeffer, 1998, Rigby, 2001). This led to a widespread and growing of PFP plans. Studies have examined a variety of ways in which PFP systems impact on individuals, groups and organisations (Stajkovic and Luthans, 2001, Bonner and Sprinkle, 2002, Michelle and Heywood, 2002, Bloom and Michel, 2002, Reilly, 2005, Werner and Ward, 2004). However, despite the breadth and sophistication of topics examined in research related to PFP, the crucially important issues of design and implementation by management have not received much attention.

Review articles, such as Werner and Ward (2004) and Werner (2002), further argue that the vast majority of the research on rewards was published in North American Journals, authored by academics from North American universities, and used North American samples. Most of the research and discussion on PFP in the literature has involved studies performed in Western nations such as USA, the UK and Australia (Heneman, 1992, Bartol and Locke, 2000, Cox, 2005). Therefore, it is quite likely that those researchers (as in many other areas) suffer from an Anglo-Saxon perspective bias. This raises the question of whether the findings and theories of these research can be generalised to a global context.

In the Asian context, there have been extremely rare review articles on rewards. Wei and Rowley (2009) have recently provided a picture of research on rewards in Asia since the 1990s. It is noted that research on rewards in Asia as a whole has been so far at an 'early stage' compared to studies in the North American and European contexts, in terms of topic areas, methodological concerns and theoretical development. Further, development of research areas in is certainly essential. The current studies of rewards in Asia have been heavily biased towards the study of rewards transformation. However, the transformed reward systems in Asia have not been researched from every perspective. For instance, PFP seems well worth studying. There is now also a need to study the neglected area of reward practice in terms of what organisations 'deliver'. These deliverables could relate to corporate performance, intended strategies and

practices that are actually delivered via managers, therefore, the implementation of rewards and middle managers' role need to be explored.

China has experienced substantial reward system transformation since its economic reforms from 1978, when pay was started to be linked to performance (see Chapter 3 for details). The author further reviewed studies on rewards in China over the last 25 years (see Chapter 3 section 3.6.3). These studies generally cover principles of psychology, economics, international management and labour law etc. Research topics include from both the employees' perspectives, such as pay preferences and satisfaction, reward allocations, motivation; and from the management perspectives, such as the reward system in Mao's time, reward system changes, reforms and evolutions, firm determinants of pay, international rewards, equity and equality of pay systems. It is also noticed that previous studies heavily focused on the public sector (SOEs and COEs) rather than non-public ownership. There are only several recent studies on both POEs and MNCs, which are mainly on employee preferences on reward allocation and managerial pay (Shen, 2004, Baruch et al., 2004, Chen et al., 2002, Cheng and Firth, 2005, Ding et al., 2006). Therefore, PFP in the non-public sector has been paid very little attention to. Moreover, there has been no study of PFP design and implementation practices in the non-public sector.

The trend towards a more knowledge economy has brought many changes in Chinese society in recent years. For instance, human capital development has been given much more attention than ever by researchers and practitioners (Zhao, 2008). Many more people are engaged in knowledge-intensive industries, such as high-value added hi-tech firms, in China. However, the imbalance between the shortage of skilled labour and oversupply of unskilled and semi-skilled workers has become obvious. The competitive rewards which attract and retain good performers have become critical in recent years. Knowledge-intensive firms are the research setting for this thesis because employees in those companies are some of the best trained and best educated employees in any sector. PFP practices are typical for them and how employees in this sector are rewarded in China can be a predictor of reward management trends for knowledge-intensive work globally.

The issues above reveal that there is a significant gap in the knowledge concerning PFP design and implementation by the management. Therefore, an effort is needed to explore the nature of such practices in China's non-public sector knowledge-intensive industries. To undertake such research in the Asian context, it is necessary to consider two opposing schools of thought on the relation of culture to HRM practices, such as PFP. First, the convergence view proposes that, as a result of common industrial logic, technological forces, organisational patterns and structures, universal management and HRM practices are appropriate, leading to increasing similarities between cultures (Adler and Jelinek, 1986).

Second, the divergence view holds that culture is the primary determinant of the most appropriate management practices, so HRM programmes need to be carefully tailored to create an appropriate match (Adler and Jelinek, 1986). Current studies are inconclusive in determining which of these approaches is the most applicable. It has been suggested that whatever approach is correct might depend on additional factors, so that in some cases the same HRM practices would be effective across cultures and in other cases HR practices need to be tailored to the culture (Adler and Jelinek, 1986, Redding, 1994). For instance, in Asia, globalisation, international trade and finance may place substantial pressure on firms to standardise practices and policies, while the local customs, institutions, and labour forces provide serious constraints to the degree of convergence and may well lead to an increasing level of divergence. Following this, the empirical findings of this thesis are discussed and compared to the arguments above to illustrate the signs of and reasons for convergence and divergence trends in PFP design and implementation within the context of China.

This study is also very concerned with another theoretical perspective, classical contingent theory in reward management. Contingency theory is probably the leading general paradigm in HRM and also becoming increasingly influential in the study of pay (Dyer and Holder, 1988, Gomez-Mejia and Balkin, 1992a, Jackson and Schuler, 1995, Cox, 2005). Contingency theory principles underlie both the resource based view and institutional theory (Gerhart et al., 1996). Resource based approaches represent a high risk – high potential return option, which aim for sustained competitive advantage by adding value in a way that is rare and difficult to imitate (Oliver, 1997). Whereas institutional approaches represent a low risk – lower potential return option, which

strives for parity with other organisations in the business environment (Gerhart et al., 1996) (see Chapter 3 for details)¹⁰. This thesis uses the above two contingent approaches as lenses for examining PFP design and implementation practices in the non-public sector knowledge-intensive companies, and further illustrates whether resource based view or institutional theory could better explain the current PFP practices in the context of China.

1.4 Research methodology

Werner and Ward (2004)¹¹ reveal that research on rewards is largely quantitative and empirical, reflecting the dominant methods currently found in management identified by Scanduran and Williams (2000). Most surprisingly, there was no single entirely qualitative study identified by Werner and Ward among 396 articles reviewed. The same situation was found in studies on rewards in the Asian context. Wei and Rowley (2009)¹² also note that most of the studies on rewards in Asia used a comparative research approach via quantitative hypotheses testing. There is a strong need for more exploratory and theory building research.

This thesis seeks to provide case data and share insights that inform the neglected research areas – management’s approach to PFP design and implementation in the context of China. A multi-case study approach was identified as the most appropriate method for the research because there has been lack of relevant literature on this topic, and the research questions are basically ‘how and why’ questions which are more explanatory and likely to lead to the use of case studies by being sensitive to what may be special in one context but does not exist in another (Yin, 2003). Moreover, a multi-case study also has distinct advantages in comparison to single-case designs. The

¹⁰ Chapter 3 section 3.4.3 provides the discussion on reward management models – the universal and contingent model. The critics of the universal model are examined and the resource-based view and institutional theory within the contingency model are discussed.

¹¹ Werner and Ward (2004) reviewed the literature of compensation and compensation-related issues within the field of management from 1997 to 2004. 396 articles were examined in 20 top journals.

¹² In the Asian context, the volume of research on HRM and OB has significantly and continuously increased. Previous review articles have dealt with existing studies on business and management in Asia, and HRM and OB in specific Asian countries. However, a review of how far the existing research on rewards in Asia has extended remains absent. Wei and Rowley (2009) examined papers published in 33 leading international academic management journals between 1990 and 2007 inclusive. Both conceptual and empirical papers which included samples from countries in Asia were considered. Specifically, papers purely on rewards, papers on reward related areas such as performance appraisal, employment etc. and papers mainly on HRM with rewards related constructs were included. Finally, some 78 were selected for use in this article.

evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust (Herriott and Firestone, 1983, Yin, 2003).

Rigorous procedures were in place for question design and the interview process. The design of the interview guide first involved a review by an expert panel. Comments and feedback from the panel resulted in modification of some re-wordings. The interview guide was then translated from English to Chinese and back-translated by two language instructors of a tertiary institution. Translation and back-translation ensure greater consistency (Brislin, 1970). Subsequently, the interview guide went through a rigorous pilot study to test the questions' variation, meaning, difficulty and interviewees' interest. Pilot study and formal fieldwork were conducted from June 2006 to March 2008 in Shanghai, the financial centre of China. Initially, seventeen companies were visited. However, twelve medium to large companies (by employee numbers) including five POEs, two JVs and five MNCs were selected as the sample, which were from the non-public sector investment/marketing research, IT, pharmaceutical knowledge-intensive industries. Semi-structured interviews were undertaken with fifty-one top managers, HR and line managers from the sample, and nine HRM and reward management specialists from world leading and local HRM consultancy firms.

This multi-case study research method offers several methodological advantages. Specifically, many other studies relied on only one, or a very limited number of cases, which makes generalisations difficult. This study covered one pilot and two periods of fieldwork that lasted over two years, which provided long term opportunities for the researcher to observe managerial experience of PFP design and implementation. Interviewing line managers is also not a typical characteristic of many other previous studies on rewards. Yet, interviews were essential to accomplish the overall aim of a better understanding of how management make decisions about introducing certain PFP plans, and how they make sense of performance measurement and delivery.

Along with these advantages, it should also be acknowledged that the data set has some significant limitations. For instance, this research is not a randomised experimental design with control groups, the interviewees especially the line managers, were selected by the HR or top management of the companies concerned. Most of the sample firms have their unit offices outside Shanghai. However, due to the time and access

restrictions unit level data of the sample were not collected to examine if there were other variables that could have been of interest to the researcher.

1.5 Importance of the study

First, many academics and practitioners believe that the design and implementation of effective incentive reward systems and performance management are important tools through which to motivate the workforce and execute strategy (Huberman and Miles, 2002). The need for greater understanding of the processes through which management and workforce create value to their reward management systems, such as PFP, has never been more acute in both the West and Asia. This thesis fills a research gap and provides an important contribution to the literature on the design and implementation of reward systems and performance management by exploring the nature of PFP in China's non-public sector knowledge-intensive firms.

Second, the study shed lights on the applicability of Western reward management theories and techniques to China, especially with relation to PFP practices. This study demonstrates that institutional theory could better explain the situation regarding PFP in China than the resource based view within a contingent model. The findings also enrich our understanding of the debates concerning possible convergence or continuation of differences in HRM. In particular, PFP as a Western management tool has been widely acknowledged and applied to the knowledge-intensive companies. However, the practices may differ from those in the West. For instance, in some cases, like POEs and JVs, the adoption is highly focused on policy rather than real practice, such as the development of a performance orientated culture. Therefore, the study might support a combined convergence – continued – divergence approach (Rowley and Benson, 2002).

Third, the research offers an opportunity for top managers, HRM and line managers of multinational and domestic firms in knowledge-intensive industries to develop their knowledge and practice of PFP. Moreover, the findings and implications are useful for policy makers to refine their strategy of PFP in order to promote the right behaviours and better target top performers, especially at a time of economic downturn.

1.6 Thesis organisation

The thesis is organised into ten chapters (see Figure 1.1). Chapter 1 outlines the aims and objectives, rationale, significance and structure of the thesis. The author's reasons and motivations for choosing the topic and conducting the study are also illustrated.

Following this introduction, Chapters 2 to 4 comprise a review of the literature, on which the foundation for the study is formed. Chapter 2 provides background to China's economic development, introduces historical overview and definition of the industrial setting for the thesis – China's non-public sector knowledge-intensive industries. The statistical background to Shanghai, where the fieldwork was conducted, is also presented. Chapter 3 looks at both theoretical and empirical literature on three relevant bodies: HRM, reward management and pay for performance. Overviews of HRM in general, in Asia as a whole and in China specifically are presented as a background for the study. The chapter also critically reviews the two major theoretical concerns in the thesis: the convergence/divergence debate in international HRM and reward management models – the universal and contingent perspectives. Moreover, the historical development of rewards in China and the challenge of reward management in the knowledge economy are discussed. Most importantly, the current state of the existing research on PFP is critically discussed, which directly leads to the development of research focus and questions in Chapter 4. The definition of PFP for the thesis is demonstrated in Chapter 4, within which research gaps, objectives and research questions are also developed. Furthermore, theories and frameworks in relation to each research question are examined.

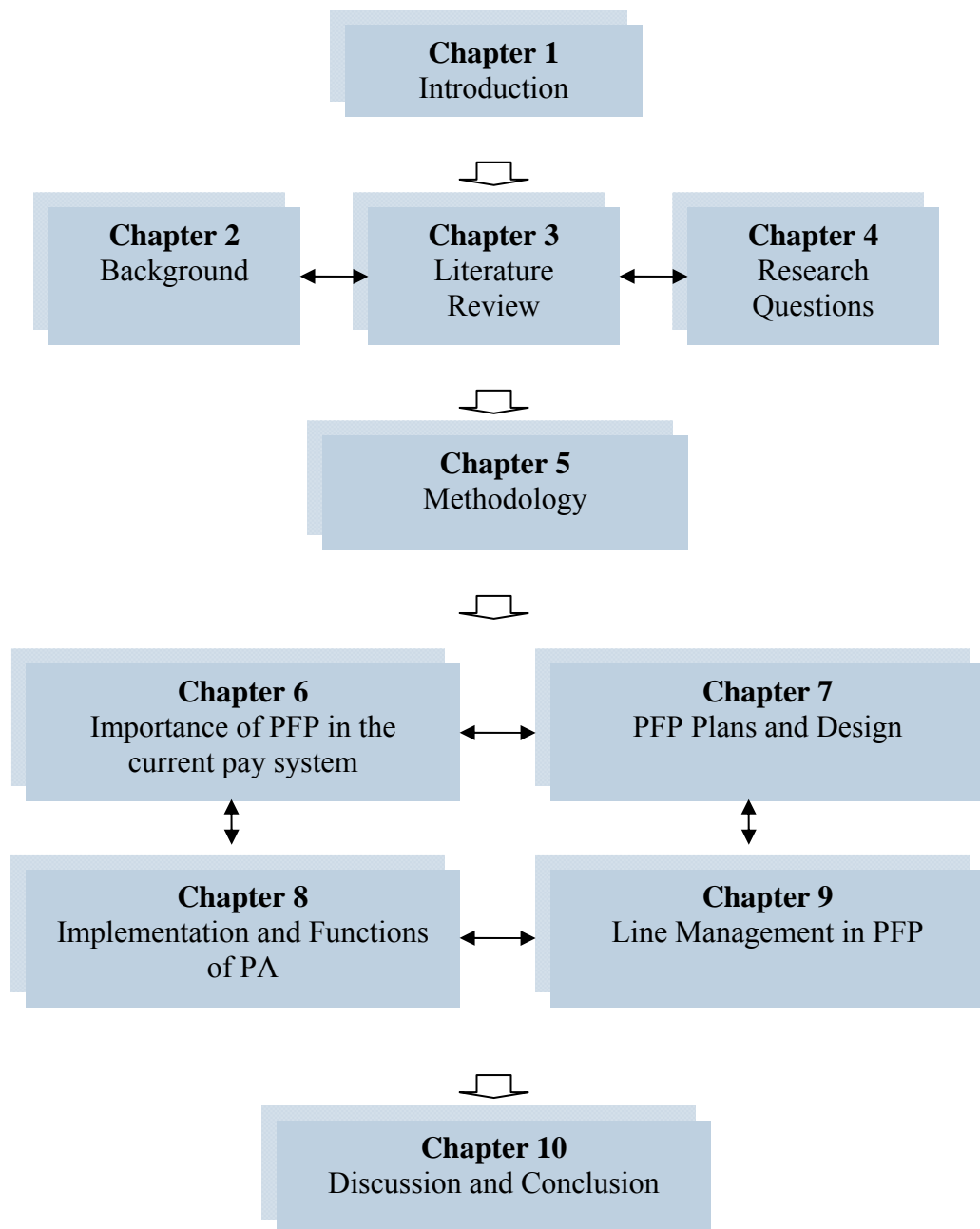
Chapter 5 discusses the research strategies, methods and research process adopted in the thesis. The chapter identifies reasons for applying a qualitative multiple case study method to the research, and ways to limit some disadvantages of this approach. This chapter also demonstrates sampling criteria, data collection methods and coding in data analysis. The profiles of case firms and interviewees are listed, and the research process is illustrated.

Chapter 6 to 9 have the empirical findings of each of the research questions. Chapter 6 presents findings for research question 1 - the importance of PFP in the current pay system. In order to effectively compare and contrast PFP plans with and across the cases, employees are categorised into four critical employee groups, namely, top management,

sales and marketing, professionals and junior staff. The proportion of PFP as a component in employee pay mix, and the extent to which pay ranges and pay progression depends on performance is analysed within the pay structures. Chapter 7 presents empirical findings for research question 2 - PFP plans and design. Different PFP plans for the four critical employee groups are examined. The contextual factors in terms of organisational environment, organisation characteristics and pay strategies that influence PFP plans design by management are explored.

Chapter 8 presents empirical findings for research question 3 – implementation and functions of PA. Elements, instruments and processes of PA in the non-public sector knowledge-intensive industries are analysed, and the functions of PA served in PFP programmes, are measured. Chapter 9 presents empirical findings for research question 4 – line managers’ involvement in PFP. Line managers’ perceptions, commitment and understanding of their role in PFP are analysed, and the supports that line manager have and the difficulties they face in designing and implementing PFP are also demonstrated. Finally, Chapter 10 contains a discussion and conclusion of the thesis. The empirical part of the study is linked with Western reward management and HRM theories and practices. Empirical and theoretical contributions as well as managerial implications are provided. Furthermore, the limitations of this thesis are examined and several areas for further research are suggested. This concluding chapter has two main dimensions: one is empirical and concerns the implications for organisations concerning the management of PFP. The second dimension is theoretical and concerns the applicability of the Western reward management and HRM theories to the practice of PFP in the context of China, and the extent to which the research expanded our understanding of those theories and academic knowledge.

Figure 1.1 Structure of the thesis



Source: Developed for the thesis.

CHAPTER TWO

BACKGROUND

2.1 Introduction

This chapter presents the background knowledge to this research which enables us to have a better understanding of the topic. This thesis studies PFP design and implementation in China's non-public knowledge-intensive industries. It is, therefore, important to review the changes in China's economic development, industrial ownership restructuring and general information about knowledge-intensive industries that are included in the thesis.

The year 1978 appears to be a great divide in Chinese economic history. Since launching economic reforms and the policy of opening up to the outside world at the end of 1978, China has made profound changes to its economic and social development. There have been dramatic changes in two areas. One is the most remarkable change in the economic system. China has successfully moved away from the command economy and adopted a functioning market economy. Nevertheless, even today, the process of market transition in China is far from complete. The other change has been in the ownership structure of industrial enterprises. China has transformed its industrial ownership from highly state-owned to a diversified structure, which includes public and non-public.

In spite of rapid economic growth, China is still a developing country with a vast land-area, a large population and a relatively weak industrial structure. Currently with the development of the knowledge economy, multiple and complex changes are taking place in China's economic and social structure. Traditional agriculture is modernising, traditional industry is modernising, industrial society is changing to a knowledge economy society, extensive economic growth pattern is becoming intensive, and the dominant industry of the whole society is being transformed from resources- and energy-consumption-based to knowledge- and intellectual-based. Thus, the knowledge economy has provided China with many opportunities and challenges for promoting knowledge-intensive industries such as computer software, telecommunications, investment finance, and other professional industries.

This chapter begins by briefly reviewing the features of the traditional command economy in China and the economic reforms since 1978. The chapter then examines the impact of economic reforms on the two major areas: the development of the Chinese economy, and changes of ownership structure. Further, as the thesis is based on case studies of knowledge-intensive firms, the development of the knowledge economy in China, the definition of knowledge-intensive organisations, and the specific knowledge-intensive industries covered in the research are discussed. Finally, background statistics on Shanghai where the sample and research fieldwork were based are also provided.

2.2 Development of the Chinese economy

The Chinese economy has experienced its traditional system, and a reformed system as well as further improvement after China's accession to the WTO. These changes caused the sustainable development of the present Chinese economy.

2.2.1 Traditional Chinese economic system

After the PRC was founded in 1949, the Maoist Chinese model was developed and maintained until the commencement of economic reforms at the end of 1978. China's new leaders turned their backs on China's traditional household-based economy after 1949, and set out to develop a massive socialist industrial complex through direct government control. Planners neglected labour-intensive sectors suitable to China's vast population, and instead poured resources into capital-intensive factories producing metals, machinery, and chemicals. The early achievements of coastal enclave industrialisation orientated to the Pacific were discarded, and a new inward-directed strategy was adopted. China turned to the Soviet Union as its primary model, as well as its chief trading partner and source of technology (Naughton, 2007). However, China's scarce capital and poorly developed economy could not support extremely capital-intensive heavy industries. To reduce the conflict between a capital-intensive heavy industry and a capital-scarce economy, a command economic system was established.

The command economy in China had two prominent features: central planning and public ownership (Pu, 1990, Riskin, 1987). Central planning involved the central government setting priorities and carrying them out administratively by distributing materials and finance to enterprises and ordering output from them. Public ownership, including state ownership of the means of production mainly via state-owned enterprises (SOEs) and collective-owned enterprises (COEs), reflected the control of

state institutions over enterprise. Public ownership of the means of production was regarded as one of the most important characteristics of socialism in China and was referred to as the material foundation of the superiority of socialism. According to Maoist ideology, public ownership was always superior to other types of ownership. As Child (1994) p.121 explains, ‘The Chinese concept of ownership (*suoyouzh*) is appreciably more ambiguous and is a political and ideological consideration rather than an economic and legal one. The term *suoyouzh*....implies an overall system of governance based on the ideological principles of socialism; such that all the means of production are ultimately a public asset and that the state acts as the custodian of this public ownership.’

For 30 years, China pursued this vision of socialism. However, there were a number of adverse factors associated with the socialist development strategy (Riskin, 1987). First, the single-minded pursuit of industrial development meant that consumption was neglected. A second major shortcoming was that employment creation was relatively slow. Because most industry was capital-intensive and services were neglected, new labour requirements were modest. Third, much of the industrial investment was not only capital-intensive, but also relatively demanding technologically. Plants were often large, complex, multi-stage commitments that took years, even decades, to construct and put into operation. Those shortcomings caused a huge gap in the economic development between China and its newly industrialised neighbours (Lin et al., 1996, White, 1993, Naughton, 2007).

2.2.2 Economic reforms since 1978

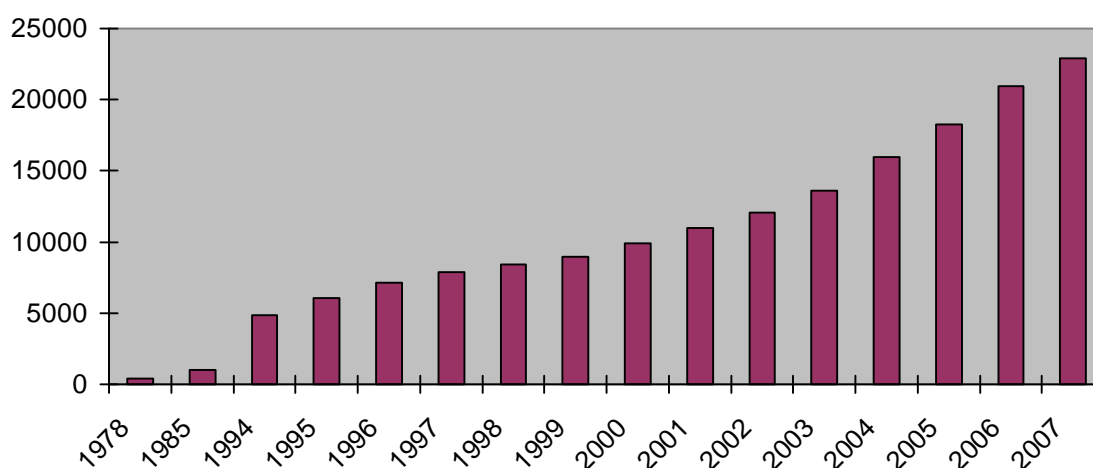
By the end of 1978, the Maoist development strategy had been critically reviewed. China’s market transition began with a wide-ranging reassessment of nearly every aspect of the command economy. The economic reforms started with changes in micro-management by offering the enterprise a profit incentive to improve its performance. Under the planned economy, the state centralised all earnings and expenditures of SOEs, profits were channelled to the central government, and losses were covered by the state. In order to improve the incentive mechanism, different types of profit sharing systems were experimented with from late 1978 to loosen the government’s control over the economy and build a market regulatory mechanism (Chai and Docwra, 1997). Moreover, since 1994, the objective of reforms at the micro-management level was no longer only

to provide incentives for improving efficiency but also to increase the market competitiveness of enterprises.

Under central planning, market forces were totally ignored in the allocation and acquisition of material, capital and human resources and the distribution of output. The reform of the resource-allocation system in 1984 focused on the marketisation of the Chinese economy with the intention of reducing direct planning control over the economy. However, reforms in the micro-management institution and resource-allocation system could not be sustained without reform in the macro-policy environment, which in a broad sense referred to price reform. Reform affected prices in five major areas: the price of production inputs (raw materials, intermediate input, and energy), products (final products and services), capital (the interest rate), foreign currency (the exchange rate), and labour (wages) (Lin et al., 1996). Under the command economy, most prices were determined by the state and failed to reflect the value of social input, or market supply and demand, thus hindering the establishment of an efficiently functioning economic system. Profits, for example, were neither a good indicator of enterprise performance nor a reliable base for government taxation under the old system (Wong, 1993). Thus, price reform was regarded as ‘the key to the reform of the entire economic structure’ by the CPC in 1984, because ‘the existing administratively set prices were like a “funny mirror” that distorted reality and sent economic decision-maker perverse signals’ (Shirk, 1993) p45. As prices became decentralised, the market increasingly influenced production and management policies in enterprises, and ‘striving for economic efficiency became an integral part of an enterprise’s action’ (Lin et al., 1996).

2.2.3 Emerging economy with rapid growth

After the economic reforms, China has transformed its economic system from a highly centralised, planned economy to a market economy. Though people hold different views on whether or not China has set up a complete market economic system, the transformation has been profound and irreversible (see Figure 2.1 and Table 2.1). Moreover, it has been necessary to speed up the reform process, especially since China’s entry into the World Trade Organisation (WTO) in December 2001.

Figure 2.1 China's economic growth after 1978 reform (GDP: billion RMB)

Source: National Bureau of Statistics of China. www.stats.gov.cn (Last cited in Feb. 2008)

Table 2.1 GDP growth of major economies

Major Economies	2000	2001	2002	2003	2004	2005	2006	2007
China	8.0%	7.5%	8.3%	9.1%	9.0%	7.5%	8.1%	8.0%
Asia (excluding Japan)	6.7%	4.6%	6.3%	7.0%	7.8%	7.4%	7.2%	7.0%
Japan	2.8%	0.4%	-0.3%	2.5%	4.4%	2.3%	1.1%	1.0%
UK	3.9%	2.3%	1.8%	2.2%	3.4%	2.5%	2.8%	2.5%
USA	3.7%	0.8%	1.9%	3.0%	4.3%	3.5%	3.5%	3.5%

Source: International Monetary Fund (2008).

Figure 2.1 shows China's economic growth over the past 28 years, indicating that China's average annual growth rate in GDP from 1978 to 2006 was 9.6 per cent with the highest in 1994 at 14 per cent and the lowest in 1999 at 7.6 per cent. In over half of the years, the growth rate was above 10 per cent, which is much higher than the world average of 3 to 4 per cent during the same period. Table 2.1 shows a comparison of GDP growth between China and other major economies in Asia and the rest of the world. Obviously, China has kept its GDP growth at an average of 8 per cent since 2000, which is a higher ratio than the rest of Asia and much higher than the UK and USA.

2.3 Development of China's non-public sector

The economic reforms from 1978 developed the Chinese economy, and also caused the change in industrial restructuring. Public ownership, the main feature of the traditional economy model, was reformed into multiple ownerships, and almost half of the corporations were in non-public ownership by 2001 (see Table 2.3).

2.3.1 Traditional Chinese industrial structure

As the result of socialist transformation and consolidation of socialist ownership after the PRC was established in 1949, China's economy was basically dominated by two forms of socialist ownership on the eve of reform: state ownership by the whole people as in all SOEs, and collective ownership by the working people, as in many small and medium-sized enterprises. In 1978 before the economic reform, the state and collective sectors represented 98-99 per cent of the gross social product, gross national product, and national income of China, while the individual and private sectors were a mere 1-2 per cent (Talas, 1991).

2.3.2 Ownership reforms and the non-public sector

Under the monopoly of state ownership, many problems occurred, such as low efficiency and overstaffing of enterprises, short supplies of daily necessities and slow commodity circulation (Wu, 1996). It was not until the mid-1980s that the key to the success of China's economic reform was a deep and radical reform of the ownership system (Talas, 1991). The monopoly status of the state sector was undermined by allowing collective and private enterprises to flourish, and by allowing foreign investment to support enterprises in many industries, especially manufacturing and tertiary industries. These different forms of ownership were granted legal status in 1988 and were supported by government policies such as low tax rates, the retention of all profits, and no restrictions on employee salaries. As many of these enterprises had a competitive advantage over state enterprises in that they could meet market demand, they soon flourished. Thus, Tung (1991) identified four major types of industrial enterprises in China consisting of SOEs and COEs, which are public sector, and POEs and foreign-invested enterprises (FIEs) including JVs and foreign owned MNCs, which are non-public sector. The number of corporations by ownership form has changed immensely during the reforms, as indicated in Table 2.2. By 2001, non-public enterprises accounted for almost half (48.3%) of the total corporations and one third (29.2%) of the total employment in China.

Table 2.2 Numbers of corporations and employment in China

	Corporation (10,000) 1996	%	Corporation (10,000) 2001	%	Employees (10,000) 2001	%
<i>Total</i>	262.8	100	302.6	100	16,502.2	100
SOEs	44.2	16.8	36.9	12.2	5,056.8	30.6
COEs	150.1	57.1	85.8	28.3	3,763.1	22.8
POEs	44.3	16.9	132.3	43.7	3,170.3	19.2
FIEs	11.1	4.2	13.9	4.6	1,641.4	10.0
Others (including share companies)	13.1	5.0	33.7	11.2	2,870.6	17.4

Source: Adapted from data in China Statistical Yearbooks (2007)
www.stats.gov.cn (Cited in Feb. 2008).

2.3.3 Current situation of the non-public sector

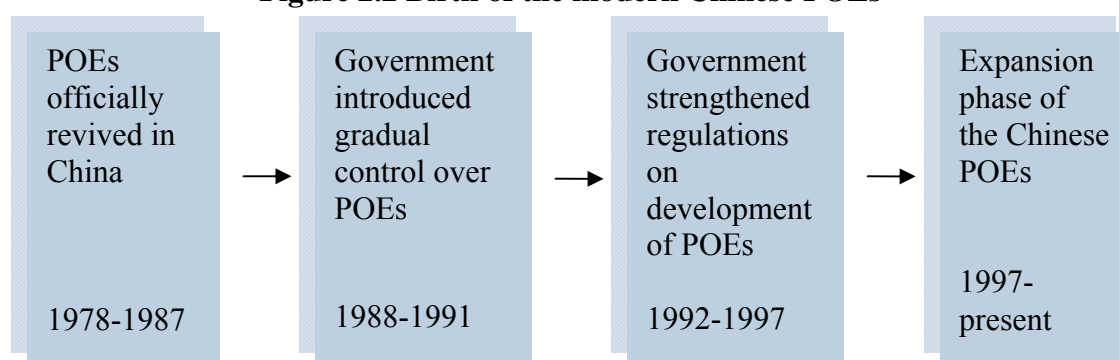
After the communist party took power in China in 1949, POEs did not survive beyond 1956 due to the hastily and forcefully implemented socialist transformation. Two major driving forces behind the transformation were the adoption of the heavy-industry-oriented development strategy and Mao's radical ideology. The transformation of ownership from private to public enabled the state to collect every piece of resources to form a huge accumulation of capital so as to concentrate on the development of heavy and military industries (Zhu, 2005). By the end of 1956, 99 per cent of 88,000 nationwide had been transferred to the public sector (People's Daily, Overseas Edition, 9 April 1999).

After the economic reforms, the private economy in the urban area was initially accepted only in the form of individual industrial commercial households in 1979. Figure 2.2 explains the development of Chinese POEs. The resurrection of individual business happened during 1978 and 1987, which provided job opportunities for young people returning to the urban area from the countryside as a result of Cultural Revolution. In 1988 the state promulgated 'Provisional Regulations on Private Enterprises in People's Republic of China' and related administrative regulations. These regulations applied to private enterprises employing more than eight people, specified a 'ceiling' on the monthly salary for POEs' owners and managers, and addressed issues of employment and working conditions within POEs. The state also launched tax inspection and collection to tighten its control over POEs (Young, 1995). The recovery of private business occurred after early 1992, when the state clarified the position and

importance of private business. The number of POEs increased nearly six-fold between 1992 and 1997 (Beijing Review, 1 March 1999).

FIEs, especially JVs, were created after China actively participated in the world economy. The growth of foreign direct investment (FDI) in China over the past decade has been dramatic (Cooke, 2004a, Zhu and Warner, 2004, Farley et al., 2004). UNTCA (2004) reported that in 2003 China's inward FDI of US\$53.5 billion topped figures for both France (US\$47 billion) and the US (US\$29.8 billion), the second and third largest recipients of FDI during the same period. In 2002, China's total merchandise trade (export plus imports) stood at US\$620.7 billion and ranked fourth in the world, if the European Union (EU) was treated as a single entity. In 2004, China's total merchandise trade shot up to US\$1 trillion, making it the third largest trader in the world, after only the EU and the US. It was also estimated that FIEs in 2000 accounted for more than a third of China's total industrial growth (Tsui and Lau, 2000, Tung and Worm, 2001). FIEs from the US, Europe and Japan sought to enter the Chinese market through the establishment of equity JVs with local Chinese partners (Bjorkman and Lu, 2001, Cooke, 2005, Leung and Kwong, 2003). With China's further opening up to the world, FIEs started establishing their wholly owned operations – MNCs. By the late 1990s, the number of MNCs exceeded the number of JVs.

Figure 2.2 Birth of the modern Chinese POEs



Source: Bucknall & Ohtaki (2005)

2.4 Knowledge-intensive industries

This section reviews the industrial setting for the thesis – knowledge-intensive industries. The development of the knowledge economy, the definition of knowledge-intensive firms and its situation in China are discussed.

2.4.1 The knowledge economy

The knowledge economy has entered our economic life, driven by commercialisation of knowledge, skill and information, and has come to dominate the world economy taking the place of the material economy. The authoritative explanation of the knowledge economy is proposed in the report on The Knowledge Based Economy issued by OECD in 1996 (Kim and Maugborgne, 1997), which says it is an economy based on the production, distribution and application of knowledge and information. Its major economic features are as follows: first is commercialisation of knowledge, skills and information; second, intellectual property rights system; third, price mechanism of knowledge; fourth, wide application of information technology; and last, the industrial structure with human capital as the centre. The typical phenomenon of the knowledge economy is the wide application of information technology, the foundation for development of the knowledge economy is talent, and the core of the knowledge economy is innovation.

In the knowledge economy, the success of corporations relies more on knowledge possessed by corporations. With the intensity of competition in the market, the increasingly uncertain aspects in the environment and the growing turnover of employees, corporations will need to provide value-added service for more diversified customers, which requires them to have stronger capabilities in communication, knowledge acquisition, knowledge creation and knowledge transmission. Therefore, in the knowledge economy, the success of corporations from the management perspective relies more on managing and developing knowledge workers and talents.

2.4.2 The knowledge economy and China

The development of a knowledge-based economy is a challenge that aspires to elevate China to a new stage of social evolution. Hui Yongzheng (2006), vice Minister of the Ministry of Science and Technology of China, in a policy statement noted that “Implementing a strategy of ‘revitalising the nation through science and technology’ will help China reinforce its economic power, and we should focus more on promoting industries related to the knowledge-based economy, such as computer software, telecommunications, environmental protection, finance, computer-aided services, technological consulting, education and professional training industries”.

The trend of the knowledge economy has brought many changes in Chinese society in recent years. During the past decade, China has placed more importance on reforming and modernizing its information and communication technology (ICT) sector than any other developing country. At the first session of the 10th National People's Congress in 2003, the Chinese leadership was strongly committed to making ICT one of the most important national goals – from transforming Chinese society at home to pursuing its ambitions as a world economic and political power (National-People's-Congress, 2003). The current leadership under President Hu Jin-tao and Premier Wen Jiabao continues to devote massive material and political resources to what is called 'informatisation' as a key strategic element for advancing the final goals (Zhao, 2008). Within the next couple of years, several important policy decisions should be made under the Chinese leadership that will shape domestic and possibly global ICT performance and will affect a variety of other key matters such as economic efficiency, growth rates, international competitiveness, and patterns of political participation for many years. Some examples of data can demonstrate the size and direction of changes in Chinese ICT sectors. For instance, China's Ministry of Information Industries (MII) predicts that the ICT industry will continue to grow about 20 percent annually, or around three times the growth rate of GDP. The China Centre for Information Development (CCIID) estimates that China's PC industry will grow 11.5 percent in market sales annually from 2004 to 2010. CCIID estimates that China's PC industry will reach a value of US\$ 1450 billion by 2010 (China-Electronic-News, 2007). Therefore, human capital development has been given much more attention than ever by researchers and practitioners.

2.4.3 Definition of knowledge-intensive organisations

It is difficult to find a precise definition for knowledge-intensive organizations even though there is a lot of literature on the subject. However, knowledge-intensive organizations can be recognized from the following characteristics: (1) Their most valuable asset is intellectual capital – physical assets, such as machinery are of secondary importance (Edvinsson and Malone 1997, p. 10). (2) Gathering and applying new information and knowledge is essential for the success of the organization (Sydänmaanlakka 2000, p. 25 and p. 255). (3) They are flexible, adaptive, and they have low organizational hierarchies (Edvinsson and Malone 1997, p. 9). (4) They produce mass customized products and services using close relations with their customers, suppliers and strategic partners (Edvinsson and Malone 1997, p. 9).

Sydänmaanlakka (2000, pp. 24-25) has also presented other characteristics related to knowledge-intensive organizations. First, their business environment changes very rapidly, which forces them to change their strategies accordingly. In addition, the role of employees has changed from simple and controlled work to complicated knowledge work in which the employee has a lot of authority. Finally, the organizational structures are based on processes or projects, and the structures can be changed flexibly to best serve the business objectives.

2.4.4 Knowledge-intensive industries in China

Samples for the thesis were selected from knowledge-intensive industries because knowledge-intensive firms require a large human capital investment in sales, research and development. Employees even from lower levels are required to be qualified and skilful because of the nature of their work. Overall, PFP could be extremely typical and important for those companies.

The investment, IT and pharmaceutical sectors were chosen for the thesis. A report in 2007 by China Salary Survey stated that the present top ten industries in China were Banking, IT, High-tech, Real estate, FMCG, Pharmaceutical, Education & Consultancy, Chemistry, Manufacturing and Logistics (China-Salary-Survey-Database, 2007). Table 2.4 shows the average annual salary and average annual salary increase rate of the top ten industries in China in 2007. It is clear that investment, IT and pharmaceuticals are among the present top ten industries in China. Although the average annual salary level of IT and pharmaceutical were respectively number 7 and 4 in the list, their average annual salary increase rates were obviously higher than most of the other top ten industries with IT at 9.2 percent and pharmaceutical at 8.5 percent.

Table 2.4 Average salary and increase rate of top ten industries in China

Industry	Average annual salary (RMB)	Annual salary increase rate %
Banking/investment	46520	10.6
IT	39512	9.2
Hi-tech	40052	9.3
Real estate	38562	7.0
FMCG	42500	9.2
Pharmaceutical	40283	8.5
Education	39520	7.4
Chemistry	42736	7.3
Manufacturing	39862	7.2
Logistics	37650	7.1

Source: www.xinchou114.com (China rewards survey website, cited in July 2008)

2.5 Background statistics on Shanghai

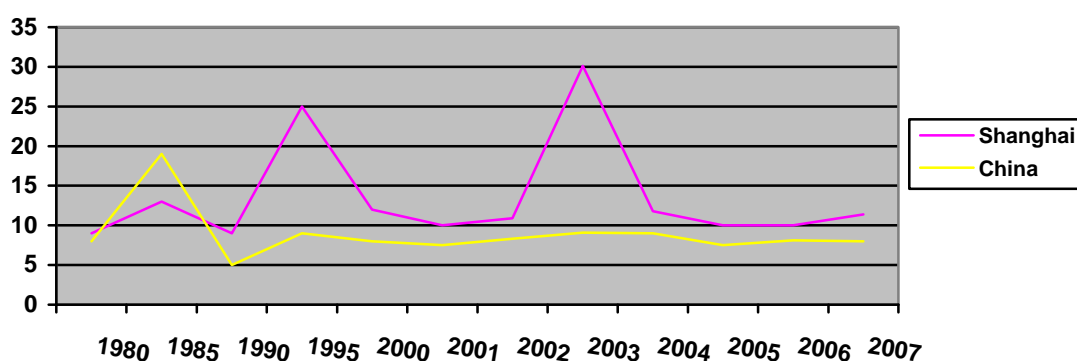
This section introduces some important information on the economic development, industrial enterprises and local labour market of the research site – Shanghai, where the sample firms and research fieldworks were based.

2.5.1 Economic development

Shanghai, the industrial, financial, and commercial center, represents 1 per cent of China's population, 5 per cent of China's GDP, 10 per cent of China's contracted FDI and 13 per cent of China's imports (U.S. Commercial Service, 2007). Shanghai also hosts a concentration of manufacturing activity in such key industries as automotive, electronics, telecommunications, machinery, textiles, iron and steel, and petrochemicals. In 2010 Shanghai will host the World Expo, and plans to invest billions of dollars in new urban infrastructure to prepare for this momentous event. Shanghai Mayor Han Zheng aims for Shanghai to become the high-technology center of China in the coming five years.

Figure 2.3 shows the difference of GDP growth between Shanghai and China. It is obvious that the GDP growth in Shanghai has been much higher than China as a whole since 1990.

Figure 2.3 Comparison of GDP growth between Shanghai and China



Source: State Statistical Bureau (2008) and Shanghai Statistical Bureau (2008).

2.5.2 Shanghai industrial enterprises

As shown in Table 2.5, non-public enterprises in Shanghai consist of POEs (38.7%) and FIEs (JV 1.4% plus MNCs 38.3%), which are 68.4 per cent of the total enterprise units and 77.4 per cent of the whole employment.

Table 2.5 Industrial enterprises in Shanghai

Ownerships	Enterprise units	%	Employees 10,000	%
<i>Total</i>	<i>14,404</i>		<i>269.65</i>	
State-owned (SOEs)	407	2.8	14.17	5.3
Collective-owned (COEs)	911	6.3	8.62	3.2
Joint Owned (JVs)	198	1.4	3.16	1.2
Private (POEs)	5,579	38.7	56.70	21
Hong Kong Macao and Taiwan Funded (MNCs)	1,782	12.4	41.02	15.2
Foreign funded (MNCs)	3,765	26.1	107.76	40
Others	1,762	12.2	38.22	14.2

Source: Shanghai statistical year book (2008).

2.6 Conclusion

This chapter outlined the historical, economic and social background to the study, which consists of the economic reforms and its impact on Chinese economy and industrial ownership structure, the definitions and current situation of non-public sector and knowledge-intensive organisations in the context of China, as well as the knowledge-intensive industries involved in the thesis. The chapter demonstrates that since the economic reforms in 1978, China has commanded the fastest growing country and the second largest world economy in terms of purchasing power parity. China's accession to the WTO in 2001 further opened up the industry because of the relaxation of market entry rules, surge of foreign direct investment, liberalisation of RMB and frequent cross-border transactions. The ownership structure in China after the economic reforms was changed from the state monopolies to diversification. SOEs, COEs, POEs and FIEs were identified as the four major ownerships by Ting (1991). POEs and FIEs (including JVs and MNCs) are the non-public sector which is studied in this thesis.

The development of a knowledge-based economy is a challenge that aspires to elevate China to a new stage of social evolution. The chosen case firms from investment/marketing research, IT and pharmaceuticals in the thesis are knowledge-

intensive industries which are currently among the top ten industries of high growth and salary in China. Therefore, the examination of PFP in these industries could be a predictor for knowledge workers elsewhere. Furthermore, the background statistics on Shanghai showed that it was a financial centre with higher GDP increase than China overall and over 60 per cent of POEs and FIEs of its total enterprise units.

The next chapter will review the bodies of literature relevant to the research, which are HRM, reward management and PFP.

CHAPTER THREE

LITERATURE REVIEW

3.1 Introduction

Broadly defined, this thesis explores the current situation of pay systems, particularly PFP in the context of China. This chapter looks at both theoretical and empirical literature on three relevant bodies: HRM, reward management and PFP.

This chapter consists of three parts. First, the overview of HRM in general, in Asia and its development in China is presented, which provides a broad background for the study. Moreover, the convergence/divergence debate in HRM is considered. Reasons for convergence and determinants for divergence of HRM practices in the context of China are discussed. Second, the reward management practice in China and theoretical models of reward management are illustrated. The reward system in China has experienced dramatic changes since the economic reform in 1978, when pay began to be linked to performance. More recently, China's accession to the WTO membership and knowledge economy have brought new challenges to reward management in China's knowledge-intensive industries. In order to study the current pay practices in the context of China, another theoretical perspective - the classical contingent theory in reward management - must be considered. Particularly, resource-based view and institutional theory approaches in contingent theory which are taken as the two theoretical lenses in the thesis are evaluated. Third, PFP is defined and the existing literature on PFP in general, in Asia and in China is examined, which supports the further discussion of research gaps and research questions in Chapter 4.

3.2 HRM: An overview

This section briefly describes the development of HRM as a concept in the West, the changes and transformation of HRM in Asia, and the evolution of people management in China since the 1950s.

3.2.1 HRM in general: A combination of West and East conceptualisations

The concept of HRM was developed initially in the US in the 1960s and 1970s, and it experienced a process of evolution from a more traditional model to a more concurrent one (Brewster, 1995). Fombrun, Tichy & Devanna (1984) identified that the initial development of the HRM concept was based on the 'resource' aspect of HRM and that effective utilisation of human resources could lead to the realisation of business strategy and organisational objectives. The 'Matching Model' links different personnel functions to an organisation's strategy and structure (Galbraith and Nathanson, 1978) and it emphasizes a 'tight fit' between organisational strategy, organisational structure and the HRM system.

Another analytical framework was developed, namely the 'Harvard Model', to complement the 'hard' oriented 'Matching Model' (Budhwar and Debrah, 2001). The earlier stage of HRM development as a concept, such as the 'Matching Model' and the 'Harvard Model', has had a profound influence on the formation of the later 'Contextual Model' and the '5-P Model'. The 'Contextual Model' was based on the 'Harvard Model' by developing an understanding of strategy-making in complex organisations and then relating this to the ability to transform HRM practices (Budhwar and Debrah, 2001). Schuler (1992) developed the so-called '5-P Model' of SHRM (philosophies, policies, programmes, practices and processes), which brings interrelated activities together in achieving the organisation's strategic needs. In contrast to these mainstream HRM approaches, a European-based model was developed in order to seemingly better reflect the reality of European organisations and their surrounding environments with more restricted organisational and management autonomy (Brewster, 1995). The 'European Model' highlights the influence of national cultures, ownership structures, the roles of the State and trade unions on HRM in different national settings within the context of increasing EU integration and the adoption of common EU labour legislation.

Although the concept of HRM was developed in the West, the formation of this concept was influenced by the increasing competition of manufacturing production predominately in East Asia, including Japan and the so-called 'Four Asia Tigers', namely Hong Kong, Singapore, South Korea and Taiwan. By adopting new management initiatives, such as HRM, it was thought the US firms might develop certain competitive advantages in order to help survive better in the face of global competition (Porter, 1990). In fact, some of the

aspects within the HRM paradigm were based on Japanese management practices that had a profound influence not only in Japan, but also in the whole of East Asia in the 1960s and 1970s. The elements of cohesiveness and collectiveness, such as harmony, information sharing, loyalty, on-job-training, teamwork, etc., were key dimensions of the 'new' HRM paradigm, but had existed in East Asian organisations for a long time. By combining the dominant American-oriented, in other words the individualistic elements of management practices, with East Asian (particularly Japanese) management practices, the 'new' HRM paradigm was expected to improve the competitiveness of organisations and the well-being of both individuals and organisations (Schuler and Jackson, 1987). Therefore, the conceptual formation of HRM was not a purely 'Western' notion, but a combination of both 'East' and 'West' conceptualisations.

3.2.2 HRM in Asia: Changes and continuities

HRM in Asia has experienced dramatic development since the 1990s. Rowley (1997) considered how tremendous and massive economic, social and political change in Asia affected the style and approach of HRM, and how HR were dealt with in Asian countries. There have been continuous tumultuous changes in the operating context of HRM and its HR practices and policies after the Asian financial crisis in 1997 (Rowley, 2003, Rowley and Benson, 2002, Rowley and Benson, 2004, Rowley and Warner, 2007).

Rowley et al., (2007) further show that the conceptual formation of HRM in Asia is a mix of 'Eastern' and 'Western' conceptualisations. Zhu, Warner and Rowley (2007) note that the development of HRM in Asia has been not only highly influenced by foreign economies such as US and the Europe, but also has its distinctive Asian characteristics, such as influence by the state, overall social and economic development as well as national history. Some of the US-oriented individualistic HRM dimensions have been gradually adopted among East Asian economies. Key aspects, such as individual contracts, fixed-term contracts, and downsizing and retrenchment, freedom to hire and fire, the strategic role of HRM and so on have become increasingly important in the East Asian people-management system. In addition, the European influences of social partnership, institutional building and legalistic environment play a positive role on the society transformation towards the 'rule of law' and institutionalisation. However, it is more of a triangular-influence on HRM, between East Asia, the US and Europe. Although the US is the dominant power in both

'hard' and 'soft' approaches towards HRM with the emphasis on individualist and unitary approaches, both East Asia and Europe have some influence on each other as well as on the US with their unique characteristics. For instance, the East Asian model emphasises a collective approach, harmony and relational based business operation. The European model then pays attention to pluralistic labour-management relations and legalistic environment.

3.2.3 HRM in China: Transformation with Chinese characteristics

This section reviews the development of people management in China before and after the economic reforms in 1978, as well as the new challenges after China's accession to the WTO membership in 2001.

3.2.3.1 HRM before the economic reform in 1978

Before the economic reform and open door policy in 1978, under the highly centralised economy, people-management in China was characterised by the 'three-irons' policy consisting of the 'Iron Armchair' ('tie jiaoyi'), 'Iron rice-bowl' ('tie fanwan') and 'Iron Wages' ('tie gongzi') (Zhao, 2005, Ding et al., 2001). The 'Iron Armchair' refers to the management of executives and technicians under a permanent job system. Once a person was recruited, he or she would be entitled to hold the position for his or her life. The 'Iron Rice-bowl' refers to the system of employment that created boundaries between 'cadres' and 'workers'. A lifelong guarantee of a cadre's position, and the policy that cadres could be promoted but never demoted, led to a surplus of unproductive personnel. The 'Iron Wages' describes the pay distribution system. In the highly centralised planned economic system, the state played an authoritative role in the reward systems of enterprises, and evenly distributed pay had little to do with profits and individual performance. Table 3.1 sets out the characteristics of personnel management and the process of the 'Three Irons' system being strengthened in China before the economic reforms.

Table 3.1 Characteristics of personnel management in China before 1978

Year	Stage of personnel management	Characteristics
1949-1952	Preliminary Stage	Fixed employment; state monopoly of recruitment and labour allocation.
1952-1957	Beginning Stage	Soviet management model with authoritarian leadership; piece rate wages; merit-oriented payment.
1957-1966	Development Stage	Chief leader responsibility system; committees with employee delegation; democratic management with employee participation.
1966-1967	Stagnation Stage	“Three Irons” policy strengthened.

Source: Adopted from Zhao (1998).

3.2.3.2 HRM after the economic reform in 1978

The transformation of people-management systems towards HRM started in the middle of the 1980s (Child, 1994, Warner, 1995, Warner, 1999, Warner, 2003a, Warner, 2004). Initially, HRM as an academic concept was introduced by joint teaching arrangements between Chinese and foreign universities, as well as in management practice in overseas-funded firms, mainly from Japan, the US and Europe (Warner, 1992). The translation of HRM into Chinese is ‘renli ziyuan guanli’ (with the same Chinese characters as in Japanese) which means ‘labour force resource management’. But in fact, some people now use it misleadingly as a synonym for ‘personnel management’ (‘renshi guanli’) and treat it as such (Warner, 1993, Warner, 1995, Warner, 1996, Warner, 1999). This form is still very common in SOEs, and probably is still far from the initial concept of HRM as understood in the international academic and managerial community (Poole, 1997, Zhu, 2005). Table 3.2 shows the stages and characteristics for each time period that personnel management in China has changed. Moreover, Zhao (1998) also noted that after 1994 when the market economic system was officially adopted personnel management in China started gradually transforming to HRM.

Table 3.2 Changes of personnel management in China after 1978

Time and period	Stage	Characteristics	Traits
Early 1980s to mid 1980s	Exploration Stage	Reform of recruitment methods to enlarge the pool of candidates to include the entire population; strengthening of skill straining	Decentralisation of labour relations and employment
Mid to late 1980s	Break-through Stage	Use of contracts	Enterprises become main agency of employment; employers and employees can make mutual employment decisions; labour relations determined through contracts.
Early 1990s to present	Development Stage	Abolition of “3 irons” policy; use of employment contracts expanded to include all employees according to “labour law”; appropriate macro-level reforms.	Transfer to human resource management system.

Source: Adopted from Zhao (1998).

The main characteristics of HRM after the economic reforms in China have been described by Zhao (2001) and Warner (2000) as follows. *First*, the key HRM transition was the shift from a political and administrative relationship to an economic relationship between government and enterprise. *Second*, the highly centralised labour allocation system shifted to “two-way” selection. *Third*, the fixed reward system shifted to an enterprise-determined compensation package. And *last*, competition for talent increased since entry into the WTO in December 2001.

Although HRM in China had started its transformation since the economic reforms, researches discovered that in reality there were imbalances in HRM practices in different industrial ownerships. For instance, the old form of personnel management practice is still more common in China’s industrial enterprises, especially in SOEs, where a decidedly conservative air continues to pervade the administration of personnel (Verburg, 1996, Zhu, 2005). Personnel management is largely the norm in many POEs and even in JVs management seems to be more inward looking, with a focus on issues like wages, welfare

and promotion as found in the conventional personnel arrangement, rather than strategic ones like long-term development normally associated with HRM (Goodall and Warner, 1997, Zhu, 2005). MNCs and some JVs adopted more international standardised HRM policies and practices (Ding et al., 2001). The larger FIEs, hitherto admired as the pattern-setting employers, are the main the firms practising HR practices, such as HRM borrowed from the West. In many cases, their HR managers are expatriates or, if Chinese, are recruited from the prestigious MBA programmes emerging in China such as the one at CEIBS (the China-Europe International Business School) based in Shanghai. Such graduates speak the language of modern management and, if relevant, HRM. They follow 'best practice' in HRM and strategic HRM (SHRM), as exemplified in their own corporation internationally or in other MNCs operating in China.

3.2.3.3 New challenges to HRM after the WTO membership

Earlier studies of HRM in Chinese firms have found that they tended to be less strategic than their Western counterparts in their approach to HRM (Warner, 1993, Child, 1996, Poole, 1997). More recent studies, however, have observed the fact that HRM in China is becoming more systematic and market oriented, with evidence of adaptation of Western HR techniques (Warner, 1998, Ding and Akhtar, 2001, Zhu and Dowling, 2002).

Since China joined the WTO in 2001 it has added an international dimension to China's HRM practices. There is now an emerging consensus among researchers (Warner, 1998, Zhu and Dowling, 2002) that many traditional HR policies in China have changed and there is clear evidence that a more complex and hybrid management model is emerging as the result of an increasing level of marketisation and enterprise autonomy. For example, Ding and Akhtar (2001) note that an increasing number of Chinese enterprises are moving towards the adoption of HRM practices that focus on human capital development. This is particularly the case for larger and new enterprises across different ownership structures that are located in relatively developed cities.

Battling in the war for talent, Chinese firms are reported to becoming more strategic in linking their HR practices to organizational performance (Law et al., 2003, Zhu et al., 2005, Wang et al., 2007, Wei and Lau, 2005). Studies by Wei and Lau (2005), Zhu et al. (2005) and Wang et al. (2007) found that the differences in key HR practices amongst firms of

different ownership forms in China are diminishing, indicating a trend of convergence in the HR practices adopted by foreign-invested and Chinese firms. There is a continuing trend and increasing movement away from traditional Chinese HR practices to more Western HR practices and the gaps in HR competence between Chinese-owned private firms and MNCs are closing. In addition, Wang et al. (2007: 699) found that ‘while foreign-invested companies emphasize humanistic goals the most, it was private-owned enterprises that linked these goals most tightly with the high-performance HR practices’. According to Wang et al. (2007: 699), ‘the pattern of the organizational goals and HR practices linkage reflects that private-owned enterprises are more aggressively utilizing their HR functions to accomplish their organizational goals’. This is in spite of the fact that they have adopted fewer high-performance HR practices than the foreign-invested companies. In addition, there is evidence that flagship domestic private firms are adopting commitment-oriented HRM practices (Ding and Akhtar, 2001, Gong et al., 2006).

In summary, this section reviewed the development of HRM in the West, Asia and China. It is obvious that the conceptual formation of HRM has been a combination of West and East conceptualisations in its historical development. The changes and continuity of the HRM concept, practices and policies in East Asia show a good example of the triangular influence of HRM among the US, Europe and East Asia itself.

The transformation of people-management systems towards HRM started in the middle of the 1980s in China. An international dimension has been added to China’s HRM practise since China joined the WTO in 2001. Chinese firms are reported to be becoming more strategic in linking their HR practices to organisational performance. However, although the US and European models have been heavy influences, the development of HRM in China has its own uniqueness, which was described as ‘HRM with Chinese characteristics’ (Warner, 2005, Warner and Zhu, 2002).

The section presented the argument that the development of HRM as a whole has been in a triangular influence among the US, Europe and Asia. This leads to the question whether there is a HRM approach that is universal. Therefore, the next section is the review and discussion of the convergence/divergence debate in HRM.

3.3 HRM: Convergence versus divergence debate

When we study HRM in either a Western or Eastern context, there can be two useful perspectives: the universalistic and contingent approaches (Boxall and Purcel, 2000, Delery and Doty, 1996, Richardson and Thompson, 1999). The universalistic approach, which is so called 'best practice', believes that the greater use of specific HRM practices will always result in better (or worse) organisational performance (Delery and Doty, 1996). In contrast, the contingency approach, which is so called 'best fit', argues that whether specific HRM practices result in better or worse organisational performance depends on contingencies (i.e. internal or external factors) (Delery and Doty, 1996, Richardson and Thompson, 1999).

3.3.1 Reasons for convergence

Increased globalisation has given renewed focus to the debate about convergence and divergence in the study of international HRM. Pudelko (2005) notes that the search for 'best practice' in HRM in comparative management research is at the macro-level closely related to the debate on cross-national convergence versus divergence of managerial processes.

Kerr et al., (1962) note there exists 'a universal logic of industrialisation' which is accompanied by 'a logic of the development of organisations and management'. The direction of this development is determined by the 'best practice' of economically more advanced countries, with latecomers following and adopting similar organisational structures, strategies and processes, resulting in a convergence of management systems. Consequently, authors who perceive management as rather independent from the respective national culture, and focus on the importance of learning from 'best practice' in order to increase national competitiveness, are more positive about cross-national convergence, as 'best practice' is held to determine the direction of convergence (Kerr et al., 1962, Child and Kieser, 1979, Levitt, 1983, Waters, 1995, Heneerz, 1996, Toynbee, 2001). Hence, the convergence approach proposes that managers around the world embrace attitudes and behaviours common to managers in other countries, despite cultural differences. Factors such as globalisation, contextual contingencies and business environments are viewed as cosmopolitan forces leading to more homogeneity among organisations (McGaughey and De Cieri, 1999, Ralston and Gustafson, 1993, Ralston et al., 1997).

In Asia, globalisation, international trade and finance may place substantial pressure on firms to standardise practices and policies. There has been some convergence in HRM and some common environmental factors operating on those Asian countries tested in the research, such as China, Japan and South Korea. But, the outcome of this, which is producing change in indigenous HRM, is not necessarily towards a model of Asian HRM (Warner, 2003b). 'HRM with Asian characteristics' must be seen as a term which sometimes is even more specific to the country concerned and its historical and economic development (Rowley et al., 2004). Local customs, institutions and labour forces do provide serious constraints on the degree of convergence and may well lead to an increasing level of divergence. More detailed analysis of the pattern of and changes to HRM in Asia were undertaken by Rowley et al., (2002, Rowley and Benson, 2004, Rowley et al., 2004). The argument above leads to reasons for divergence.

3.3.2 Determinants for divergence

Despite claiming a convergence of economic and management systems, cultural theory and institutional theory are usually viewed as being at the opposite pole from universalistic perspectives which support the theory that economic activities around the world are convergent towards best practice (Child, 2000, Lane, 1995, Whitley, 1992, Whitley, 1999). Cultural theory emphasises culture as a factor which makes people's behaviour and economic activity different. While cultural values are considered to be deep-seated and enduring, culture is considered to be immutable. Economic activity between nations with different cultures should on that basis remain divergent. Institutional theory emphasises that a nation's economic activities are influenced by social institutions, such as the state, legal system, financial system and family. Hence, the divergence approach proposes that differences among societies result from their parochial sets of values and that individuals maintain diverse, culturally based values despite growing economic and social similarities between nations. Based on similar arguments, many more studies also outline the importance of divergence or preservation of core characteristics within international HRM (Baldacchino, 1997, Lu and Bjorkman, 1996, Rowley and Benson, 2002, Schuler and Rogovsky, 1998).

The literature above illustrates that studies have employed three different sets of variables in order to understand international HRM issues: 1) socio-cultural variables such as work-

related values or national cultures upon which the divergence theory is built; 2) economic and contextual variables such as the phenomenon of globalisation and deregulation of economies upon which the convergence theory is built; and 3) organisational variables such as parent-company control and influences tend to support a convergence view. However, the contrasting findings are not only because of the isolated use of these variables but, on a more fundamental level, because of the differing theoretical perspectives adopted. Therefore, it is concluded that neither the convergence nor the divergence debate alone is adequate to explain the dynamic interactions between organisations and their environments. An integrative approach should be adopted to encompass an effective analysis and to propose a more comprehensive theory of behaviour in the international HRM context.

Rowley et al (2002) further identify that convergence appears to be more about individual HRM practices than system change in Asia. The factors that led to some convergence at the practice level include the operation and interactions of foreign and indigenous employees and MNCs in overseas and domestic markets, exposing them to other practices. Factors that impeded some convergence at the other two levels (policy, deep structure) included institutions and cultures. Therefore, there are relative convergence signs of HRM in Asia. However, cultural and institutional factors have different levels of impact on the adoption of Western (US) management practices.

In relation to HRM in China, researchers also acknowledge the difficulties and problems that arise during the transferring process. For example, Pye (1991) argues that both Confucianism and the Chinese version of Marxist-Leninism have played down individualistic assumptions, the basic premise of Western HRM. Warner (1995) argues that Western motivation theories may not apply to Asian societies, such as in China. Wong et al., (2002) state that traditional cultural values of loyalty, 'guanxi' (relationship) and 'bao' (return/repay) still play a key role in affecting Chinese employees' work-related attitudes and behaviours. Therefore, the literature shows that moves towards Western management methods may not have the desired effect because of the deep-rooted cultural and institutional influences (Lockett, 1988).

This thesis will discuss convergence and divergence issues of one of the HRM practices - reward management in the context of China - in later chapters. Therefore, the next section

is a review of development of rewards systems in China, challenges of reward management in the knowledge age and reward management models that are used in the thesis.

3.4 Reward management

Reward management is concerned with the formulation and implementation of strategies and policies that aim to reward people fairly, equitably and consistently in accordance with their value to the organisation (Milkovich and Newman, 2002). The principle objectives of reward management are to attract and retain suitable employees; maintain or improve levels of employee performance and comply with employment legislation and regulations. There has been an evolution process of reward management in China as presented in the following sections.

3.4.1 Rewards in China: A historical review

The reward system in China has experienced a process of evolution from the pre-reformed model before economic reforms in 1978 to the post-reformed model after the economic reform. Characteristics of reward systems in each period are introduced below.

3.4.1.1 Rewards in China before 1978 (pre-reformed model)

Before the economic reforms in 1978, employee rewards in China were strictly controlled by the state rather than enterprises. Under the ‘Three Iron’ system, the ‘Iron Rice-bowl’ model was applied to employee rewards, which was strong egalitarianism, minimal reward differentials, largely based on age, length of service and political loyalty; minimal differentials between staff categories (factory boss and workers, for example); a rigid eight-grade wage system (sixteen for cadres); low take-home pay but high subsidies; an emphasis on non-material, ‘spiritual’ rewards a stress on moral-encouragement rather than ‘bourgeois materialism’ incentives; an absence of performance-related payments, non-performance linked but seniority-based wage promotion (Cieri et al., 1998). Some of the main characteristics of rewards in China before 1978 are discussed below.

Highly centralised wage setting

Under a centrally planned economy, industries were owned and run by the state, and their growth was regulated by planning targets rather than by the profit-maximising decisions of independent entrepreneurs (Putterman, 1992). Enterprises were thus described as “little

more than appendages of the state bureaucracies that administered them” (Harding, 1987) p23. The government gave mandatory instructions to enterprise that guaranteed both the delivery of inputs, including capital, production material and HR, and a set of prices for all the products (Borgonjon and Vanhonacker, 1992). Enterprises had no right to set up or change any wage scale, let alone to increase their total payroll regardless of their performance. This was especially true for SOEs because managers in profitable enterprises did not have residual rights to the profit of the enterprise and thus lost incentive. Meanwhile, the state’s ‘soft budget constraints’ provided loss-making managers with unlimited protection from the consequences of poor performance (Kornai, 1980, Kornai, 1986, Walder, 1986). Therefore, managers in SOEs had no incentive to improve either their efficiency or effectiveness.

No management input on employee rewards decision making

During Mao’s regime the wage level was determined by the state centrally and unilaterally and managers of all levels were involved only in the administrative function and policy implementation. There was effectively no wage bargaining mechanism for employees in China, even though workers’ representation bodies, such as trade unions, are often seen as primarily conservative forces seeking to defend the established wage structure and prevent the erosion of existing rights and benefits.

As discussed above, China had itself developed a ‘distinctive’ model of personnel management since 1949 at least (Warner, 1993; 1995). Its origin lay in the Soviet industrial model which it adopted after the ‘Liberation’ (Kaple, 1994). The socialist transformation of Chinese industry after 1949 in principle created conditions for a collective interest and the success of enterprises. Many of its devotees expected that non-material motivators of a moral and ideological kind would be effective in such circumstances. In practice, however, socialist countries combined material with non-material incentives, the balance between them often varying markedly over time (Lane, 1986, Wood, 1987). The Chinese leadership has at different times attempted to utilize both material and moral incentives to encourage productivity in support of economic growth (Henley and Nyaw, 1987, Jackson, 1992, Takahara, 1992).

Moral and spiritual based pay norms

In Western societies rewards are considered to be of strategic importance for employee attraction, retention, motivation and performance, which will in turn enhance organisational performance, even though the existence of such a link and the effectiveness of pay as a management strategy long remain debatable. Rewards in China used to be treated, however, to a much lesser extent as a motivational strategy of pursuing organisational efficiency and effectiveness than as a necessity to cover the living costs of the employees themselves and their family, in a Marxist tradition. Yu (1998) and Cooke (2003) identified four main norms that governed rewards in China before the economic reforms: 1) The contribution norm. For instance, the seniority wage system essentially rewarded the employee for the additional work experience accumulated in the past work years, because work experience reflected one's potential to make more contributions. Even today seniority pay remains one of the components in the formal pay structure in the public sector. 2) The effort norm. Chinese employers tended to attach considerable weight to their employees' work attitude and the effort they had made in their work, often to the disregard of outcomes. This norm was typically applied in selection for promotion and bonus allocation. 3) The morality norm. This included one's political loyalty to the Communist Party, integrity of personality, and diligence at work, which played a key role in promotion decisions and other kinds of rewards. 4) The egalitarian norm. This played the most significant role in rewards as it was a taken-for-granted assumption of fairness and equity.

Small pay differential between individuals

There was a small gap between individuals' pay. Wages at each grade were fixed and total payroll was determined by the overall number of employees. This reward system was not linked to personal performance, work attitude or even technical skills. The increases were commonly according to national grade promotions which were based on seniority or political background and connections (Knight and Song, 1991, Shenkar and Chow, 1989, Walder, 1986). Moral encouragement was emphasised rather than the materialistic dimensions of human aspirations, because it involved less risk for managers to use non-material incentives (Zhao, 1995). Moreover, the salary was normally low but with high subsidies. Tsang (1984) pointed out that subsidies paid by SOEs in 1984 included work insurance, medical coverage, public welfare, non-staple food, winter heating fee and home-leave travelling allowances. Subsidies paid by the central government were housing,

education and medicine, transportation and staple foods. These subsidies helped to form the ‘iron rice bowl’.

3.4.1.2 Rewards in China after 1978 (post-reformed model in the 1980s and 1990s)

The traditional employee reward system became a major target of China’s economic reforms after 1984. Top Chinese leaders became aware of the basic deficiencies of the reward system, which was being criticised as ‘eating from the big iron rice bowl’, which literally means a life—tenure employment system. They realised that wage reform was essential and the weaknesses of the reward system must be overcome. The top decision makers clearly stated that the primary socialist principle of “to each according to one’s work” was the only practicable approach to distributing wealth. The policy of “allowing some people to get rich first” was adopted to accelerate productivity and economic growth. The wage reforms played a vital role in China’s transformation from a centrally-planned economy to “market socialism”.

The Chinese government implemented two reforms of the employee reward system for SOEs in 1985 and 1992. Consequently, the employee pay package diversified and employee reward shifted from equal distribution to income polarisation among employees working in both state and non-state enterprises such as FIEs. Diversified forms of reward systems such as floating and structural pay systems were introduced in 1985. A structured pay system consists of basic pay, position pay, floating pay and allowances. The proportion of each component varies according to the nature of business and different types of industry. A fixed pay system was supplemented by a floating pay component. The basic pay and allowances were relatively stable to ensure the employee’s minimum standard of living, while the variable portion motivated workers to work harder.

This new system saw the reintroduction of bonus incentives and has, operationally, made it easier to quantify the worker’s performance and easier to link such performance to pay (Zhao and Nichols, 1996). In theory, the structural pay policy represented a marked shift in the principle of pay reform by placing far greater emphasis on position, which should reflect competence and responsibility, i.e. ‘to each according to their work’. The policy was to enhance workforce morale by improving the relationship between their responsibility and wages, defining more persuasive wage differentials among them and guaranteeing their

basic livelihood. It was also an attempt for China to move away from the Soviet-style grading system and to build in greater rewards for flexibility.

Employee pay began to be linked to their performance after 1978. Pay reform started in 1983 with the introduction of a new incentive structure which combined decentralised control with differential remuneration. An emphasis on meritocratic methods was indicated in the top priority assigned to current performance as the most important basis for allocating rewards. In determining the basis of reward allocations, current performance, prior service, work effort, political/moral devotion, hardship and acquired skills, seniority, gender and fairness were all considered important.

Another new position-and–skills pay system was introduced in 1993 in order to facilitate enterprise reform. The new pay system was divided into two parts: fixed pay and flexi-pay. It is believed that the third reform moved employee pay to a non-egalitarian system that closely linked employee earnings to their performance both at individual and organisational level. Moreover, a survey conducted by Henley et al. (1987) showed that material incentives, such as pay increases and bonuses, were ranked by workers as first and second out of twenty motivation items, although research conducted in the early 1980s had revealed that bonuses often became a solid part of the basic pay of employees (Nelson and Reeder, 1995, Tu and Jones, 1991). Therefore, the development of the reward system in China can be summarised in terms of changes in pay model, pay determinants, pay differentials and structure as in Table 3.3 below:

Table 3.3 Development of rewards in China

	Pre-reform (1949-1978)	Post-reform (1980s and 1990s)
Reward model	Iron rice-bowl Strong egalitarianism	Fixed and floating wage system
Pay determinants	Seniority and political loyalty	Moving to non-egalitarian
Pay differentials	Minimal	Introduced high wage differentials
Pay structure	Rigid – eight-grade wage system	Diversified – basic wage, position wages, floating wages and subsidies.
PPF	Absent	Added performance related pay such as payment by results schemes

Source: Developed for this thesis.

3.4.1.3 New challenges for rewards after the WTO membership

China's accession to the WTO opened a new page in China's reform and further engagement in the process of globalisation. The impact of globalisation on the division of labour and HR in the East Asian region have been identified by Zhu et al., (2004). The first issue is about the international division of labour. The second is about changes in employment/unemployment via the process of globalisation. The third issue relates to the enterprise-level management of HR. The restructuring of industries under the political pressure of globalisation has led to a number of consequences, such as relocation of factories, downsizing and retraining (Warner, 2002). These shifts have created new enterprise-level HRM practices, such as recruitment flexibility, fixed-term employment contracts, performance based compensation and rewards, training and career development, as well as an emphasis on commitment and motivation towards the organisation and work. Furthermore, many more people are today engaged in high-value-added hi-tech industries. The imbalance between the shortage of skilled labour and oversupply of unskilled and semi-skilled workers has become obvious. Employee rewards which attract and retain good performers with good HRM policies have become critical in recent years.

3.4.2 Reward management in the knowledge age

Chapter 2 section 2.4 introduced the current development of knowledge-intensive industries in China. This section discusses the challenges and renewed focus of reward management in knowledge age.

Smith and Kelly (1997) believe that future economic and strategic advantage will rest with the organisations that can most effectively attract, develop and retain a diverse group of the best and the brightest human talent in the market place. Obviously, this puts HR at the forefront of the knowledge economy (Soliman and Spooner, 2000). As intellectual capital is the key competitive advantage in the knowledge economy, people management should naturally become an integral part of corporate strategy and a key responsibility of all managers.

The traditional domains of HRM take on a different colour when we view them as contributing to organisational knowledge stocks (Narasimha, 2000). In fact, the idea of the knowledge economy appears to place the fundamentals of HRM onto an entirely new

footing (Storey and Quintas, 2001). HR systems need to be geared towards creating and promoting a learning environment. Among the more important challenges to consider are: how to ensure an adequate supply of knowledge workers, a resource which promises to become scarce in the future; how to identify, develop and evaluate knowledge workers and the outputs they produce; how to motivate and reward knowledge workers to maximise their productivity and the quality of their outputs; and how to structure the organisation and how to make the transition to new organisational forms to obtain output and productivity from an increasingly knowledge-based workforce (Despres and Hiltrop, 1995). In order to effectively deal with the challenges above, reward management in knowledge firms becomes critical.

The management of rewards was once relatively straightforward: salary and job level went hand in hand. This is no longer the case. Empirical evidence indicates that many reward systems fail to deliver the expected results (Lawler, 1989) in the knowledge economy. Wilson et al. (1994) argue that many reward systems are biased towards management's view and do a poor job of recognising the individual's experience, organisational contribution and skill development, while many individuals believe their wages are unfair, their pay increases inequitable, their performance gains unrecognised and their creations or innovations unrewarded. It is also true that many reward programmes focus on hierarchical position and nominal job context as proxies for contribution to the business, even while this is at odds with the realities of knowledge-work where insights from any level can have a profound impact on the business.

When we study reward management practices, two theoretical models in reward management need to be concerned. The next section will critically review the two theoretical perspectives – universalistic and contingency models.

3.4.3 Reward management models

Kessler (2001) notes that reward management has also been treated in two different ways. One revolved around notions of high commitment, high involvement or high performance management, as seen in best practice or universalistic terms. The other was related to a concern with contingency, fit or match. Within the context of universalistic and contingency models, different forms of rewards have routinely been presented as part of a

high commitment bundle of practices while matching models have invariably linked reward to various contingencies. This section reviews the critics of the universal model, and illustrates the resource-based view and institutional theory as the two approaches of the contingent model, which is the theoretical lens for the research.

3.4.3.1 Critics of the universal model

The high commitment and high performance approaches link pay and indeed other HR practices to employee attitudes and behaviour. For instance, Wood (1999) notes that formulations of the high performance approach have placed particular emphasis on behaviour, suggesting that certain HR mechanisms have a particularly direct effect in this respect without the mediating influence of attitudinal re-structuring. The work of Bechker & Huselid (1998) drew attention to high-performance management, which appears to attach particular importance to contingent forms of reward as a powerful technique for stimulating required behaviours in this unmediated way.

The high commitment approach appears to give greater weight to pay's ability to influence employee attitudes, and more specifically its potential to generate organisational commitment. Kessler (2001) notes that the high commitment approach is silent on behaviour, but the assumption must be that enhanced employee commitment feeds through to 'desired' behaviours, which then contribute to improved organisational performance. Reviewing some of the major studies (see Table 3.4) on high commitment management practices makes it clear that there are a number of differences in approach to collective and individual forms of PFP.

Table 3.4 Studies on employee high commitment pay

Author	High commitment pay practices
Roach (1999)	Individual PFP – incidence of merit-based performance pay Collective PFP - collective group-performance-based pay (employee share options, profit sharing, group bonus)
MacDuffie (1995)	Contingent compensation: Corporate performance Plant performance Skills acquired
Wood (1996)	Some merit element in pay
Arthurs (1992)	Relatively high wages (relatively low wages) Stock ownership (incentive-based pay)
Walton (1985)	Variable rewards to create equity and reinforce group achievement: profit and gain sharing (PFP where feasible to provide individual incentive) Individual pay linked to skills and mastery (individual pay geared to job evaluation)
Cully et al. (1999)	Profit sharing and employee share ownership schemes
Pfeffer (1998)	High pay contingent on organisational performance

Source: Storey (2001), p211.

The high commitment model relates to the incidence and combination of collective and individual forms of performance pay. For many of the listed authors in table 3.5 high commitment reward is seen to reside in some combination of collective and individual approaches. As shown above, with a few exceptions these authors do not provide a sophisticated discussion of, or justification for, the inclusion of particular pay practices. Indeed, which reward approach is really suitable to the commitment model is unclear. The uncertainty about what constitutes a high commitment pay practice may well reflect the fact that similar pay approaches can be compatible with markedly different corporate HR philosophies or management styles and contextual circumstances. In other words, any given pay practice can be used in very different ways and for markedly different purposes rather than necessarily being associated with any particular HR model or narrowly defined goal. The high commitment label is provided by academic researchers and may or may not reflect management intent. Therefore, it is fundamentally misconceived to try to label any pay practice as intrinsically high-commitment oriented.

3.4.3.2 The contingency model

The relationship between pay practices and different contingencies might be viewed as taking two forms, one of which remains within the high commitment framework and the other which moves beyond it. If contingency is about match, then the high commitment approach does contain elements of contingency. It suggests that the efficiency and effectiveness of high commitment pay practices in terms of their contribution to business performance, depends on internal fit with other HR practices and with production systems or job design. Lupton & Gowler (1969) and Bowey et al., (1982) note that the contingency pay framework provided a comprehensive and sophisticated analytical map of the factors associated with organisational structure, design and operation which might affect the adoption of the different pay practices. The frameworks of contingent model including resource-based view and institutional theory focus on a fit or match between pay and a much wider range of organisational circumstances and related to a greater array of corporate needs.

A company's resources include all input factors owned and controlled by the firm that enable it to develop strategies that improve its economic status (Amit and Schoemaker, 1993, Daft, 1983). The resource-based view of the firm depicts an approach to compensation strategy that we characterise as high risk and high return. Much of the potential for success in this framework may result from synergistic fit between the pay policy and other organisation and employee level factors. In contrast, institutional theory explains how firms might take a lower risk, moderate return approach. Under institutional theory, through following 'best practice', firms decrease risk and may take a somewhat different route toward success.

Resource-based view of the firm

As Oliver (1997) points out, the resource-based view is driven by the assumption of economic rationality, that is an organisational concern with efficiency, effectiveness and profitability or the pursuit of 'sustained competitive advantage'. The route to these ends is seen to lie in the firm's leveraging of distinctive resources and capabilities. Three sets of resources are typically identified: physical, organisational and human. Pay might be seen as related to both human and organisational resources. Its relationship with HR has tended to

be in a supportive role. Thus interest has focused on whether pay can help generate and sustain employee know-how and skill.

Institutional theory

Institutional theory can be employed to describe a lower-risk approach for organisations choosing and implementing pay practices, but this approach may not offer as much synergistic benefit as the resource-based model (Gerhart et al., 1996). What an institutional approach can offer to firms is a way to respond adequately to pressures in the business environment, so that, at a minimum, reward does not become a competitive disadvantage.

According to institutional theory, organisations respond to pressures in their environments to conform to accepted ways of doing business so that they will appear legitimate to investors, customers, and others from whom resources flow and with whom they have relationships (Gerhart et al., 1996). Accepted ways of doing business are defined in the environment through a combination of historical, cultural, social, and other environmental forces that arise from a variety of sources, including the government, professions and sources internal to organisations. Organisations themselves are seen as socially-constructed, routine-reproduced programmes or rule systems.

The end result of the operation of institutional influences is that over time many organisations acquire similar structures, or use similar practices (Meyer and Roman, 1977). Institutional influences are visible in patterns of diffusion among organisations (Meyer and Roman, 1977; DiMaggio and Powell, 1983; Tolbert and Zucker, 1983). Over time, as newer pay practices such as PFP come to be seen as acceptable ways of doing business, increasing numbers of firms from a variety of industries will adopt some form of these pay policies, and an ever-widening pattern of diffusion will be evident. The level and form of organisational responses to institutional pressures may vary (Eisenhardt, 1988; Powell, 1991).

Comparison between resource-based view and institutional theory

The relationship between these two theories are identified by (Gerhart et al., 1996) (see Table 3.5). Resource-based approaches represent a high risk – high potential return option,

whereas institutional approaches represent a low risk – lower potential return option. Resource-based approaches to reward aim for sustained competitive advantage by adding value in a way that is rare and difficult to imitate, whereas institutional approaches strive for parity with other organisations in the business environment. In some senses, the high potential for resource-based approaches begins where the benefits of institutional approaches end.

Related literature suggests that the resource-based and institutional approaches of firms are complementary. Oliver (1991) argues that resource-based and institutional approaches to rewards may be compatible in the area of strategic behaviour. It is possible for organisations to respond strategically to institutional influences. Also, of course, the resource-based view of firms is posited on the strategic action of these organisations.

As discussed above, it is fundamentally misconceived to try to label any pay practice intrinsically high-commitment oriented. Best fit approach is better suited to describe pay practices. Resource-based and institutional approaches are interrelated with emphasis on different strategic orientation. Therefore, these two approaches are taken as the theoretical lenses in this study to explore the reward management situation in the context of China, particularly PFP. The next two sections will discuss the definition of PFP adopted in the thesis and critically review the existing literature on PFP.

Table 3.5 Comparison of resource-based and institutional theory

	Resource-Based Theory	Institutional Theory
Key idea	Firms strategically develop and integrate practices within systems	Firms choose practices in response to institutional pressures
What drives choice of practice?	Strategy	Environment
Manifestation	Firms develop complex, unique practices and integrate them in firm culture and with other practices	Firms imitate the practices of other firms, especially practices that are normatively acceptable
Coupling	Tight	Loose
Goals Level 1 Level 2 Level 3	Inimitability/Rarity/Integration Synergy Sustained competitive advantage	Legitimacy Continued resources, relationships Survival
Risks/Returns Risk Minimum required Resources & effort Potential pitfalls Potential gains Potential imitability of Practice	High High Penalty for system failure High-synergy Low	Low Low Penalty for nonconformity Low-avoid penalties High
Assumptions	Unique is good Complex is good People and firms can optimise Firms are idiosyncratic	Conformity is good Simple is good People and firms satisfies Firms are similar over time

Source: Gerhart et al., (1996)

3.5 PFP

This section examines definitions of PFP, and reviews the historical development of PFP practices in general and in the context of China.

3.5.1 Definition

Paying people based on performance has been a salient topic in books, newspapers and magazines throughout the last century. PFP has been defined in slightly different ways, as shown in several examples below.

PFP can broadly be defined as the explicit link of financial reward to individual, group or company performance (Armstrong and Murliss, 1991, Wright, 1991).

PFP is any form of direct pay that is not folded into base pay and that varies according to performance (Schulter and Zingheim, 1992) p. 154.

PFP is an alternative compensation system that ties pay to business outcomes and supports a participative management process. Cash payments are based on a predetermined measure or measures of group or organizational outcomes (Belcher, 1996) p.10.

PFP is one of employee rewards that received in addition to base pay, and it varies depending on the performance of the individual, team, company, etc. By its very nature, it is not guaranteed, although many organizations have allowed such programs to become entitlements, like base pay. PFP is usually received in a lump-sum check, and does not become part of base pay. PFP can also take the form of cash payments or equity related investments (Wilson, 1995) p. 53.

PFP, in contrast to fixed pay, is contingent upon some performance related outcome (Wiseman and Gomez-Mejia, 1998) p134.

According to the common themes in the definitions above, **PFP** is defined as the payment that is in addition to base pay and the payment that ties to performance measure at individual, group and firm level. This definition includes several dimensions: whose performance is being assessed? How is it being measured? And how is it being rewarded? First, the definition highlights the coverage of PFP schemes. The schemes can relate to the individual employee or to the group however defined. Second, the definition focuses on performance measures. These can take the form of employee-group inputs or outputs and be expressed in 'harder' quantifiable terms or in 'softer' qualitative forms. Third, the definition concentrates on the performance-pay link. The definition directs attention to the distinction between a relatively fixed relationship, where a given level of output usually

produces an automatic payout, and a less mechanistic link often founded on some assessment of individual/group performance.

3.5.2 Development of PFP in the West

PFP plans are diverse and complex now, and depend on the strategic circumstances of each organisation. It would have been very uncommon for a person in 1900 or even 1950 to have a total reward package that included awards based on individual contributions, profit sharing bonuses, stock options, plus choices among various benefits and services. Such a package is increasingly common today (Milkovich and Stevens, 1999, Heneman, 2002).

By the early 1900s, scientific management had transformed incentive plans. The standards and rates under earlier plans were haphazard and prone to manipulation by both supervisors and employees. Taylor engineered differential piece rates by designing the work into discrete tasks and determining minimum times to complete them. Group based gain-sharing plans gained ground during the 1930s and 1940s. In 1953, 50 percent of U.S. workers were paid by some type of group-based incentive plan (Milkovich and Stevens, 1999). For much of the post-Second World War period, the concern with PFP in Britain focused primarily on manual worker individual bonus systems, especially in the private manufacturing sector. This focus sprang from the importance attached to instability in industrial relations as a cause of the difficulties emerging in the British economy from the mid- to late 1960s. This instability was traced in large part to the traditional piecework systems that covered almost six million employees at that time. These systems were seen to have decayed in the face of workplace pressures, undermining ordered national bargaining, generating conflict, earnings drift and rigidities in working practices.

During the 1960s and 1970s, the use of all forms of pay-for-performance plans declined. The U.S. Bureau of Labour Statistics surveys in the 1968-1970 period show that only 20 percent of manufacturing workers were paid under incentive plans (compared to 50 percent in 1953); other industries show much smaller percentages. By the 1980s and 1990s, contemporary high performance work systems included a variety of approaches that attempt to foster a high performance – high commitment organisation culture (Milkovich and Stevens, 1999). The notion of embedding PFP as part of cultural values started

becoming popular. The use of different types of PFP plans by organisations proliferated over the last decade (Lawler, 2000).

Immense pressure for higher performance has led corporations to search continually for managerial practices that will enhance competitiveness. An increasingly large number of corporations have explored how rewards, particularly money, could be linked to desired behaviour and/or performance outcomes to improve effectiveness (Gerhart and Rynes, 2003, Rigby, 2001) A recent survey by the US Institute of Management Administration indicated that 82 per cent of American companies have PFP plans (Administration, 2005), compared with about 50 per cent in the early 1990s (Merriman and Deckop, 2007). PFP is also now a 'standard element of the management toolkit' for the UK and has particularly grown in use throughout the public sector (Merriman and Deckop, 2007).

3.5.3 Development of PFP practice in China

PFP was absent in the pre-reformed pay system before the economic reform in 1978 (see Section 3.4.1). The first stage of the pay system reform in China (1978-1984) started with the restoration of piece rates and bonuses in 1978 which weighted only 3.1 percent of total cash income. However, by 1984, this figure rose to 24 percent (Han and Morishima, 1992; Yuan, 1990). Moreover, the autonomy of SOEs over the distribution of bonuses substantially increased over the reform period. The amount of bonus paid was based, in principle, on the collective performance of the work group and the individual performance of workers.

The second stage of the pay system reform (1985-1992) was to link total cash income, rather than bonuses, to enterprise performance (Zhuang, 1994; Byrd, 1992). The autonomy of SOEs in determining bonuses was further expanded. The new stage of the pay system reform (1992 to now) has been moving towards full autonomy of enterprises over pay to meet the requirements of a market economy (Wang, 1997). On the macro-level, the rigid state control over aggregate pay was replaced by a more flexible approach. At the micro-level, SOEs have full authority to design their own pay systems (Zhuang, 1994). Another significant step in the pay system reforms was to introduce an annual salary system applicable to senior managerial staff, especially enterprise directors. The purpose was to increase the pay-disparity between the latter and common employees to such an extent that

the manager is sufficiently motivated to improve enterprise performance. It was also designed to break any collusion between the manager and employees, by separating the interests of the two parties (Zhuang, 1994). The pay reform programme is still underway. In the transition to the market economy, it can be predicted that the state administered pay system will finally be wholly replaced by a market-oriented pay system in which the pay level reflects the supply-demand conditions in the labour market and management-employee collective negotiation (Warner and Ng, 1999).

In summary, PFP in the West began to be used in the 1930s-1940s and became popular in the 1990s, while PFP in China began to be adopted after the economic reform in 1978, and was then gradually developed under the control of the state during the 1980s and 1990s. The next section will review the existing research on PFP.

3.6 Review of existing literature on PFP

This section critically discusses the existing literature on PFP in general, in Asia and in China, which directly lead to identifying research gaps and establishing research focus and questions of the thesis in Chapter 4.

3.6.1 Research on PFP in general

Research has examined a variety of ways in which PFP systems impact individuals, groups and organisations (Stajkovic and Luthans, 2001). There has been a growing interest in group PFP systems and the conditions under which systems are most effective (Hollensbe and Guthrie, 2000). Many firms have implemented group-based PFP plans – a trend that is likely to continue (Flannery et al., 1996). In a survey Gross (1995) found that 51 percent of companies either had group pay programs or were considering instituting them. This trend is supported by impressive results, including increased productivity (Hansen, 1997, Kaufman, 1992), teamwork (Hatcher and Ross, 1991), pay satisfaction (Welbourne and Cable, 1995), group communication (Hanlon and Taylor, 1991), and decreases in grievances (Hatcher and Ross, 1991) and monitoring costs (Cooke, 1994). Group pay plans take on many names and forms, including profit sharing, gain-sharing, team incentives, goal sharing, achievement sharing, and results sharing (Belcher, 1996, Lissy, 1993, McNutt, 1990, Schuster and Zingheim, 1993).

Scholars have also looked not just at motivation, but also at the broader impact of pay-for-performance systems, such as how they affect organisational learning (Arthur and Aiman-Smith, 2001), the relationship between pay distribution and individual and organisational performance (Bloom, 1999), how the PFP plan helps the firm attract and retain more productive employees and motivates these employees to further improve their productivity (Banker et al., 2000) and how pay dispersion affects managerial turnover (Bloom and Michel, 2002). The impact of pay dispersion has also been a topic of growing interest (Bloom, 1999, Bloom and Michel, 2002, Shaw et al., 2002). In addition, gender differences and their impact on pay satisfaction (Graham and Welbourne, 1999) have been identified. Furthermore, some attention has been given to particular professions, such as accounting, and the distinctive impact that PFP systems can have on different professions (Bonner and Sprinkle, 2002).

Controversy over PFP

Despite the breadth and sophistication of topics being examined, research related to PFP has been strongly controversial. For instance, an examination of studies of PFP programmes suggests that performance improves in approximately two out of three programmes (Heneman et al., 2000). On the other hand, research into PFP in the UK over the past decade has failed to show that such systems have an effect on performance (Hendry et al., 2000, IRS, 2003). The controversy surrounding PFP largely reflects an implementation issue and is not a question of the incentive value of money per se (Gupta and Shaw, 1998, Kerr, 1999, Lawler, 1990, Luthans and Stajkovic, 1999). Pfeffer (Pfeffer, 1995, Pfeffer, 1998) argues that the major reason for weak or mixed effects of PFP appears to be in the design and implementation procedures. For example, PFP systems can have a destructive effect on intrinsic motivation, self-esteem, teamwork, and creativity. Furthermore, other scholars have argued that the real problem is that incentives work too well. Specifically, they motivate employees to focus excessively on doing what they need to do to gain rewards.

With regard to the controversy over PFP in practice, PFP advocates argue that intelligent design of programs is essential to avoid pitfalls. However, intelligent design alone is insufficient to assure the success of such programs. As Pfeffer et al., (2001) note, persistent gaps exist between what managers know (the concepts they can articulate) and what they

can actually do. Thus, intelligent design must accompany effective implementation over time in order for pay systems to run effectively. In particular, two significant barriers must be overcome: barriers associated with linking performance to effort, and with linking pay to performance. In addition, these two types of barriers must be overcome in a way that is perceived as fair and equitable by management and employees alike.

Pfeffer et al., (2001) also note that potential barriers to linking performance to effort include difficulties in measuring performance; factors outside the control of individuals and groups being paid for that performance; and managers and peers being uncomfortable with rating employees differently. Potential barriers to linking pay to performance include the following: employees can come to rely on the additional compensation; employees are biased toward overestimating their own contributions; corporate budgets for bonuses often limit payouts; and managers can lose commitment to the pay system if it pays out more than anticipated due to problems in payout standards and if there are changes in performance standards due to changes in technology and organisational arrangements and unanticipated learning curves. It is changing circumstances that make it difficult for managers to sustain links between pay and performance in a way that will avoid perceptions of unfairness and inequity. Such perceptions can undermine the perceived link between pay and performance that is so important to sustain its motivational power.

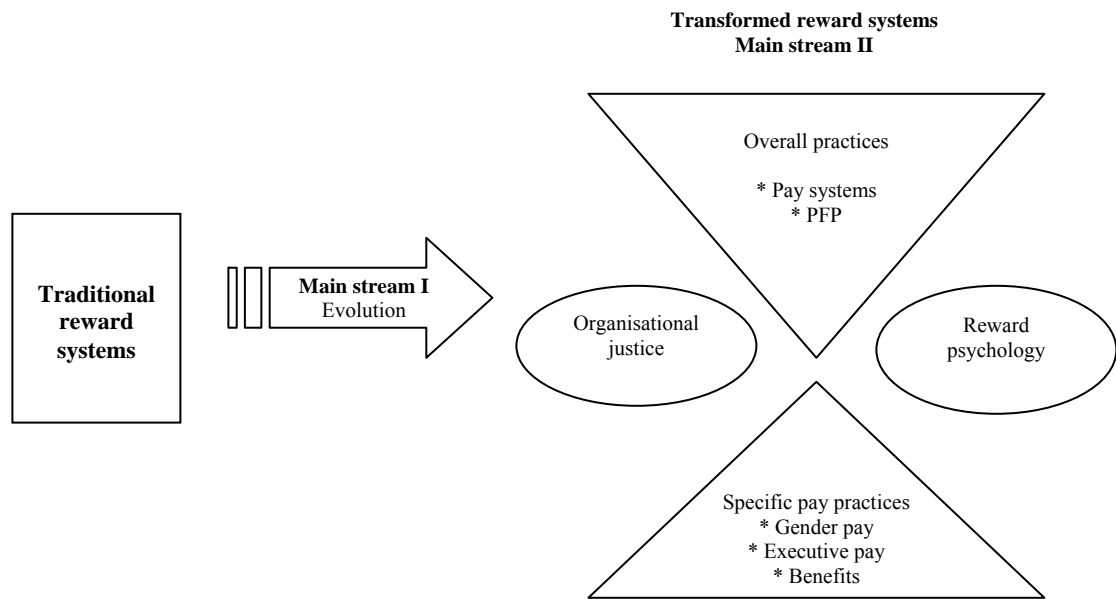
Importance of PFP design and implementation

Despite the importance of understanding design and implementation PFP systems in order to overcome these and other barriers, little research has studied implementation (Fay et al., 2001). In a broad review of the theory and evidence on compensation practices, Gerhart and Rynes (2003) detected a number of significant disparities between what is important to know about compensation and what is being researched. In addition to the lack of attention on implementation, the study of managerial decision making related to pay systems has also been neglected. More specifically, Gerhart and Rynes (2003) note that pay practices vary widely and are not simply dictated by market forces and the environment. Instead, managers play an active role in determining whether to initiate, retain, or modify a system of PFP and what type of system to use. However, very little academic research has investigated how managers make these decisions and implement the system.

Nevertheless, Werner and Ward (2004, Werner, 2002) further argue that the vast majority of the research on rewards has been published in North American Journals, authored by academics from North American universities, and uses North American samples. Therefore, it is quite likely that those researches (as in many other areas) suffer from a North American perspective bias. This raises the question whether the findings and theories of that research can be generalised to a global context.

3.6.2 Research on PFP in Asia

Wei and Rowley (2009) reviewed articles on rewards published from 1990 to 2007 inclusive in 33 top management journals. In general, studies on rewards in Asia fall into two main streams. One follows the evolution of reward systems and the analysis for these studies is at the macro level of the economy, society, and/or HRM. The other stream is the micro-analytical and studies at industrial, organizational level from both the management and employees' perspectives. Eventually, 8 areas were identified in existing studies based on the level of analysis (see Figure 3.1). These were: the evolution of reward patterns from macro perspectives; plus 7 areas from micro perspectives: pay systems (as a whole), performance related pay, gender pay, executive rewards, employee benefits, reward psychology, and organisational justice. *Main Stream I* focuses on the evolution of traditional rewards; *Main Stream II* focuses on transformations in rewards, including overall rewards (firm level pay systems and PFP), specific rewards (gender pay, executive pay and employee benefits), reward psychology and organisational justice.

Figure 3.1: Topic areas of rewards in Asia

Source: Adopted from Wei & Rowley (2009).

It is noted that PFP has been one of the major areas covered by researchers on rewards in Asia. However, this area has not been very well studied. Papers on PFP have been mainly on China and South Korea. For instance, PFP in SOEs and the sports industry in China, and attitudes of Chinese workers towards individual PFP (Baruch et al., 2004, Bodmer, 2003, Bozionelos and Wang, 2007), or the effect of individual PFP on organisational commitment and the implementation of PFP in the government of South Korea (Kim, 2002, Chang, 2006), comparisons of skill based pay, PFP for sales forces, and the impact of incentives on innovation between US and Japan (Brown and Reich, 1997, McMillan, 1990, Money and Graham, 1999), and cultural influences on incentive pay design, and PFP in the retailing industry of Singapore (Soon and Huat, 1999) and other examples. From management's perspectives, the impact of hierarchy and job characteristics on PFP and pay and performance measure have been studied (Chen and Chen, 2004); from employees' perspectives, attitudes to PFP and influences of PFP on employees' organisational commitment and work effort have been studied (Baruch et al., 2004, Bozionelos and Wang, 2007, Chang, 2006). However, the design and implementation of PFP has not been paid much attention.

3.6.3 Research on PFP in China

As discussed in Section 3.4.1, the traditional reward system which was strictly controlled by the state rather than the enterprise became a major target of the economic reform in 1978. Three major changes happened after the reform (Zhu, 2000): First, linking pay to enterprise performance was launched in 1984; Second, diversified pay packages emerged, and the restoration and development of the bonus system was another distinctive change. The third major change in the reward system was that FIEs were subject to much less stringent government regulations compared with SOEs. Since the issue of the labour law in 1994, FIEs only need adhere to the minimum wage regulation.

Most of the research and discussion on PFP in the literature has involved studies performed in Western nations such as USA, the UK and Australia (Heneman, 1992, Bartol and Locke, 2000). One of the few studies examining reward practices across different countries such as Argentina, Belgium, Korea, Japan, Mexico, France and Germany etc is (Schuler and Rogovsky, 1998). It was reported that PFP was more likely to be associated with cultures having higher levels of individualism as opposed to collectivism (Schuler and Rogovsky, 1998). Hofstede (1991) identified China as generally being a collectivistic culture, so PFP would not be generally appropriate for Chinese organisations. Shenkar and Chow (1989) described the traditional reward system in China as avoiding material incentives with an emphasis on egalitarianism. However, Zhu and Dowling (1994) believed that China's market reform would lead to significant changes in management practices, including changes in production and reward systems that would place an increasing emphasis on efficiency and performance. They indicated that with 'increased autonomy and decision making power it is becoming possible for managers to select differential monetary rewards to motivate the workforce according to individual performance' (Zhu and Dowling, 1994: 7). Moreover, recent studies in China's SOEs and MNCs do indicate certain acceptance and adoption of PFP (Baruch et al., 2004, Ding et al., 2006, Shen, 2004).

Studies on rewards in China from 1980 to 2007 inclusive were reviewed by the researcher. Table 3.6a and 3.6b show the topics, theoretical frameworks, findings and methodology applied in the reviewed papers. It is noted that those studies have generally covered principles of psychology, economics, international management and labour law etc. Research topics include from the employees' perspective, pay preferences and satisfaction,

rewards allocations, motivation; and from management's perspective, reward systems in Mao's time, reward system changes, reforms and evolutions, firm determinants of pay, international reward, equity and equality of pay systems.

The current state of research on rewards in China can be summarised as below. **First**, like the current state of research on rewards in Asia, the evolution of employee rewards after China's economic reforms in 1978 has still been the large focus in previous studies on rewards. **Second**, the existing studies have heavily concentrated on rewards in SOEs and COEs rather than other ownership types, such as POEs and FIEs. This is understandable because from Mao's time to 1978, the start of the economic reform, almost 99 per cent of enterprises in China were SOEs, and also most of the changes in pay systems occurred in SOEs. Studies of rewards in the non-public sector, of both POEs and FIEs, have been very few, and those done were mainly on employee preferences of reward allocation and managerial pay (Shen, 2004, Baruch et al., 2004, Chen et al., 2002, Cheng and Firth, 2005, Ding et al., 2006). PFP in the non-public sector is far from being well studied. **Third**, methodology wise, the existing studies favoured quantitative approaches much more than qualitative ones, with only a few among the reviewed studies using case study methods (see Table 3.6b).

Table 3.6a Articles on rewards in China (content and findings)

Author and Year	Title	Level of analysis	Findings
Tung (1981)	Patterns of motivation in Chinese industrial enterprises	Organisation	Firms that intended to set up manufacturing operations in China should be knowledgeable about the nonmaterial incentives in order to put them to good use.
Sharpe (1982)	Reward system in China	Organisation	The paper discussed the reform of the bonus system after 1978.
Henley and Nyaw (1987)	The development of work incentives in Chinese industrial enterprises – material versus non-material incentives	Organisation	This paper discusses the factors affecting the work motivation of Chinese worker in SOEs, and the problems encountered in the wage reforms.
Shenkar and Chow (1989)	From political praise to stock options: Reforming compensation systems in the People’s Republic of China	Longitudinal	This paper examines the evolution of compensation schemes in China after 1978, and discussed the obstacles and prospects for the post-reform pay system in future.
Jackson & Littler (1991)	Wage trends and policies in China: dynamics and contradictions	Longitudinal	The paper reviews the pre-1978 Chinese low-wage and high employment policy and details the development of Chinese wage policies during the 1980s. The dynamics and contradictions which have resulted in inflation, declining labour productivity, falling real wages and social tensions are analysed.
Chow (1992)	Chinese workers’ attitudes towards compensation practices in the People’s Republic of China	Workers	An overview and background of the compensation methods used in the earlier socialist period and post-reform time were examined.
Groves et al., (1994)	Autonomy and incentives in Chinese SOEs	Organisation	The new incentives were effective: productivity increased with increases in bonus payments and in contract workers. The increase in autonomy raised workers’ incomes and investment in the enterprise, but tended not to raise remittances to the state.
Child (1995)	Changes in the structure and prediction of earnings in Chinese state enterprises during the economic reform	Organisation	The results indicates that in 1985 factors identified by the traditional model, especially age, were the most important predictors of earnings. By 1990, some movement towards the reform model had taken place, although age continued to have an important, albeit weaker, association with level of earnings and the link between and performance was still quite limited.

Source: Developed for the thesis.

Table 3.6a Articles on rewards in China (content and findings) – continuous

Author and Year	Title	Level of analysis	Findings
Child (1995)	Changes in the structure and prediction of earnings in Chinese state enterprises during the economic reform	Organisation	The results indicates that in 1985 factors identified by the traditional model, especially age, were the most important predictors of earnings. By 1990, some movement towards the reform model had taken place, although age continued to have an important, albeit weaker, association with level of earnings and the link between and performance was still quite limited.
Chen (1995)	New trends in rewards allocation preferences: A Sino-U.S. comparison	Organisation	The Chinese employees were economically oriented and preferred to invoke differential rules for the allocation of both material and socio-emotional rewards whereas their U.S. counterparts were humanistically oriented and preferred a performance rule for the allocation of material rewards but equality rules for socio-emotional rewards.
Yao (1997)	Profit sharing, bonus in SOEs	Organisation	Previous studies do not consider labour quality may have produced biased results. The positive effect of bonus payment on production found by others is confirmed.
Giacobbe-Miller (1997)	Equity, equality and need as determinants of pay allocations: A comparative study of Chinese and US managers	Organisation	Both equity and equality were emphasised in Chinese allocation decisions. Equity was the primary criterion for US managers. However, equality was the primary criterion for Chinese managers. Need was a significant criterion among Chinese managers, but not for US managers. However, the amount allocated according to need was not very meaningful.
Meng and Perkins (1998)	Wage determination differences between Chinese state and non-state firms	Organisation	The state and collective sectors behave more like labour managed firms in that they try to maximise income per worker rather than profit, whereas POEs are profit maximisers.
Luk and Chiu (1998)	Reward systems for local staff in China	Organisation	The perceived effectiveness of various reward components by employees were base salary, merit pay, year-end bonus, individual bonus, cash allowance and overtime allowance. This indicates that cash-form items are found to be most effective in attracting, motivating and retaining local Chinese staff.
Dong (1998)	Employment and wage determination in China's rural industry	Organisation	The paper examines the employment and wage behaviour of Chinese TVEs, based on a panel of data for the years 1984-1990
White et al., (1999)	Pay systems and regional convergence	Organisation	This paper compares pay policies and wage determination across Hong Kong SAR and Guangdong province.
Lee (1999)	Wages and employment in China's SOEs: 1980-1994	Organisation	Using firm-level panel data, the importance of reform measures, market development, and insider forces in wage and employment determination in China's SOE sector are examined.

Source: Developed for the thesis.

Table 3.6a Articles on rewards in China (content and findings) - continuous

Author and Year	Title	Level of analysis	Findings
Cooper et al., (1999)	Gaming against managers in incentive systems: Experimental results with Chinese students and Chinese managers.	Organisation	The strategic interaction between firms and planners in China, comparing behaviour between students and managers with field experience with this situation.
Huang (1999)	The impact of education and seniority on the male-female wage gap: is more education the answer?	organisation	The results show that gender and education have a strongly positive and interactive effect on income. The implication is that, although males have been seen to benefit from the impact of additional education on wages, more education for females may still help narrow the gender-based wage gap.
Choe and Yin (2000)	Contract management responsibility incentives	Organisation	When the managers in SOEs make decisions under uncertainty to maximise their own expected compensation, it is shown that managerial contracts generally fail to provide incentives to managers for expected profit maximisation.
Coady and Wang (2000)	Incentives, allocation and labour market reforms during transition: the case of urban China 1986-1990	Cross-section	Failure to address the issue of endogenous selection of more 'able' individuals into SOE can severely bias returns downwards. Unlike in SOEs, returns in COEs increased, the latter having been allowed to 'grow out of the plan' more quickly and subject to more competition in factor and product markets.
Zhang (2001)	The effects of frequency of social interaction and relationship closeness on reward allocation	Individuals	Both past interaction and future interaction between the co-workers significantly influenced the allocation decision. The results also suggested that the frequency of 2 individuals' past interaction can be predictive of the closeness of their relationship.
Zhou and Martocchio (2001)	Chinese and American managers compensation award decisions: A comparative policy capturing study	Cross-nation	Compared with American counterparts, Chinese managers (a) put less emphasis on work performance when making bonus decisions; (b) put more emphasis on relationship with co-workers when making non-monetary decisions; (c) put more emphasis on relationship with managers when making non-monetary award decisions; (d) put more emphasis on personal needs when making bonus decisions.

Source: Developed for the thesis.

Table 3.6a Articles on rewards in China (content and findings) – continuous

Author and Year	Title	Level of analysis	Findings
Chiu et al., (2001)	Hong Kong and China: The cash mentality revisited	Cross-region	Employees in Kong and PRC are both highly motivated by the cash mentality. Cash can be very effective in attracting and motivating employees.
Chui and Luk (2002)	Retaining and motivation employees: Compensation preferences in Hong Kong and China	Cross-region	In Hong Kong, base salary, merit pay, year-end bonus, annual leave, mortgage loan, and profit sharing were the most important factors to retain and motivate employees. In China, base salary, merit pay, year-end bonus, housing provision, cash allowance, overtime allowance, and individual bonus were the most important factors to retain and motivate employees. Results are discussed in light of economic, geographic, and culture-related factors.
Chen et al., (2002)	Making justice sense of local-expatriate compensation disparity: Mitigation by local referents, ideological explanations, and interpersonal sensitivity in China-foreign joint ventures	Organisation	Fairness vis-à-vis expatriates increased if the locals were compensated higher than their peers in other IJVs or endorsed ideological explanations for expatriates' advantage. Furthermore, expatriates' international sensitivity toward locals reduced the effect of disparity on perceived fairness. Finally, perceived compensation fairness was related positively to compensation satisfaction but negatively to intentions to quit.
Bodmer (2003)	On the use of incentive pay in Chinese state-owned enterprises: the role of hierarchy	Organisation	Wage are quite sensitive to firm performance, especially at higher levels of the hierarchy.
Nie et al., (2002)	Gender-based perceptions of equity in China's state-owned enterprises	Organisation	Differences between male and female employees' perceptions of equity in SOEs were found to be statistically significant only among those employees with fewer years of work experience and those this lower levels of technical skills. Perceptions of equity were also found to be related to the job satisfaction of both male and female employees.
Hickey (2003)	MNC pharmaceutical compensation in China: A predictor for human capital trends	Organisation	When comparing the costs of Western pharmaceutical workers with their Chinese counterparts, the differentials are large. Nonetheless, these labour savings will not be realised to the organisation if employee development and ensuing succession are not in place.

Source: Developed for the thesis.

Table 3.6a Articles on rewards in China (content and findings) – continuous

Author and Year	Title	Level of analysis	Findings
Liu (2004)	A comparison of management incentives, abilities, and efficiency between SOEs and TVEs: The case Iron and Steel industry in China	Iron and steel industry	The problem of the inefficient management of SOEs is deep-rooted and multi-faced. The results obtained evidence that the reform measures had conflicting impacts on production efficiency and managers' reward.
Baruch et al., (2004)	Performance related pay in Chinese professional sports	Organisation	The results indicate the importance of the valence for monetary incentives, the instrumentality of performance for these incentives and clear individual and group objectives for improving performance.
Shen (2004)	Compensation in MNCs	Organisation	A model of Chinese international reward and compensation is found.
Cooke (2004b)	Public-sector pay in China: 1949-2001	Organisation	An overview of three major reforms in China's public sector pay system for the last five decades is assessed. The pay system in China demonstrates certain unique characteristics such as egalitarian culture and heavy proportion of bonus in the pay package.
He et al., (2004)	Reward-allocation preferences of Chinese employees in the new millennium	Organisation	The effects of ownership reform and collectivism on rewards-allocation preferences based on the model of allocation goal priority and the conceptual distinctions of vertical and horizontal collectivism.
Cheng and Firth (2005)	Ownership, corporate governance and top management pay in Hong Kong	Cross-region	Director and institutional ownership moderate compensation but that is little evidence that they encourage PFP reward schemes.
Kato and Long (2006)	Executive compensation, firm performance and corporate governance in China: Evidence from firms listed in Shanghai Shenzhen stock exchanges	Organisation	It is statistically significant sensitivities and elasticities of annual cash compensation (salary and bonus) for top managers with respect to shareholder value in China's listed firms.
Ding (2006)	Organisational differences in managerial compensation and benefits in Chinese firms	Cross-section	Organisational factors, such as ownership, firm size, firm age, location and industrial sector, have significant impact on the variances in Chinese managers' compensation levels, compensation structures and benefits.
Lee et al., (2006)	The impacts of benefit plans on employee turnover: a firm-level analysis approach on Taiwanese manufacturing industry	Organisation (Manufacturing)	With respect to the firms' employee turnover rate, retirement fund and fringe benefits are negative while severance plans are significantly positive. The results are consistent with the transaction cost theory.
Bozionels and Wang (2007)	An investigation on the attitudes of Chinese workers towards individual performance-related reward systems	Organisation	Attitudes towards equality and equity-based rewarding were negatively and positively related, respectively, with attitudes towards individually based performance-related reward systems.

Source: Developed for this thesis.

Table 3.6b: Articles on rewards in China (methodological considerations)

Articles	Research strategy	Research methods	Empirical studies	Data collection tool	Samples	Sampling method
Tung (1981)	Qualitative	Case study	Yes	Interviews	SOEs	Convenience
Sharpe (1982)	Qualitative	Explanatory	Yes	Case study	SOEs	Convenience
Henley and Nyaw (1987)	Quantitative Qualitative	Explanatory & Survey	Yes	Secondary Questionnaire	SOEs	Convenience
Shenkar and Chow (1989)	Qualitative	Explanatory	Yes	Secondary	-	-
Jackson & Littler (1991)	Qualitative	Explanatory	Yes	Secondary	-	-
Chow (1992)	Quantitative	Survey	Yes	Questionnaire	SOEs JVs	Judgement
Groves et al.,(1994)	Quantitative	Survey	Yes	Questionnaire	SOEs	Snowballing
Child (1995)	Quantitative	Survey	Yes	Questionnaire	SOEs	Convenience
Chen (1995)	Quantitative	Comparative	Yes	Role-play Questionnaire	SOEs	Judgement
Yao (1997)	Quantitative	Case study	Yes	Questionnaire	SOEs	Judgement
Miller 1997	Quantitative	Comparative	Yes	Role-play Questionnaire	SOEs, JVs, POEs	Convenience
Meng and Perkins (1998)	Quantitative	Survey	Yes	Questionnaire	SOEs, COEs, POEs	Judgement
Luk and Chiu (1998)	Quantitative	Survey	Yes	Questionnaire	FIEs	Random
Dong (1998)	Quantitative	Survey	Yes	Secondary	TVEs	-
White et al., (1999)	Quantitative	Survey	Yes	Questionnaire	JVs and FIEs	Judgement
Lee (1999)	Quantitative	Survey	Yes	Secondary	SOEs	-
Cooper et al., (1999)	Quantitative	Experimental	Yes	Random game test	Students Managers	Judgement
Choe and Yin (2000)	Quantitative	Survey	Yes	Secondary	SOEs	Random
Coady and Wang (2000)	Quantitative	Survey	Yes	Secondary	Households	Random
Zhang (2001)	Quantitative	Experimental	Yes	Questionnaire	Chinese adults	Random
Zhou and Martocchio (2001)	Quantitative	Experimental	Yes	Questionnaire	Chinese & American l	Convenience

Source: Developed for the thesis.

Table 3.6b: Articles on rewards in China (methodological considerations) - continuous

Articles	Research strategy	Research methods	Empirical studies	Data collection tool	Samples	Sampling method
Chiu et al., (2001)	Quantitative	Survey	Yes	Questionnaire	SOEs FIEs	Random
Chui and Luk (2002)	Quantitative	Survey	Yes	Questionnaire	Bankers, students	Random
Chen et al., (2002)	Quantitative	Survey	Yes	Questionnaire	FIEs	Judgement
Bodmer (2003)	Quantitative	Survey	Yes	Questionnaire	SOEs	Convenience
Hickey (2003)	Qualitative	Case studies	Yes	Interviews	MNCs	Judgement
Liu (2004)	Quantitative	Case study	Yes	Secondary	SOEs, TVEs	Judgement
Baruch et al., (2004)	Quantitative	Survey	Yes	Questionnaire	Sports sector	Judgement
Shen (2004)	Qualitative	Survey	Yes	Interviews	MNCs	Convenience
Cooke (2004b)	Qualitative	Descriptive	Yes	Secondary	SOEs	-
He et al., (2004)	Quantitative	Survey	Yes	Questionnaire	SOEs	Judgement
Cheng and Firth (2005)	Quantitative	Survey	Yes	Secondary	FIEs	-
Kato and Long (2006)	Quantitative	Survey	Yes	Secondary	SOEs	-
Ding (2006)	Quantitative	Survey	Yes	Questionnaire	SOEs, FIEs, PLFs	Judgement
Bozionels and Wang (2007)	Quantitative	Survey	Yes	Questionnaire	SOEs	Convenience

Source: Developed for the thesis.

3.7 Conclusion

This chapter critically reviewed both theoretical and empirical literature on three relevant bodies: HRM, reward management and PFP. The conceptual formation of HRM was not a purely 'Western' notion, but a combination of both 'East' and 'West' conceptualisations. This argument is also indicated in the transformation of people management systems in Asia as well as China. The process of transformation of people management in Asia has been a triangular influence among the US, Europe and Asia. The development of HRM in China demonstrated that apart from the foreign influence, the state, Chinese culture and history strongly impacted the changes.

Universalistic and contingent approaches have dominated studies in international HRM, more specifically reward management. However, it is fundamentally misleading and misconceived to try to label any HRM practice as universal best practice and any reward practice intrinsically high-commitment oriented. Cultural and institutional factors highly influence HRM practice in different economies. The contingent approach is better suited to explain those cultural and institutional factors than the best practice approach. Furthermore, the different approaches of the contingent perspective - resource-based view of the firm and institutional theory are evaluated as the theoretical lenses in studying reward practices in the context of China in the thesis.

HRM is facing new challenges in the knowledge economy, so that strategic positioning of reward management has become critical in knowledge-intensive companies. PFP as a managerial tool to enhance higher performance has been shown to be a widespread and growing practice. This chapter provided a broad picture of PFP practice in both the West and China. Furthermore, the current state of research on PFP in general, in Asia and in the context of China were evaluated. Hence, the neglected areas, focus and methodological considerations in the existing studies were discovered to support further development of research focus and research questions for the thesis in Chapter 4.

CHAPTER FOUR

RESEARCH QUESTIONS

4.1 Introduction

Chapter 2 briefly provided the historical development of the Chinese economy and its non-public sector knowledge-intensive industries as the background to the research. Chapter 3 critically defined PFP as a concept and examined the existing studies on PFP. Based on the literature in the above two chapters, this chapter demonstrates the research focus and proposes research question for the thesis. This chapter firstly identifies the research gaps in the existing studies on PFP, upon which the aim, focus and research objectives of the thesis are then generated, and research questions are defined. Finally, the literature and theories relevant to each research question are evaluated.

4.2 Research aim and objectives

Chapter 3 section 3.6 critically reviewed the existing literature on PFP in general, in Asia and in China. This section further identifies empirical and theoretical gaps in the existing literature, and establishes specific research aims and objectives for the thesis.

4.2.1 Gaps in the existing literature

First, the key controversies over PFP were linking pay to performance and linking performance to effort (Pfeffer and Sutton, 2001). Therefore, chapter 3 section 3.6 identified the importance of PFP design and implementation in order to overcome the potential barriers. However, organisations struggle with design and implementation. The intelligent design of PFP is essential to avoid pitfalls, and it must accompany effective implementation over time. In the existing literature of PFP in general there are very few studies of the barriers to linking pay to performance, managerial decision making relating to PFP plans, and how the system is implemented (see Section 3.6.1).

Second, PFP has been largely studied in Western nations. However, PFP is still an area which has not been well developed in the existing literature of rewards in Asia. In addition, rewards in China have focused on the evolution of pay systems and employee pay preferences; pay system in the non-public sector has been rarely studied. Further, PFP

design and implementation has been paid extremely little attention (see Section 3.6.2 and 3.6.3).

Third, the importance of reward management in knowledge based organisations has been identified (see Section 2.2). However, PFP in China's knowledge based industries has been neglected (see Section 4.2.3.4).

Fourth, methodology wise, studies of PFP in the West, Asia and China have mainly adopted a quantitative approach. In addition, the majority of studies on PFP in the West used North American data (Werner, 2004), which might lead to problems with generalising findings in a global context. The majority of studies on PFP in Asia as a whole and in the context of China heavily applied quantitative questionnaire survey in the empirical studies. There is certainly a need for studies on PFP with non-Western and qualitative data. There is also a need for exploratory and theory building research. Qualitative research, such as in-depth, longitudinal case studies can discover important phenomena, especially by being sensitive to what may be special in one context but does not exist in another.

4.2.2 Aims and objectives

In accordance with the discussion above, the overall aim of the thesis is to fill the gaps in the existing literature by exploring the nature of PFP practice in the context of China. Moreover, the thesis is to provide qualitative data, such as cases and share insights that inform those neglected research areas in PFP design and implementation, specifically China's non-public sector knowledge-intensive firms.

The focus of this thesis is on the experience of the management in those companies of their PFP practices. Four specific research areas are identified in order to achieve the overall aim and further develop research questions. **First**, in order to give a fair treatment to the topic, fundamental knowledge about the situation of PFP in the current pay system as well as the ways that management make their decisions on PFP adoption in knowledge-intensive industries is necessary; **Second**, the specific PFP plans and management's concern about introducing the plans are to be identified; **Third**, intelligent design must accompany effective implementation process. The specific organisation's way of conducting their PFP, and the methods applied to measure performance are essential. **Fourth**, an increasing

amount of evidence demonstrates that line managers play a vital role in implementing rewards and HR policies successfully, and creating committed and high performance work team (Brown and Purcell, 2007). The line managers' buy-in of PFP strategy can be critical in running the system. Therefore, the research objectives for the thesis are: (a) to examine the importance of PFP in the current pay system; (b) to identify PFP plans adopted and how they are designed; (c) to illustrate PFP implementation issues; (d) to examine the role of line management in PFP design and implementation.

There are different ways and perspectives to study PFP because pay plans vary as to pay basis, design and administration (Gomez-Mejia and Balkin, 1992a). Studies of PFP could be from the management's and /or the employees' perspectives. This research examines PFP plans adopted, the main characteristics of the plans, the performance measures selected, and the implementation from a management's perspective only. The employees' acceptance of PFP system, their preferences of PFP plans, their view of PFP design and implementations by management and equity of PFP are not included. Moreover, Studies on PFP could also focus on process or outcome. Process encompasses who "champions" the plan when it is designed and sold, how opportunities for participation are utilised, how the appeal procedure is operated, how performance feedback is provided and so on. This research focuses on PFP plan characteristics only.

One can ask why PFP plan characteristics matter, the tie to organisational effectiveness seems critical and must be addressed at least in a general way. The existing research shows that it is fundamentally misleading to label any pay practice as a universal 'best practice'; therefore, contingent theory can better explain pay practices (see Chapter 3 section 3.4.3 for details). The contingency theory holds that the more rational the decision-makers, then the greater the extent to which plan characteristics reflect a good fit, and consequently, the more effective the plan (Balkin and Geomez-Mejia, 1987, Lawler, 1990). Following this, the researcher argues that pay plan characteristics and its effectiveness are interrelated. This study examines PFP plan characteristics only, which is as important as the effectiveness.

Limitations of the research focus must be made explicit. This study does not deal with the consequences of PFP plan success or failure, including the plan's impact on organisational functioning, and/or individual performance, although the research might to some extent

indicate the positive impact of PFP design and implementation on employee motivation and performance. Moreover, Bechker and Huselid (1996) note that pay plans should be viewed as a part of broader HR systems, in which other elements could harmonise or be at odds. Research also shows that pay plans are more likely to affect organisation performance when they are bundled with other incentives or HR practices (Gomez-Mejia and Balkin, 1992a). However, this study deals with PFP design and implementation practices only. Other HR practices by management, such as training and development which might also add value to PFP plans are not discussed. In addition, PFP system implementation can include different aspects, for instance, PA, communication and feedbacks. However, this study examines PA as the main process of implementation only. Based on the discussion above, specific research questions are defined and frameworks and theories in relation to each of the research questions are considered in the following sections.

4.3 Question 1: How important is PFP in the current pay system?

Pay systems are the processes of paying employees within a given pay mix and structures. The process of evolution of the pay system in China can be summarised as below (see Chapter 3 for details): Before the economic reforms, the Chinese government adopted a unified grade-wage system, following the Soviet model, in which differentials in wage levels were based on different regions and industrial sectors (Takahara, 1992). At that time, labour markets did not exist and urban labourers were paid according to the wage grades. Despite the constant efforts by the labour authorities to make the wage system conducive to productivity, the so-called ‘Rational Low Wage System’, which governed compensation in the state sector in China before the economic reforms had generally been criticised as being equalitarian, over-centralised, rigid and insensitive to variations in performance (Chow, 1992, Cooke, 2004b, Takahara, 1992).

With the deepening of the economic reforms, the traditional compensation and benefit system characterised by the ‘iron rice bowl’ and ‘cradle-to-grave welfare’ has faded out to be replaced by a hybrid, market-oriented, performance-based reward system (Ding, 2000, Warner, 1996). Chinese enterprises began to realise the importance of breaking the equalitarian mentality and providing sufficient incentives to motivate employees to seek better firm performance. Changes in the compensation system include the introduction of higher wage differentials and a shift in the relative weight of the various compensation

components. A number of market-oriented, performance-based floating or variable components have been incorporated into employees' pay structures, such as position wages, skill wages, subsidies, bonuses and profit sharing. The first stage of the pay system reform (1978-1984) started with the restoration of piece rates and bonuses in 1978 which weighted only 3.1 percent of employee total cash income. However, by 1984, this figure rose to 24 percent (Yuan, 1990, Han and Morishima, 1992). Moreover, the autonomy of SOEs over the distribution of bonuses substantially increased over the reform period. However, the level and structure of employee rewards tend to change over time, vary by the ownership of the firm, and differ across firms from different industries (Ding et al., 2006).

The existing literature on rewards in China has heavily focused on the traditional pay system itself and its transformation. Also, studies on rewards in the non-public sector have been few and mostly on employee preferences towards rewards allocation and managerial pay. PFP practices in the non-public sector have been very little. In order to explore the current situation of PFP in the non-public sector, it is highly necessary to examine the extent to which PFP weights in the current pay mix and pay structures of the non-public sector. Therefore, the first sub-question is proposed as below:

1a: To what extent is PFP adopted?

This question illustrates the proportion of PFP in the pay mix, and the extent to which pay depends on performances in the pay structure. This section is concerned with outlining the relevant theories on components of pay mix, types and determinants of pay structures as below.

Components of pay mix

The traditional Chinese pay system (before the economic reform in 1978) can be roughly broken down into three sub-systems: 1) the eight-scale pay structure for production workers, mainly in mining, energy and heavy industries; 2) the post or job-type pay structure, for employees mainly in light and service industries; 3) the responsibility pay structure, mainly for managerial and technical personnel in enterprises (Henley and Nyaw, 1987). After the reform, monthly pay consisted of two parts: a basic pay and a supplementary pay (Warner, 1995, Ng and Warner, 1998). The existing literature shows the employees' preferences of

rewards allocation (Chiu and Luk, 2002), but the exact pay components and pay structures in the non-public sector have been absent.

Armstrong (1996, , 2004) divides a pay mix into three key areas: base pay, variable pay and employee benefits. Base pay is determined through job evaluation studies and pay surveys that inform the pay structure. Variable pay (for example, profit sharing and bonus payments) and employee benefits (such as company pensions and healthcare schemes) are determined according to individual performance, practice in the organisation and minimum standards set by national legislation and influenced by custom. All three taken together make up the total remuneration received by the individual. If the theory is applicable to the current pay mix in the non-public sector, the findings should display similar components to what Armstrong described. Then, the weight of PFP in the pay mix should be identified.

Pay structures

Pay structures provide a framework for managing pay. The Chinese traditional pay structure was identified as strictly graded. The transformed pay structure in the 1990s was still influenced by the government official pay guideline (Ding et al., 2001). The existing literature on rewards in China does not show the exact current pay structures in the non-public sector. The main types of pay structure identified by Armstrong (2004) are narrow-graded, broad-banded, career family and job family structure. A **narrow graded** pay structure consists of a sequence of job grades into which jobs of broadly equivalent value are placed. A pay range is attached to each grade. The maximum of each range is typically between 20 per cent and 50 per cent above the minimum. The pay ranges provide scope for pay progression, which is usually related to performance, competence or contribution. Grades may be defined by job evaluation in points terms, by grade definitions or simply by the jobs that have been slotted into grades. Differentials between pay ranges are typically around 20 per cent and there is usually an overlap between ranges, which can be as high as 50 per cent. This overlap provides more flexibility to recognise that a highly experienced individual at the top of a range may be contributing more than someone who is still in the learning curve portion of the next higher grade.

Broad-banded structures are replacing narrow-graded structures in many organisations (Armstrong and Murlis, 2004). ‘Broad-banding’ means that the number of grades is

compressed into a relatively small number of wider ‘bands’ in which pay is managed more flexibly than in a conventional graded structure, and increased attention is paid to market relativities. Broad-banded structures allow for considerable overlap between different occupations and levels of responsibility, albeit with the maximum obtainable amount of pay usually still increasing as one progresses through the bands and being consistent with increased management responsibility. The key difference between graded and broad-banded structures is that the latter are simpler and more flexible.

Career family structures consists of jobs in a function or occupation such as marketing, operations, finance, IT, administration or support services, which are related through the activities carried out and the basic knowledge and skills required, but in which the levels of responsibility, knowledge, skill or competence needed, differ. Typically, career structures have between six and eight levels, which places them somewhere between narrow-graded and broad-banded structures. The number of levels may vary between career families and certain, often higher, levels may not be divided. Within each career family there are defined career paths for progressing to higher levels and routes for pursuing careers in other families. **Job family** structures consist of separate grade and pay structures for different job or career families. Whereas career families are focused on an occupation or function, job families are typically based on common processes. For instance, IT, finance, HR and legal jobs would be identified as separate in a career family structure, but a job family approach might combine all these roles into a ‘business support’ family. This approach means that typically there are only three to five separate families, although some organisations have many more. Each job family has its own structure that may be graded in terms of skills, competences, or responsibilities.

Determinants of pay structures

There are three factors that determine pay structures – job, market and person (Suda, 2007). Labour markets are generally divided into two types: external labour markets and internal labour markets (Doeringer and Piore, 1971, Williamson, 1975). The market taken in this paper as the factor for analysis of the pay system is mainly the external labour market. There are two basic types of pay structure: job-based and person-based (Lawler, 1990, Milkovich and Newman, 2002, Lawler, 2000). In the job-based structure, pay ranges may be determined by reference to relative internal value (established by job evaluation) and

external relativities (established by market pay data) (Gomez-Mejia and Balkin, 1992a, Milkovich and Newman, 2002). Thus, the job and the market are the factors that determine pay structures in a job-based pay structure. Pay levels of individuals increase within a salary grade or between salary grades according to the individual's contribution or time in the job. Therefore, the factor considered in pay systems is the person (performance and time). Consequently, job, market and personal factors determine individual pay levels and constitute pay systems in a job-based pay system.

In a person-based pay structure, personal performance and personal attributes, such as skills, knowledge and behaviour determine pay rates and pay structure (Lawler, 1990, Lawler, 2000, Milkovich and Newman, 2002). In theory, this means that pay levels are determined by the person's value based on internal and external relativity. However, as market rates of pay for personal elements have not been established, market rates of pay have no direct influence on individual rates of pay. Therefore, only the person determines individual pay levels and constitutes the pay system in a person-based structure.

In relation to this research question, if the current pay structures in China's non-public sector comply with some of the types above, the findings should indicate certain features discussed in this section. Further, this question examines the determinants of pay range and pay progression within the pay structure to explore the extent to which pay depends on performances in the pay structure.

Question 1a identifies the proportion of PFP in employee pay mix, and whether PFP is an important determinant in the pay structure. However, to further identify the importance of PFP in the current pay system of the non-public sector, the management's purpose and motivation for doing PFP needs to be explored. Therefore, the second sub-question is proposed as below:

1b: Why do firms use PFP?

The aim of this question is to show how the management sees the use of PFP in their rewards setting process. This section is concerned with outlining the theories in relation to why PFP is employed by organisations from economic, motivational and institutional

perspectives. Agency theory, expectancy and equity theory and legitimacy and institutional factors are examined below.

Agency theory

In the many decades of scholarly research into pay, the main theoretical perspective taken has been an economic one, using an agency theory approach. **Agency theory** (Jensen and Meckling, 1976) examines the relationship between principals (the shareholders) and agents (the management). It sees there has to be an inherent conflict of interest in the relationship: management is portrayed as risk-averse and work-shy, has an incentive to run the company for their own benefit, which conflicts with the owners' desire for shareholder value. The complexity of management's roles means that shareholders cannot effectively monitor management's every action and decision. Accordingly, agency theory sees the structure of remuneration contracts as one way of motivating management to manage the company in line with shareholders' wishes. For a fuller explanation of agency theory see Eisenhardt (1989a) or Hart (1995).

Prendergast (1999) suggests that there are three main assumptions underlying agency theory. The **first** of these is that there is in fact a conflict of interest between management and the shareholders. Not all of the participants in the debate believe this (Davis et al., 1997). However, it is a common assumption, and one that also seems to underlie the broader, non-academic debate as seen in the (Financial-Report, 2003, Report, 2003), and that assumption is not challenged in this thesis. The **second** two assumptions suggested by Prendergast (1999) are that management can be motivated to do as the shareholders wish by using a form of performance related pay; and that their contracts are written in such a way as to facilitate this. These latter two assumptions are considered in this research. If agency theory tenets underlie the use of PFP, the research findings should demonstrate that PFP plans induce the management to work harder and take risks in the expectation of earning the reward.

Motivation: expectancy theory and equity theory.

Given agency theory assumptions that management can be motivated by monetary reward, it is appropriate to look too at the academic literature on motivation. In particular, two aspects are considered – whether money motivates and, if so, how money motivates. The

question “does money motivate?” is one which has been considered by many researchers. Deci (1972) discussed two kinds of motivation – extrinsic and intrinsic. Extrinsic motivation relates to what is done by others to motivate employees – for example, paying them a performance-related bonus. However, intrinsic motivation relates not to outside influences, but to the individual employee, and derives from the individual’s satisfaction in doing the job. An argument summed up by Ambrose and Kulik (1999) and Milkovich and Newman (2002) is that intrinsic motivation is more powerful than extrinsic, and, indeed, the use of an extrinsic driver will decrease the employee’s intrinsic motivation, and thus reduce his or her job performance. Osterloh and Frey (2002) explain this as occurring because extrinsic rewards “crowd out” intrinsic motivation, to the possible detriment of performance. However, one of Osterloh and Frey’s arguments for this is that the external reward has the effect of reducing the autonomy of the employee, thus reducing his or her intrinsic motivation. A further consideration on the subject of motivation arises from one of the classic texts on the subject. Maslow (1970) discusses motivation in terms of the hierarchy of needs, suggesting that we first need to satisfy our physiological needs then, in order, safety needs, love needs, esteem needs (self esteem and the esteem of others) and self actualisation. He points out that a satisfied need is not a motivator of behaviour.

Assuming for the moment that extrinsic measures do provide motivation, it is also useful to see how they might work. Two theories are useful in considering this – expectancy theory and equity theory. **Expectancy theory** (Vroom, 1964, Bonner and Sprinkle, 2002) states that employees will only be motivated by a reward if they see that reward as being something worthwhile; believe that they will receive the reward for achieving the appropriate performance; and can see how they could achieve that performance. If those conditions are in place, the individual has an incentive to achieve the relevant performance.

Equity theory (Adams, 1963) relates to equity between individuals, or, perhaps more correctly, inequity between individuals. The theory suggests that employees look to a relevant comparator person (for example, someone on the same grade within the company, or someone doing a similar job in a different company) and compares the ratio of their own inputs (how hard they work) and outputs (what they get paid) with that relevant other’s. If the ratio indicates that their input/output ratio is too high (which would occur if they were relatively underpaid) or too low (overpaid) then they will act to redress the inequity. The

relevance of this theory to the research is that an equity theory explanation would place the emphasis of PFP on a comparison with others, both internally and externally, rather than just considering the absolute monetary incentive.

Institutional theory and legitimacy theory

As discussed earlier, there were government regulations that strongly impacted on the traditional pay systems (see Chapter 3 section 3.4.1 for details). In this context, institutional theory and legitimacy theory may be relevant to PFP practices. Proponents of **institutional theory** (DiMaggio and Powell, 1983, Scott, 1995) take the view that often companies structure themselves in order to be like other companies, rather than for reasons tailored to their individual circumstances. Explanations given for the above include coercive isomorphism (the need to meet the requirements of regulators) and mimetic isomorphism (the desire to be like other companies which are perceived as good). Linked to both of these theories is the concept of **legitimacy** (Harrison, 1987, Suchman, 1995), which suggests that companies need to structure their activities in order to achieve legitimacy in the constituencies from which they draw resources. In defining legitimacy, Suchman (1995) stated that it is “a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, beliefs and definitions” (p. 574). In the context of this sub-research question, it is useful to consider this motive for using PFP by the management. It is possible that PFP plans are adopted not so much to enhance performance, but merely so that the company meets ‘best practice’ and does not attract adverse attention from, for example, its institutional shareholders.

4.4 Question 2: How is PFP designed?

PFP was defined as the payment that is in addition to base pay and the payment that ties to performance measure of individual, group and firm level excluding non-cash forms. The second research question is to examine how PFP is designed by management in the non-public sector knowledge-intensive industries of China. Therefore, it is necessary to identify what kind of PFP plans are adopted by the management and what might influence their adoption. The two sub-questions are proposed as below:

2a: *What types of PFP plans are adopted?*

PFP plans are commonly divided into the following three main categories (Reilly, 2005): (1) payment-by-results schemes: such as productivity bonus and sales incentives, where a proportion of the employee's pay is linked directly to the level of output of business outcome. (2) Performance schemes: including individual performance-related rewards and team based pay, where employees are encouraged to meet specific standards or objectives that are not necessarily linked directly to output but help the organisation achieve its overall business goals. (3) Financial participation schemes: such as profit sharing paid in cash or shares via some form of equity-based arrangement, where employees are entitled to a share of the organisation's performance or profits.

Table 4.1: PFP forms

Payment-by-results schemes	Performance schemes	Financial participation schemes
Productivity bonus Sales incentives	Gain-sharing Multi-factor schemes	Profit-sharing Share incentive plan Company share option plan

Source: Adapted from Reilly (2005)

Based on the literature above, this question explores management's choices in setting up a PFP scheme as below: (1) Coverage – is it to be an inclusive scheme covering all employees or exclusively designed for certain groups? (2) Focus – is it to be a scheme based on the performance of individuals or teams? (3) Uniformity of design – are there different schemes for different business units or functions or a single mechanism for all employees involved? (4) Form of review – is the scheme to be based on some form of managerial assessment of performance (eg through an appraisal) or automatic in the sense that performance against targets is obvious (eg productivity or sales)? (5) Type of measures – are these to be soft (eg behavioural) or hard (eg output-based)? The former will need managerial assessment. Are the measures against an absolute standard or relative, eg: comparing one team against another doing the same job but at different times or in different places but in the same business unit? Comparing one team against other teams in other business units in a multi-company group? Comparing one team against an external benchmark, eg a national standard of performance?

2b: What are the contextual factors that impact on the adoption of PFP?

RQ2a explores PFP plans and types. To understand the mechanics of PFP design, the factors that impact on firms' PFP plan choices are to be evaluated. The contingency theory of reward strategy holds that the effectiveness of a reward strategy depends on the fit among environment, organisation, and strategy (Balkin and Gomez-Mejia, 1992, Lawler, 1990). Therefore, PFP plan design is a function of the organisation in which the pay plan is located and the environment in which the organisation operates. There is no agreement as to "one best approach" to PFP design.

Gerhart and Mikovich (1990) argue that differences in pay components across organisations may be substantial. Surveys have shown that the use of profit sharing, lump sum bonuses and other rewards vary across industries and occupations (O'Dell, 1987). Organisational factors, such as ownership, firm size, location and industry type, may affect the level of rewards (Cole and Healy, 2000, Tang et al., 2000, Chiu and Luk, 2002). However, the existing literature on factors impacting on PFP design in the context of China is extremely sparse. Factors that impact on pay strategies discussed in the previous studies in the context of China are reviewed as follows.

Ownership: Kroll et al., (1997) note that top management pay is influenced by the governance of an organisation, such as the composition and structure of a firm's ownership. Gomez-Mejia and Wiseman (1997) found that firms with institutional stakeholders tend to have lower levels of top management pay, higher proportions of long-term incentives, and stronger links between top management pay and firm performance. A survey in 2003, conducted by an institute under China's State Council's Development Research Centre, indicated that firms with foreign investment pay more than SOEs and POEs (China-Daily, 2004a). Another survey in 2004 found that FIEs in China offer their local managers not only higher pay, but also better benefits and more performance related reward packages (China-Daily, 2004b).

Location: China's uneven transition towards a market economy involves different policies and enforcement in urban versus rural areas, coastal provinces versus inland provinces, and special economic zones versus non-favoured areas (Fleisher and Wang, 2001). China's prosperous coastal and southern regions are much more open to foreign investment and

modern management systems and practices, in sharp contrast to the less-developed northern and inland regions that lack attractiveness to foreign investors and are less exposed to modern HRM systems and practices due to insufficient infrastructure. Employees in Eastern China earn more than those in other parts of the country (China-Daily, 2004b).

Firm size: Sales volume and number of employees have been positively related to pay level (Mellow, 1982). Larger firms tend to have more complex operations and organisational structures. Larger and more complex reward schemes are thus necessary to attract and retain qualified employees (Ryan and Wiggins, 2000). Possible explanations for this relationship included: (1) the larger the firms, the more sources, and therefore the higher the rewards for employees (Williams and O'Reilly, 1998); (2) the larger the firm, the more complex, and therefore increased pay for additional job requirements (Becker, 1975); (3) the larger the firm, the more hierarchical levels and therefore the larger the pay differentials (Child, 1973, Simon, 1957).

Firm age: The age of the firm in the context of China is found to be correlated with ownership type: most SOEs have longer histories than FIEs, which were established only after the economic reform in China (Ding and Akhtar, 2001). Newly established firms are quicker to adopt market oriented reward systems, compared with firms with long histories, which tend to be influenced by traditional people management practices and suffer from more deeply embedded institutional habits and greater barriers to change.

Industrial sector: Economic research by Krueger and Summers (1988) found significant industry effects on pay levels that were stable over time. One possible explanation is that organisations in a particular industry encounter similar constraints in technology, resources, product demand and pricing. These constraints impact an organisation's ability to pay (Gerhart and Milkovich, 1990). Many researchers assert that industry differences may have an effect on rewards and benefits (Williams and O'Reilly, 1998, Barkema and Gomez-Mejia, 1998). Balkin and Gomez-Mejia (1987) state that firms in high-tech industries pay a higher percentage of bonuses relative to salary in comparison with firms in non-high-tech industries. Empirical evidence also suggests that top managers tend to have higher pay in an uncertain, dynamic and ambiguous environment (Balkin and Gomez-Mejia, 1992, Boyd and Finkelstein, 1998).

Ding (2006) tested the impact of factors discussed above on managerial compensation and benefits. The results indicated that not only industry sector, but also firm age, ownership and location impact the level of managerial compensation. Based on the discussion, this question examines the possible factors that might impact on the adoption of PFP by management in China's non-public sector knowledge-intensive industries.

4.5 Question 3: How is PFP implemented?

Intelligent design must be accompanied with proper implementation over time to run a PFP system effectively. RQ3 is to explore the implementation issues in China's non-public sector knowledge-intensive industries. However, PFP implementation can be a complex process. Pfeffer and Sutton (2001) argue that one of the significant barriers in implementation is linking performance to effort, which includes difficulties in measuring performance. Therefore, PA is defined as the focus of this research question.

Definition of PA

The concept of PA has changed over the years. PA has usually been equated with annual appraisals which measure the entire year's effort of an employee, often in terms of numbers (Rao, 2008). More recently the concept has been expanded to PM, a broader term and encompassing many elements and aspects for a system, for instance planning, development, improvements, recognition, and so on. Many people e.g. (Armstrong and Baron, 1998) regard PA as a strategic and integrated approach which can increase the effectiveness of organisations by improving the performance of people and by developing the capabilities of teams and individual contributors. PA allows the company to retain and reward high performers and to offer guidance and improvement to poor performers (Smith and W., 2003).

The historical review of PA in China

PA practices have long existed in China with strong Chinese characteristics (Zhu and Dowling, 1998). However, it is also evident that the Western PA system has been influencing the Chinese system since the economic reform in 1978 (Bai and Bennington, 2005, Cooke, 2003). The development of the performance management system in China can be divided into two broad periods.

The first period was the state planned economy period during which the operations of enterprises were strictly controlled and management practices were greatly limited. Employees were generally classified into two groups: workers and cadres (persons engaged in certain specified leadership or management work). PA for ordinary workers mainly focused on attendance monitoring and skill grading tests. The former was used as the basis for wage deduction whereas the latter was used for pay rise. Since pay increase was frozen during the Cultural Revolution period (1966-1976), skill grading tests were in effect not carried out. In addition, personal character traits were used as part of the criteria in evaluating an employee's performance. For the professional and managerial staff (broadly classified as state cadres), PA was used primarily as a means for selecting and developing cadres and as evidence for promotion (Zhu and Dowling, 1998). In the early years of Socialist China, ideological and technical elites were promoted. However, during the Cultural Revolution period, political performance (e.g. loyalty to the Communist Party) and moral integrity were the key criteria of performance measurement instead of technical competence and output. Organizational leaders were not enthusiastic in conducting PA in part because they lacked informative job specifications and performance indicators and in part they found the exercise time-consuming (Chou, 2005). The process of such appraisals were characterised by vagueness, being open to individual interpretation and dominated by political ideology. Thus, its effectiveness is often questionable.

The second period started from the early 1980s till now, i.e. the period of market economic development. During this period, and particularly since the 1990s, Western PA systems have been more widely and systematically adopted by organizations in both the FIEs and SOEs than in the past (Zhu and Dowling, 1998, Lindholm, 1999, Bai and Bennington, 2005). For example, Björkman and Lu's (1999) study of 72 FIEs in China found that nearly half of them had adapted their western PA system to suit the Chinese culture. Ding *et al.*'s (1997) study of 158 FIEs in southern China showed that 'regular evaluation of individual employee performance and setting employee pay levels based on individual performance have become organizational norms' p611. They also found that workers were receptive to individual-oriented performance measurement and rewards in order to maximise their income. Lindholm's (1999) survey of 604 Chinese managerial and professional employees from MNCs in China found that they were satisfied with the western-styled performance management system adopted in their company. Bai and Bennington's (2005) more recent

study of the Chinese SOEs in the coal mining industry revealed that as a result of increasing pressure from intensified market competition, Chinese SOEs were utilizing modern PA measures as effective tools to enhance their management efficiency and productivity. PA has also become a top priority in the management of government and civil service organizations since the mid-1990s, as part of the state's broader initiative of reforming its civil service function (Cooke, 2003).

Changes have been taking place in PA practices that departed from the traditional form. Generally speaking, PA for ordinary workers is mainly about linking their productivity and level of responsibility with their pay and bonuses in order to motivate them to work towards the organizational goals. By contrast, results of PA for professional and managerial staff are often linked to annual bonuses and promotion (Cooke, 2007). Changes in cultural outlook are also occurring in China. For example, Bai and Bennington's (2005) study revealed that the Chinese cultural values did not impede the implementation of individual PA. However, there are numbers of factors that influence the PA in China, mainly in the design of the performance indicator, and the process of conducting PA (Cooke, 2007), which is the area that existing literature on PA shows insufficient evidence. Therefore, the first sub-question is identified as below:

3a. In what ways is performance measured?

Gerhart and Rynes (2003) identified that there are two types of performance measure often used in recognizing individual or collective contributions to organisations, behaviour-oriented and results-orientated performance measures (see Table 4.2 below).

Table 4.2 Type of performance measure

Level of Aggregation	Results	Behaviours
Individual	Individual PFP Sales commissions	Merit pay Merit bonuses Skill-based Competency-based
Collective	Group incentives Gain-sharing Business unit plans Profit sharing Stock plans	Merit pay for groups

Source: Gerhar & Rynes (2003) p 103.

Different types of appraisal instruments include graphic rating scales (GRS); ranking; forced distribution; behavioural observation scales (BOS); 360-degree feedback; management by objectives (MBO); behavioural anchored rating scales (BARS); and peer- and self-evaluations (Weatherly, 2004; DiNisi and Griffin, 2001). This question examines how performance measurements are determined and the implementation process of PA in knowledge-intensive firms. The question also examines to what extent PA has developed in knowledge-intensive firms compared to the traditional form, as well as the challenges in their implementation.

However, PA systems are used for a number of reasons and can have a significant impact on salary administration, performance feedback, promotions, training, development, and identifying an individual's strengths and weaknesses. Conventional approaches to PA treated it as a measurement exercise, while more contemporary approaches are more concerned with information processing within the PA decision-making process (Rusli and Nur Azman, 2004). The existing research does not show much literature in the context of China on this area. Thus, the second sub-question is defined as below:

3b: What functions does PA serve in PFP?

Ding et al. (1997) note that PA in the 158 FIEs in southern China is mainly used to determine pay. Chou (Chou, 2005) addresses the fact that PA is often seen as a waste of time and not taken seriously by either the appraisers or the appraisees. The lack of utility of PA as perceived by appraisers and appriasees remains a severe barrier to the effective implementation of PA, particularly in SOEs. A survey conducted by Deloitte Human Capital Consulting (China) in 2003 on 51 Chinese enterprises in a wide range of industrial sectors (Chen, 2003) found that PA outcomes were used for bonus distribution (by 88 percent of the sample), promotion, job re-allocation or redundancy (77 percent), pay adjustment (49 per cent), training and development planning (49 percent). Nearly 8 percent of the sample did not make use of PA outcomes at all.

According to Smith and Rupp (2003), PA can be a critical part of a company's success because they allow the company to retain and reward high performers and offer guidance and improvement to poor performers. Brumback (1988) suggests that PA has been used for two primary purposes. First, it is to help managers in making administrative decisions,

especially regarding pay and promotions. Second, it is to meet developmental objectives, such as coaching staff and assessing their training and development needs. Drawing from the literature review citations, a wide range of other purposes for PA systems has been suggested (Taylor and O'Driscoll, 1993). These include improving performance, validating personnel selection, facilitating supervisory feedback and control, and providing a platform for organisational diagnosis and development (Jacobs et al., 1980). The PA system is also important as a management tool to assess employees' efficiency in the workplace (Armstrong and Baron, 1998).

According to Rusli and Nur Azman (2004), PA is also being seen as having direct influence on job satisfaction and motivation of workers. Likewise, Cleveland et al. (1989a) have provided a comprehensive list of uses of PA. They developed and empirically confirmed an a priori grouping of these uses into four underlying factors. First, between-individuals (salary administration, promotion, retention/termination, recognition of individual performance, lay-offs, and identifying poor performance); Second, within-individuals (identifying individual training needs, performance feedback, determining transfers and assignment, and identifying individual strengths and weaknesses); Third, system maintenance (personnel planning, determining organizational training needs, evaluating goal achievement, evaluating personnel systems, reinforcing authority structure, and identifying organizational development needs); and fourth, documentation (criteria for validation research, documenting personnel decisions, and meeting legal requirements). This question examines functions of PA based on Cleveland et al.'s list above in the knowledge-intensive industries to explore how management make use of their PA results. Such a study is still rare in the context of China.

4.6 Question 4: How are line managers involved in PFP design and implementation?

HRM and line managers

The use of the term HRM has given rise to a considerable body of literature in an attempt to define, or deny, its distinctiveness in relation to personnel management (Armstrong, 1987, Beer et al., 1985, Blyton and Turnbull, 1992, Fombrun et al., 1984, Fowler, 1987, Guest, 1987, Guest, 1989, Hendry and Pettigrew, 1986, Keenoy, 1990a, Keenoy, 1990b, Legge, 1995, Storey, 1989, Storey, 1992, Ticky et al., 1982). One of the characteristics of HRM which has been accepted as distinctive, even by those who question its overall

distinctiveness, is an increased role for line managers, at all levels, in the management of human resources, for example Legge (1995). Therefore, one of the characteristic features of the HRM literature is the pivotal role which has been given to line managers as a delivery point for a variety of employment policies that are intended to raise the performance of the workforce.

The devolving of HRM activities to line managers has received much attention by both academics and practitioners (Larsen and Brewster, 2003, Cunningham and Hyman, 1999, Gibb, 2003, Renwick, 2003). For example, Sission (1994) identifies the key role for 'top managers' and 'line managers'. 'Top managers' should offer transformational leadership through the establishment of the organisation's mission and values, and by being highly visible and sharing their vision for future success with other employees. Middle managers have a vital role to play through their ability to inspire, encourage, enable and facilitate change by harnessing the commitment and co-operation of employees. The above researchers also see the development of employees as a primary role. For instance, Guest (1987) in his initial construction of the core tenets of HRM within the British context identified the role of line managers as one of its central components. He stated that the attitudes of line managers, along with their behaviours and practices, were crucial if the importance of HR was to be genuinely recognised and integrated into the organisation. Consequently, line managers should 'accept their responsibility to practise HRM although they may use specialist resources to assist in policy development, problem-solving, training and the like' (Guest, 1987)p512.

Legge (1989), in her review of US and UK models of HRM, concluded that HRM is 'vested in line management as business managers responsible for co-ordinating and directing all resources in the business unit in pursuit of bottom line profits' (1989:27). She argues that this approach differs from the classic personnel management model, where the line's role simply reflected the view that all managers were responsible in a general sense for personnel management because they all managed people. It also meant, according to Legge, that most specialist personnel work still had to be implemented within various line management departments by personnel specialists. Under what is deemed to be HRM, by contrast, managers handled such responsibilities themselves, which meant that the HR dimension was an integral part of business strategy, rather than something which simply

flowed from it. In short, the overall argument is that if people are really so critical then HRM is too important to be left to personnel specialists (Storey, 1995). In the British context, this has traditionally been depicted as a devolution of certain personnel activities to line managers after a voluntary re-allocation of responsibilities by the personnel specialists, possibly as part of a strategic review of their work (Storey, 1992).

Purcell and Hutchinson (2007) summarise that there are three debates on the role of line managers in the 1990s. First, within HRM there was substantial discussion on returning HRM to the line. Second, there is clear evidence that line managers' roles in people management have been broadened while maintaining their traditional supervisory duties. Third, a steady stream of studies in the period on aspects of the line managers' role in HRM, like appraisal, involvement and incentive pay, has noted the distinction between espoused and enacted HRM practices with the gap often explained by line managers' lack of training, lack of interest, work overload, conflicting priorities and self-serving behaviour.

According to the literature above, it can be summarised that involving and inviting line management to actively participate in designing and implementing HR activities is a key to success in HRM. This area also has been receiving increasing attention since the 1990s. Brewster and Larsen (2000) indicate various reasons why line involvement in HRM is receiving increasing attention. These reasons centre around the need for a comprehensive approach to people management in cost-centred units where decisions have to be made fast and on the spot. Ulrich (1998) believes that since line managers are responsible for creating value, they should integrate HRM into their work, working in partnership with HRM and holding HRM more accountable in delivering organisational excellence. The same concern is mentioned by Legge (1995), who believes that there is an enhanced role for line managers in those organisations which hold them responsible for bottom-line results.

However, while there is of course a vast literature on managers' jobs and managerial behaviour (Watson, 1994, Nicholson and West, 1988, Scase and Goffee, 1989, Stewart, 1989, Mintzberg, 1973), there is still a remarkable lack of empirical material on the role of line managers within HRM in comparison with other HR areas, such as the link with business strategy (Truss et al., 1994). There is considerable ambiguity over how an organisation, or its personnel function, would devolve its activities in practice.

Reward management and line managers

Ever since Drucker's (1954) allegations of management inadequacy and lack of HRM attention, there has been research and debate on rewards and the people management responsibilities of line managers, be they the 'forgotten supervisors' or 'the lost managers' (Child and Partridge, 1982, Thurley and Wirenienius, 1973). The recent focus has centred on three issues (Brown and Purcell, 2007). First, regarding the restructuring of HRM functions and devolving of people management responsibilities to the line, to what extent are line managers' responsibilities in rewards and HRM correspondingly increasing? Second, research has shown that line managers have become increasingly critical in generating employee commitment and high performance, but how could these relationships conclude that the role of line managers in bringing HR policies to life is one of the most important factors explaining the difference between success and mediocrity? Third, there is plenty of evidence of a policy/practice, espoused/enacted, saying/doing gap in HR and reward management, which is restricting the operation of these potentially powerful relationships. This is generally described in terms of line managers' lack of interest and training, work overload, conflicting priorities, and so on (E-reward, 2005, Guest and Conway, 2004).

Although research on rewards has been widely studied, the crucially important issue of line managers' approaches to its design and implementation has not received much attention, either in the Western or Asian context. One of the objectives of this thesis is to examine the extent to which line managers in the non-public sector are involved in PFP practices and the implications of their partnership. In particular, this thesis explores the line managers' role in determining PFP plans, and involvement in decision making and performance measurement. Therefore, the two sub-questions are:

4a: How do line managers understand PFP?

Devolving HRM to line managers has been noted as being problematic (McGovern et al., 1997). Renwick (2003) posits that the new millennium marked the onset of keen discussion about the challenges surrounding line manager involvement in HRM. Challenges lie not least in the relationship between line managers and HRM specialists (Cunningham and Hyman, 1999), the ability and willingness of line managers to carry out HR tasks properly (Renwick and MacNeil, 2002), and line managers' knowledge of company policies (Bond

and Wise, 2003). Renwick (2003), drawing on the work of Ulrich (1998) and Jackson and Schuler (2000), identifies that a partnership approach to HR requires the integration of HR activities into the work of line managers and that a real partnership approach requires a 'triad' approach between HR specialists, line managers and employees. Critically, this implies that there needs to be a shared understanding between HR and the line of the latter's HR roles and responsibilities as the basis of the partnership. Thus, this question examines line managers' conceptualisation of PFP itself and their responsibilities in the system.

4b: What are the key supports and barriers to line managers' involvement in PFP?

According to Kessler & Purcell (1992) the pay determination process can be divided into three stages when PFP is applied. This first stage is the determination of individual performance criteria or targets linked to organisational goals and strategy. The second stage is individual performance assessment. The third and last stage is when pay adjustment is linked to the result of the first two stages, i.e. to what extent the employee has reached his or her targets according to the performance assessment. The line manager's involvement in the three stages can vary, depending on the degree of decentralisation in the company and the involvement of other actors, such as HR specialists and trade union representatives. Harrison (1993) suggests that PA used within performance management systems requires four activities, which are part of the role of all line managers. The manager must appraise and review the past; conduct the PA interview; plan the future and agree performance targets and development plans; and follow up the interview with future action. This question further assesses line managers' activities in each stage of PFP design and implementation, and explores the supports and challenges they face.

4.7 Conclusion

This chapter presented the research aim, objectives and research questions for the thesis. The chapter summarised the literature in Chapter 3, and identified that theoretical and empirical gaps existed in PFP design and implementation issues. Therefore, this thesis focuses on PFP design and implementation practices from the management perspective in the context of China, specifically non-public sector knowledge-intensive industries. Four research objectives were considered to be covered, namely: the importance of PFP in the current pay systems; PFP plans and contextual factors that affect their adoption; PA issues

in implementing PFP; and the line manager's role. Research questions were further defined as below (see Table 4.3). This research will provide a clearer picture of the nature of PFP practices in knowledge-intensive industries, and improve our understanding of managers' decision making and sense making of PFP. The next chapter will discuss the appropriate research methods applied to achieve the research aim and objectives.

Table 4.3 Summary of research aim, objectives and questions

Research Aim	
To explore PFP design and implementation practices in China's non-public sector knowledge-intensive industries	
Research focus	Research questions
Q1: Importance of PFP in the current pay system	1a: To what extent is PFP adopted? 1b: Why do firms use PFP?
Q2: PFP plans and design	2a: What types of PFP plans are adopted? 2b: What are the contextual factors that impact on the adoption?
Q3: PFP implementation	3a: How is performance measured? 3b: What functions does PA serve in PFP?
Q4: Line management in PFP	4a: How do line managers understand their role in PFP? 4b: What are the key supports and barriers to line managers' involvement in PFP design and implementation?

Source: Developed for the thesis.

CHAPTER FIVE

METHODOLOGY

5.1 Introduction

Chapters 3 and 4 critically reviewed the existing literature and identified the research objectives as well as the theories which related to the research questions. This chapter presents the research design and methods used to undertake the investigation into PFP in China's non-public sector knowledge-intensive enterprises. The data collection methods applied to answer research questions and research issues are discussed.

Research design is the process by which the investigation is planned so that the research question is answered (Berg, 2001, Kumar, 1996, Neuman, 2000, Zikmund, 2000) Adopting the appropriate research strategies and methods is absolutely essential and extremely challenging for social science just as Weick (1989) p516 noted: "Whatever strategy is used, there will always be an unidentifiable step that relies on the insight and imagination of the author". Therefore, the purpose of this section is to consider a number of methodologies in relation to qualitative and quantitative studies in social sciences, and demonstrate the system for selecting the appropriate research strategy for this thesis.

This chapter begins with a discussion of the research paradigm taken for the thesis. This chapter then compares the advantages and disadvantages of the quantitative and qualitative approach, and discusses the reasons for adopting qualitative approaches with the multi-case study method in particular in the thesis. Subsequently, the advantages and disadvantages of the multi-case study approach are examined. This chapter also demonstrates criteria of the cases selected, data collection process, and data analysis such as coding due to the nature of the study. Finally, the evidences for the research design quality and ethics and confidentiality issues are provided.

5.2 Research paradigm: The critical realism

Paradigms are important in setting the foundations of the research process as they define the relationship of the researcher to the investigation. Guba and Lincoln (1994) state that 'paradigms are sets of basic beliefs....it represents the world view that defines, for its

holder, nature of the world' (p. 107). In the context of this research, the paradigm contains the rules and standards for generating knowledge and the framework which guides the researcher in viewing the research problems and the investigation process. The paradigm reflects how the world is interpreted and the relationship between the inquirer and knowledge (epistemology). The paradigm also defines how the nature of reality is perceived (ontology) and how knowledge is gained (methodology) (Guba and Lincoln, 1994, Yin, 2003).

Four basic research paradigms have been developed within which researchers may work, explicitly or implicitly. These are summarised in Table 5.1 below (Guba and Lincoln, 1994, Perry et al., 1999). The critical realism paradigm is considered the most appropriate for the thesis because of the following reasons:

(a) The overall research objective is to examine the nature of PFP design and implementation in China's non-public sector knowledge-intensive industries. The outcomes of this research seek a deeper understanding of PFP in the context of China. The purpose of the research was not only to measure practices, but also to understand what is happening and why is happening. However, there has been very little literature on PFP in the non-public sector. The critical realism paradigm (see Table 5.1) believes that the reality can be observed by its components parts.

(b) PFP as a concept in the West exists with pre-determined boundaries. However, there is no worldwide definition of PFP, and its exact meaning varies within different countries and organisations (see Chapter 3 section 3.5), and PFP practices are quite cultural dependent (e.g. see Hofstede's studies, 1983, 1984, 1991). The critical realism paradigm believes that although there is no single reality for PFP, the reality can still be reflected in observing parts of it.

(c) PFP design and implementation is varied and dependent on the context of the country and the organisation (see Chapter 3 section 3.5). The critical realism paradigm believes that the reality can be complex and dependent on the situational factors, such as organisational culture, the environment etc. The researchers' interpretation of the situational factors and relationships may affect how reality is observed.

Taking the above into account, the critical realism paradigm was considered the most appropriate for this thesis. The next section explains why the qualitative approach was adopted under the critical realism paradigm for the thesis.

Table 5.1: Summary of research paradigms

	Positivism	Critical theory	Constructivism	Critical realism	Application to the thesis
Nature of reality or the researchers view of knowledge (ontology).	The world is a deterministic environment and has laws of cause and effect.	There is a single reality but it is shaped by social values and relationships. The research should reflect the researcher's perception.	No real truth exists; it is constructed by people (and by definition of the researcher). Therefore, there can be more than one truth.	The reality that exists is not certain as the world is complex. Yet reality can be reflected in observing parts of it.	There is no single reality for PFP.
How the researcher knows the world, the relationship between the inquirer and the know (epistemology).	Knowledge is real and can be tested. Hence the researcher is objective and has a non-influencing relationship with the phenomena being investigated, and can predict cause and effect.	The research is critiquing and seeking transformation which will lead to further transformation.	Researchers' relationship is an integral part as they are not discovering truth but playing a part in creating it.	As the research is observing parts of a complex world, the researchers with the world impacts on the objectivity of the investigation.	The reality that does exist is complex and dependent on situational factors, eg. Organisational culture, the environment etc.
How we gain knowledge about the world (methodology).	Scientific methods, such as experiments and surveys.	General focus on action research techniques.	Users interpretative and developmental (hermeneutical) techniques and phenomena are perceived as they are and causal study (phenomenology).	General qualitative methods such as case studies focus groups and in-depth interviews. Surveys have also been used.	The reality can be observed by its components parts, eg. PFP plans, performance appraisal practice etc. The researchers' interpretation of the situational factors and relationships may affect how reality is observed.

Source: Adapted from Guba & Lincoln (1994), Dooley (1995), Easterby-Smith, Thorpe, & Lowe (1996) p 27, and Perry, Reign, & Brown (1999).

5.3 Research design: A qualitative approach

This section examines the research strategy employed and provides the justification for the research approach, which is considered in relation to the research methodology and methods. The comparison between qualitative and quantitative approach and the reasons for using the qualitative strategy for the research are discussed.

5.3.1 Comparison between Qualitative and Quantitative approach

While there are various approaches to research available currently, empirical research plays a more important role than theoretical research in modern business and management (Remenyi et al., 1998). Empirical research methods, in general, can be divided into quantitative and qualitative. Denzin and Lonclin (2005) provide a valuable comparison of the two methods. Quantitative research was originally developed and used in natural sciences, and it has become widely used in social science research and subsequently organisational and management research. Encompassing such techniques as surveys and laboratory experiments quantitative research generally leads to numerical data collection facilitating mathematical and statistical modelling.

Qualitative research on the other hand was specifically developed in the field of social sciences to enable researchers to study socially derived phenomena. Huberman and Miles (2002) explained how they witnessed the explosive growth of qualitative research methods in the 1980's and 1990's. This growth manifested itself in the publication of qualitative based research material in academic journals over the same period, taking on various forms including case study research, ethnography and discourse analysis, narratives and symbolic interaction studies using techniques, such as observation, interviews and questionnaires, to collect data. Each method has its own traditions governed by its own genres with its own preferred forms of presentation, interpretation, trustworthiness and textual evaluation. Qualitative research methods are designed to help researchers understand people, the social and cultural contexts within which they live. Glaser (1998) and Miles & Huberman (1994) argue the advantages of understanding a phenomenon from the participants perspective, pointing out the particular social and institutional context is largely lost when textual data are quantified. Quantitative and qualitative methods are normally linked to different theoretical, epistemological and ontological approaches (Bryman, 2001). Table 5.2 illustrates how qualitative research is normally inductive, in which theory is the outcome of research, and it seeks to define or answer the how and why questions. Quantitative research, on

the other hand, is generally deductive and aims to identify general laws by testing a theory (Strauss and Whitfield, 1998). In brief, there are two epistemological viewpoints in social science regarding whether or not the natural science model can be simply imitated in terms of principles, procedures and ethos (Bryman, 2001). Interpretivism denies this, and positivism advocates this. From the interpretivist stance, it is crucial to understand the subjective meaning of the social world, unlike the objects of natural sciences. Most qualitative and quantitative research adopts interpretivist and positivist epistemological positions respectively. Moreover, in terms of ontological considerations, social phenomena are understood within constructionism or objectivism. Constructionism embodies the view that social phenomena constantly change as a result of social interaction, and objectivism is the view that social reality is an existence which is independent from individuals (Bryman, 2001). As Table 5.2 shows, qualitative research often relates to constructionism, and a quantitative view advocates objectivism. It should be noted, however, that Table 5.2 is a simplified outline of the interconnections of qualitative and quantitative approaches. Their distinction is not always straightforward (Strauss and Whitfield, 1998) or hard-and-fast (Bryman, 2001).

Table 5.2: Fundamental Differences between Qualitative and Quantitative

	Qualitative	Quantitative
Principal orientation of the role of theory in relation to research	Inductive; generation of theory	Deductive; testing of theory
Epistemological orientation	Interpretivism	Natural science model, in particular positivism
Ontological orientation	Constructionism	Objectivism

Source: Bryman (2001), p20.

The advantages and disadvantages of these methods can be briefly summarised. Qualitative research is suitable for a wide range of variables and issues, especially those which cannot be quantified, and it is useful to study causation and map out a picture of real behaviour (Strauss and Whitfield, 1998). With the qualitative method, people in the focus groups must be related to each other causally, but are not necessarily typical (Sayer, 1992). However, qualitative research is weak on generalisability and the results are considered to have limited external validity (Strauss and Whitfield, 1998). Moreover, the results of qualitative research, which map out the causality of phenomena, may not

be representative. As a result, there is a criticism of the qualitative method in that it is neither objective nor scientific (Sayer, 1992). The qualitative approach also suffers from a problem with transparency because the findings may be influenced by the researcher's expectations or biases (Strauss and Whitfield, 1998). Hence, it may be difficult to replicate the study.

These advantages and disadvantages apply to quantitative methods in a reversed form (Sayer, 1992). With the quantitative method the research does not have to focus on groups whose members interact with one another, but they must share similar attributes. Quantitative researchers are rarely concerned merely to describe how things are, but are keen to say why things are the way they are. In quantitative research the researcher is usually concerned to be able to say that their findings can be generalised beyond the confines of the particular context in which the research was conducted. The concern with generalizability or external validity is particularly strong among quantitative researchers using cross-sectional and longitudinal designs. However, quantitative researchers fail to distinguish people and social institutions from 'the world of nature'. The quantitative method, which is a broad-brush method, lacks sensitivity to detail. The measurement process possesses an artificial and spurious sense of precision and accuracy. For example, when members of a sample respond to a question on a questionnaire, the assumption is that they interpret the key terms in the question similarly. Meanwhile, the descriptive generalisations have limited nature.

Many researchers argue that both qualitative and quantitative research can be combined within a single research project (Bryman, 2001, Gill and Johnson, 2002). For instance, Sayer (1992) argues that qualitative and quantitative methods can work in a complementary way to provide concrete explanations of social events. However, this multi-method approach is controversial. The integration of the two methods has been increasing since the 1980s, but there are two main types of criticism against this (Bryman, 2001). First, the use of multi-methods is questioned by those who advocate the view that research methods carry epistemological commitments. If every method uses each procedure, the integration of two methods could create conflicting epistemological implications. Therefore, multi-strategy research risks inviting interpretivism, and is unfavourable to positivism. Second, there is a view that qualitative and quantitative methods are regarded as different "paradigms" which dictate different research procedures and interpretations. An integration of different paradigms results in

only superficial results. Additionally, there is a problem with multi-methods because they are time-consuming and costly, though their use is recommended for those working in research teams (Gill and Johnson, 2002). Thus, this thesis does not adopt multi-methods because it is beyond the resources of an individual researcher.

This section has outlined the debate surrounding qualitative, quantitative and multi-methods. The methodological choice should be a conscious choice dictated by the philosophical foundations and the nature of the research (Wass and Well, 1994). According to Remenyi et al., (1998), four key issues should determine the research strategy, namely: the research questions; the costs or budget available to the researcher; the time available and the target date for completion; and the skills of the researcher. In section 5.3.2, the research strategy adopted in this thesis is addressed, together with methodological issues.

5.3.2 Reasons for adopting qualitative approach

At an abstract level, this thesis considers PFP design and its implementation, and seeks to understand the role of management in China's non-public enterprises. More concretely, the aim is to explore PFP practice in China and consider the phenomena at a theoretical level. The research objectives are to examine: to what extent PFP is important in the knowledge-intensive companies; how PFP plans are designed and performances are measured, and how line managers are involved in PFP? In order to fulfil these research objectives, a qualitative research strategy was adopted in the thesis along with multi-case studies as the research method to study the research questions above. The reasons are discussed as below.

First, qualitative research fits the nature of the research questions. Qualitative research is suitable for a wide range of variables and issues, especially those which cannot be quantified, and it is useful to study causation and map out a picture of real behaviour (Strauss and Whitfield, 1998). The questions (i.e., why do firms use PFP, how PFP plans are designed, how performance is measured and how line managers are involved in PFP?) are sensitive in nature, and cannot be identified precisely through quantitative research. Because, as discussed above, quantitative methods cannot provide a clear picture of how things are, which is what this research aims to identify - how PFP is designed and implemented in the context of China.

Second, as discussed in chapter 3 section 3.6, there is a lack of sophisticated theory development on PFP in the context of China, which requires more exploratory and theory-generating research than purely empirical testing. The qualitative approach seems better than a quantitative approach to fill this gap.

Third, qualitative research allows deeper cross-cultural understanding and is less likely to suffer from cultural bias and ethnocentric assumptions on the part of the researcher than survey instruments. Qualitative research examines organisations and societies ‘on their own terms’, rather than imposing one’s own culturally bound concepts and theories (Boyacigiller and Adler, 1991). Compared to quantitative methods, qualitative research takes a more holistic approach to the research object and studies a phenomenon in its context. The thesis aims to explore one of the HRM practices - PFP in the context of China, which could involve culture dependent issues and context (see the discussion in Chapter 3 section 3.3). Therefore, a qualitative approach becomes a better choice than quantitative.

Fourth, qualitative research goes beyond the measurement of observable behaviour (the ‘what’), and seeks to understand the meaning and beliefs underlying action (the ‘why’ and ‘how’) (Buckley and Chapman, 1996). As Wright (1996) explains, qualitative research provides answers to ‘messy’ problems and complex issues that are typical for international management research. Qualitative methods can take advantage of rich data and in this way allow the research to obtain more meaningful results about ‘soft’ inter-relationships between core factors.

Fifth, research instruments need to be chosen to suit the particular location in which the research is being conducted. Qualitative research may be suitable in those cultures in which particular emphasis is placed upon the development of social, face-to-face relations and trust (Harari and Beaty, 1990). Furthermore, actual pay data is strictly confidential in China, and the implementation issues of the management vary under different situations. Those constraints make it even more difficult to conduct quantitative analysis for this thesis. Based on the above reasons, this study adopted a qualitative approach not the quantitative one.

5.4 Research method: Multiple-case study

This section explains the reasons for adopting a multiple-case study method for the thesis, and examines the advantages and disadvantages as well as the useful way to improve the quality of the research.

5.4.1 Reliability and validity of case study method

Often the problems about case-study research can be summarised as the lack of transparency, objectivity, generalisability and contribution to scientific development (Bryman, 2001). The criticism of lack of generalisability of case studies is mainly because case studies generate context-dependent knowledge rather than context-independent information (Abercrombie et al., 1984, Campbell and Stanley, 1966). Flyvbjerg (2006) states that predictive theories cannot be found in the study of human affairs. Concrete, context-dependent knowledge is therefore more valuable than the vain search for predictive theories and universals. Context-dependent knowledge and experience are at the very heart of expert activity (Flyvbjerg, 2006).

The closeness of the case study to real-life situations and its multiple wealth of details are important in two respects (Flyvbjerg, 2001, Flyvbjerg, 2006). *First*, it is important for the development of a nuanced view of reality, including the view that human behaviour cannot be meaningfully understood as simply the rule-governed aspects found at the lowest levels of the learning process and in much theory. *Second*, there does not, and probably cannot, exist predictive theory in social science. According to Flyvbjerg (2006), social science has not succeeded in producing general, context-independent theory. Thus, there is nothing else to offer than concrete, context-dependent knowledge. The case study is especially well suited to produce this type of knowledge.

As discussed in the literature review, section 3.2, there is no homogeneous model of HRM in Chinese enterprises. The HRM practices are somehow formed depending on the basis of their existing conditions and the impact of the economic reforms. The pay practices of the non-public firms in China could be very context-dependent. Therefore, multi-case studies used in this research can be the most appropriate way to explore the differences and similarities of pay practices among ownerships of non-public firms.

Moreover, generalisability can be increased by the strategic selection of cases (Ragin, 1992, Rosch, 1978). As discussed in section 5.5 - sampling, a stratified sample strategy

was applied to this study. Cases were specially selected from knowledge-intensive industries such as IT, investment and pharmaceutical, where PFP plans were widely spread and important in pay systems. Case firms had similar size, age and similar length of establishment in POEs and FIEs respectively in order to effectively compare and contrast the cases. Thus, the interpretation of such case selection can provide a wealth of information on PFP in the non-public knowledge-intensive companies.

The falsification, not verification and subjectivity, is another criticism of the case study method (Bryman, 2001). However, according to Flyvbjerg (2006), the question of subjectivism and bias towards verification applies to all methods, not just to the case study and other qualitative and quantitative methods. Ragin (1992) argues that if one assumes that research can be described by the phenomenology for human learning, it then becomes clear that the most advanced form of understanding is achieved when researchers place themselves within the context being studied. Only in this way can researchers understand the viewpoints and the behaviour which characterises social actors. From this point of view, we can understand that when there is the lack of existing literature on pay system and PFP processes in China (which the literature chapter 3 section 3.6 demonstrated is the case), case studies are more likely to provide the proximity to reality than other qualitative methods because it generates the learning process for the researcher which often constitutes a prerequisite for advanced understanding.

Furthermore, Beveridge (1951) concludes that there are more discoveries stemming from the type of intense observation made possible by the case study than from statistics applied to large groups. From this point of view, we can understand why the researcher restructured the research questions after the pilot study and cast off some notions and theories, which are explained in section 5.6. Therefore, the researcher agrees with Flyvbjerg (2006) who concludes that it is a misunderstanding that the case study supposedly contains a bias toward verification and a tendency to support researchers' preconceived ideas. The case study contains no greater bias toward verification of the researcher's preconceived notions than other methods of inquiry. On the contrary, experience indicates that the case study contains a greater bias toward falsification of preconceived notions than toward verification.

Case studies often contain a substantial element of narrative, which tends to be seen by critics of the case study as a drawback (Abercrombie et al., 1984, Bryman, 2001, Campbell and Stanley, 1966). However, Flyvbjerg (2006) has recently suggested that an element of narrative is a most useful advantage of case studies. Nietzsche (1974) argues that one should not wish to divest existence of its rich ambiguity, so the question is whether summarizing and generalisation is always desirable. Peattie (2001) warned against summarising dense case studies: “It is simply that the very value of the case study, the contextual and interpenetrating nature of forces, is lost when one tries to sum up in large and mutually exclusive concepts” (p. 260). Nietzsche (1969) and Rorty (1985) similarly advocated a focus on “little things”. According to Peattie (2001), the dense case study is more useful for the practitioner and more interesting for social theory than either factual “findings” or the high-level generalisations of theory. Therefore, the case study is more about diversification rather than generalisation. Summarising case studies is not always useful and necessary and may sometimes be counter-productive. Moreover, MacIntyre (1984) argues that the human being is a “story-telling animal” (pp.214, 216), and the notion of a history is as fundamental a notion as the notion of an action. Mattingly (1991) pointed out that narratives not only give meaningful form to experiences we have already lived through but also provide us a forward glance, helping us to anticipate situations even before we encounter them, allowing us to envision alternative futures. So a good case study contains good quality narratives. Flyvbjerg (2006) concludes that “it is correct that summarising case studies is often difficult, especially as concerns case process. It is less correct as regards case outcomes. The problems in summarising case studies, however, are due more often to the properties of the reality studies than to the case study as a research method. Often it is not desirable to summarise and generalise case studies. Good studies should be read as narratives in their entirety.” (p. 241)

In relation to this research, twelve firms were studied in terms of their PFP design and implementation. The researcher tended to generalise at a certain level and use narrative as a whole, so that different things in different cases are explored and allow the study to be different things to different people rather than all things to all people. A multiple-case study approach was applied to this qualitative research strategy rather than a single case study. The advantages and disadvantages of the multi-case study method and ways to improve the quality of the research method are discussed below.

5.4.2 Advantages of multi-case study method

First, this research was to discover PFP practices in China's non-public enterprises, which include different ownership types: POEs, JVs and MNCs. A single case can not represent all these types of ownerships. *Second*, the researcher intended to explore how PFP plans were designed and implemented from the management perspective. As discussed in the literature (see Chapter 3 section 3.6 for details), due to the lack of relevant theories on this topic in the context of China, our research questions are basically 'how' and 'why' questions which are more explanatory and likely to lead to the use of case studies as the preferred research strategy (Yin, 2003).

Third, in order to explore the design and implementation issues of PFP plans in China's non-public firms, managerial decision making and the current ways of their practice were to be studied. The case study is preferred for examining contemporary events; to some extent it relies on historical records such as firm documents, but it adds two important sources of evidence that are direct observation of the events being studied and interviews of people involved in the events. The case study's special strength is its ability to deal with a full variety of evidence – documents, artefacts, interviews and observations – beyond what might be available in a conventional historical study or survey.

Fourth, due to the lack of research on PFP implementation in both Western and Chinese HR literature (as was outlined in chapter 3 section 3.6), we know very little about what has happened and what is happening in terms of PFP implementation in China's non-public firms. Moreover, the implementation of PFP in China could be very different from the practice in Western countries, as suggested by (Baruch, 2004). Interpretive and multiple case studies can be the most appropriate method for this thesis compared with some other suitable methods because case study has a distinctive place in evaluation research (Cronbach, 1980, Guba and Lincoln, 1981, Patton, 1990, U. S. General Accounting Office, 1990). For instance, a case study can explain the presumed causal links in real-life intervention that are too complex for survey or experimental strategies. The case study can better describe an intervention and the real life context in which it occurred. The case study can better illustrate certain situations in which the intervention being evaluated has no clear, single set of outcomes. Furthermore, case studies can be conducted and written with many different motives, including the simple presentation of

individual cases or the desire to arrive at broad generalisations based on case study evidence- sources.

Finally, the multiple-case study has distinct advantages in comparison to single-case designs. The evidence from multiple cases is often considered more compelling, and the overall study is therefore regarded as being more robust (Herriott and Firestone, 1983).

5.4.3 Disadvantages of multiple-case study

Using multiple-case study has distinct disadvantages too. *First*, getting the access to different case firms can be challenging to an individual researcher. Moreover, getting the access to pay system and performance management records can be more challenging because those rewards are very sensitive data for the company to open to someone who is not even a member of the organisation unless the researcher can have a very good relationship with their high management. *Second*, this is similar to the beginning of the first disadvantage; the conduct of a multiple-case study can require extensive resources and time beyond the means of a single student or independent research investigator. *Third*, the number of cases has to be deemed necessary or sufficient for the research. The typical criteria regarding sample size are irrelevant. Instead, the decision has to be a reflection of the number of case replications – both literal and theoretical – that are needed or preferred to have in a study.

Fourth, researchers such as (1966) and Wieviorka (1992) who have been critical of case studies often point to the fact that a case study investigator fails to develop a sufficiently operational set of measures and that ‘subjective’ judgments are used to collect the data. *Finally*, there are translation biases in data collection, which are lost before translation and lost in translation. This also applies in single case study, however, it might be worse with multi-case study due to the large amount of data.

5.4.4 Useful ways of improving the quality of the multiple-case study

Although there is no perfect means of overcoming the bias, the researcher did adopt some useful ways to increase the quality of this multi-case study research. *First*, there are personal accesses for some of the firms selected in this study, and relationship building with the management in all the firms was on-going. *Second*, a pilot field study was conducted which was helpful to generate specific research questions, improve the further investigation and reduce unnecessary waste of time (see section 5.6.1 for details).

Third, the cases selected in this study consisted of some with strong PFP plans and some with simple programmes. *Fourth*, to improve the construct validity the researcher selected the events and programmes that were related to the original objectives of the study, and the demonstration of those pay plan and practices selected does reflect the events. *Finally*, back translation was used in the thesis as discussed in section 5.6.

5.5 Sampling

In selecting the population for an investigation the particular setting is defined by the research topic (Berg, 2001, Dick, 1990). In this research, the knowledge-intensive organisations are the research setting and within this setting, industries such as pharmaceutical, IT and investment, were selected (see the discussion in Chapter 2 section 2.4). Moreover, accesses to case companies from those selected industries were available, their managements agreed to make people and documents available. The sampling strategy and criteria are discussed in the sections below.

5.5.1 Sampling strategy

Sample strategies are based on the promise that by using a sample, inferences about some large population from which the sample is taken can be made. There are two major sampling approaches: (i) probability sampling; and (ii) non-probability sampling (Berg, 2001, Dick, 1990).

Probability sampling for multiple case studies, which is based on in-depth interviews, was not considered suitable for this research. This is due to the amount of data probability sampling would generate, the resources required to manage the data, and the ability and possibility to access the cases and population as an individual researcher. Therefore, probability sampling was considered too unwieldy and impossible.

Non-probability sampling is based on effort to approach a quasi-random sample that may reflect a larger group. Berg (2001) has identified four of the common non-probability sampling strategies: (a) Convenience sampling: in many research contexts, the sample is simply selected by asking for volunteers. (b) Purposive sampling: the sample is selected with a purpose in mind. Purposive sampling can be very useful for situations where a specific group of people needs to be targeted and where sampling for proportionality is not the primary concern. (c) Snowballing sampling begins by identifying someone who meets the criteria for inclusion in the study. The researcher

then asks them to recommend others who they may know who also meet the criteria. (d) Quota sampling is to select people non-randomly according to some fixed quota.

Patton (1990) recommends purposive sampling to select cases with maximum variation as the most appropriate strategy for analytical and general purposes. Perry (1998) summarises purposive sampling as selecting information rich cases. In consideration of the above, both convenience sampling and purposive sampling strategies were adopted in this thesis. Convenience sampling was used to access firms in the pilot, HR consultancy firms as well as HR and reward management specialists in the research. See the detail in section 5.5.3 – Sample profile. Purposive sampling was used to select the cases and interviewees because this research targeted knowledge-intensive industries as the research setting and managers as the proposed group of interviewees. The sampling criteria and profile of the sample are discussed as below.

5.5.2 Sampling criteria

This research is about PFP in China's non-public sector. Ownership types, size, industries, age of the firms and the interviewee groups need to be considered. Table 5.3 shows the summary of the sampling criteria for the thesis.

Table 5.3 Summary of sampling criteria

Ownership	No. of firms	Size	Age	Industry	Interviewees
POE and FIE (JV + MNCs)	More than two for each type.	Medium to large	More than 5 years of establishment	Knowledge-intensive industries	Focus on senior management, HR and line managers.

Source: Developed for the thesis.

Ownership types and number of cases

Based on the definition of the non-public sector in China by Tung (1991), POE, JV and MNC were included as the ownership types for the thesis (see Chapter 2 section 2.3 for details). Eisenhardt (1989b) states that cases should be added until theoretical saturation is achieved. Superimposed on this, however, is the restraint of time and resources (Perry, 1998). Moreover, Eisenhardt (1989b) recommends between four and ten cases as a reasonable minimum for a serious project. Perry (1998) recommends between four and six groups. Based on the recommendation above, and in order to get the balance

between the ownership types, a minimum of two cases for each ownership type was considered to be the number of cases to be studied in this research.

Firm age

Small sized and newly established firms were excluded in the study due to the assumption that PFP programmes may not be mature in new firms. However, the definition of firm age varies by countries, industries and time period. In the thesis, the criteria of firm age by Ding et al., (2006) was adopted, who recently studied managerial rewards in China. Thus, firm age in this thesis was defined as newly established (less than 5 years), medium-aged firms (5 to 15 years) and old firms (more than 15 years).

Firm size and location

OECD (1994) defines establishments with up to 19 employees as ‘very small’; with up to 99 as ‘small’; from 100 to 499 as ‘medium’, and with over 500 as ‘large’. Ding et al., (2006) also defined firm size as small firms (less than 100 employees), medium-sized firms with 100 to 500 employees, large firms with 501 to 2000 employees and very large firms with more than 2000 employees. Thus, firm size was defined as medium to large (100-500 and above) for the thesis. Case firms and interviews were based in Shanghai – the financial centre of China due to the researcher’s personal access to the firms and HR consultancies. The background statistics on Shanghai is presented in Chapter 2 section 2.5.

Interviewees

As discussed in Chapter 4 section 4.2.2, this research was on PFP from the management perspective, and research question 4 was on line management in PFP. Therefore, the focus group of interviewees was from levels of management, such as top management, HR managers and middle managers. Employees were not included. In order to develop an interview guide and improve the quality of data analysis, some HR and reward management specialists from leading HR consultancies were also included in the pilot, fieldwork and back-translation process. Moreover, this thesis focused on the organisational level only. Managers from unit levels were not included in the focus group.

5.5.3 Profile of the sample

This section presents the profile of the sample in the thesis, including the cases selected, managers interviewed in the case firms and HR and reward management specialists from the HR consultancies.

5.5.3.1 Profile of case firms

Table 5.4 shows the ownership, industry, country of origin, size and year of establishment of each case firm selected in the thesis. All together 12 knowledge-intensive firms were involved including 5 POEs, 2 JVs and 5 MNCs, which were from investment/marketing research (3 firms), IT (4 firms) and pharmaceuticals (5 firms). The background information of the industries selected can be found in Chapter 2 section 2.4.4. The case firms were all middle-aged with age of incorporation between three and fifteen years. Four cases were large firms (POE1, JV2 and MNC4) and others were medium to large size. The background information of each case firm is in Appendix 5.1.

Table 5.4 Profile of the case firms

Firms	Industry	Country of origin	Size	Year of corporation	Employees
POE1	Investment	Domestic	Large	1999	>1500
POE2	IT	Domestic	Medium	1998	>400
POE3	IT	Domestic	Medium	2001	>300
POE4	Pharmaceutical	Domestic	Large	1994	>750
POE5	IT	Domestic	Medium	2003	>300
JV1	Investment	China & New Zealand	Medium	1996	>400
JV2	Pharmaceutical	China & Swiss	Large	1994	>1000
MNC1	Pharmaceutical	England	Medium	1998	>350
MNC2	Pharmaceutical	France	Medium	1999	>400
MNC3	Medical device	Germany	Medium	2001	>300
MNC4	IT	India	Large	2003	>500
MNC5	Marketing research	US	Medium	2000	>300

Source: From archival data of the cases.

5.5.3.2 Profile of interviewees

In total sixty-two interviews were conducted during our pilot study and fieldworks. 52 interviews were top management (15), HR managers (14) and line managers (23) in the case firms (see Table 5.5) and ten interviewees were HR specialists from international and local management consultancies such as Mercer, Watson Wyatt and Luowen Shanghai (see Table 5.6). Half of them were interviewed twice during the fieldwork.

Table 5.5 Profile of the interviewees (52 in total)

Firms	Level and role at time of interview	Years with firm	Interview times
POE1	Chairman of the board	20	1
	Vice president *2	15	1
	General manager	10	2
	Director of finance dept.	7	1
	Director of administrative dept.	6	1
	HR manager	6	1
	Director of president office	5	1
POE2	General manager	10	2
	HR manager	7	2
	Sales manager	5	1
	Marketing manager	5	1
POE3	General manager	7	1
	HR manager	3	1
	R&D manager	4	1
	Sales manager	3	1
	Customer service manager	2	1
POE4	General manager	10	2
	HR manager	4	2
	Sales manager	4	1
	Product manager	7	1
POE5	General manager	5	2
	HR manager	2	2
JV1	Director Vice president	12	2
	Assistant to president office	5	1
	Financial controller	3	2
	HR manager	3	1
JV2	General manager	8	1
	HR manager	3	1
	Regional medical & public affairs manager	6	2
MNC1	HR director, China	5	2
	HR manager	4	2
	HR specialist	6	2
	Training manager	4	2
	Marketing manager	7	2
	Sales manager	5	2
MNC2	HR senior manager, Shanghai	3	1
	Senior brand manager	4	1
	Marketing senior manager	3	2
	Sales director	5	2
MNC3	HR director, China	5	1
	HR manager, Shanghai	3	1
	Policy and government affairs manager - Eastern region	2	1
MNC4	HR director, China	4	2
	HR manager, Shanghai	2	1
	Project manager	2	1
MNC5	Training and development director, China	6	1
	HR senior manager, China	3	1
	HR shared service lead	2	1
	HR manager, Shanghai	4	1
	Project development manager	2	1
	Sales manager	1	1
	Client solutions manager	3	1

Source: From the interviews.

Table 5.6 Profile of HR specialists interviewed

Firm	Title
Mercer HR consulting	Business leader China, Health & benefits
Watson Wyatt	Director Principal consultant
Shanghai Hui Yuan consulting Co., let	General manager
Beijing Zion consulting Co., Let.	Senior consultant
McDonald	HR director, China
Panthera capital group	Director *2
LuoWen Talent consulting	Business development manager *3

Source: From interviews

5.6 Data collection

This section discusses data collection methods used for the thesis. Pilot study, primary and secondary data collections are described, and the back-translation employed is explained.

5.6.1 Pilot study

Undertaking a pilot case study is strongly recommended by Berg (2001), Dooley (1995) and Yin (2003) for qualitative research design as it tests the research design which will answer the research questions and issues. A pilot study also has some significant advantages. For instance, a pilot study allows the interview protocol to be verified and the data collection and reporting systems to be tested for their utility (Berg, 2001, Janesick, 1994, Yin, 2003)(Nair and Reige 1994). Some problems can be rectified prior to commencing the body of the field work. A pilot study is a key step in establishing data validity and reliability (Berg, 2001). Additionally, if no significant refinements occur, the pilot study data can also be incorporated into the overall research database (Yin, 2003).

In this research, the pilot study was conducted in Shanghai in 2006. The aims of the pilot were 1) to check if the proposed research questions are do-able and of interest to practitioners; 2) to check if the proposed interview questions are clear enough to interviewees; 3) to check if the targeted interviewees – top management, HR and line managers are accessible; 4) to check if the possible results of the interviews can answer the research questions. Before the pilot was conducted, the drafts of research questions and interview questions were pre-tested informally among the HR and reward management specialists in the HR consultancy firms, such as Mercer, Watson Wyatt and LuoWen (see Table 5.5). While the researcher read out the questions, these

specialists were asked to give their understanding of the question, and raise points that occurred to them.

From April to May 2006, the pilot was undertaken in four very large and medium-aged investment companies (1 JVs, 1 POE and 1 MNC) in Shanghai (see Table 5.7). The firms selected and the top managers and HR interviewed in the pilot were solely from the researcher's personal access. The researcher visited the interviewees at each company and explained the aim of the research, the type of managers needed to be interviewed, the relative firm documents to be collected and elicited potential firms that the interviewees might be able to recommend for this research. During the visit, informal interviews were carried out. The feedback on the proposed interview questions and research questions from these top managers and HR were collected. Additionally, the general manager of C1 agreed to join this research as one of the case firms (JV1).

Table 5.7 Profiles of firms and interviewees in the pilot

Company	Ownership type	Foundation year	Industry type	No. of employees	Interviewees
C1: Yueda Real Estate	JV	1996	Investment	1,050	General manager
C2: Wanyuan Group	POE	2001	Investment	1,500	Financial controller
C3: Ascendas Shanghai Co. Ltd.	MNC	1996	Investment	2,000	HR manager Marketing manager
C4: KWah Group	JV	1995	Investment	3,079	General manager

Source: From the pilot.

After the Pilot, the four research areas for this thesis were finalised as: the importance of PFP, PFP design and implementation as well as line managers' involvement in PFP. Moreover, a case study protocol was fully developed and used throughout the whole data collection and analysis (see Appendix 5.2 'Case study protocol'). The applicability and appropriateness of the protocol guide is vital to the case study, especially where multi-cases are utilised, to ensure that consistent application and information richness can be gained.

5.6.2 Interview questions design

Healey and Rawlinson (1994) note that interview techniques can be divided into standardised and non-standardised (or non-structured), depending on whether or not interviews are carried out with an identical set of questions in a fixed order. In structured interviewing, the interviewer asks all respondents the same series of pre-established questions with a limited set of response categories. There is generally little room for variation in response except where open-ended questions (which are infrequent) may be used. Most structured interviews also leave little room for the interviewer to improvise or exercise independent judgment (Fontana and Frey, 2005). Unstructured interviewing can provide greater breadth than the structured one. In non-structured interviews, the exact questions asked may vary from interview to interview. Moreover, a non-structured interview is normally interactive and open-ended questions are more frequently used (Fontana and Frey, 2005). As a result, the choice of technique is closely related to the nature of the research. A standardised interview with fixed questions is suitable for the collection of factual, quantitative or non-emotive information for taxonomic groups in well-defined topics. In contrast, a non-standardised interview is ideal for exploring sensitive and emotive issues.

In relation to the research, qualitative and sensitive information about PFP was sought by the researcher, such as reasons for using PFP, the decision making of PFP by management and line managers' commitment to PFP. Standardised interviews can be too restrictive as PFP may vary in different firms, whereas non-standardised interviews can be too time-consuming and problematic for an individual researcher. Finally, a semi-structured interview technique was used in the study. Interviews were carried out by using interactive and open-ended questions. The design of interview questions was grouped into five sections according to the objectives of the research questions and the relevant literature (see Table 5.8).

Table 5.8: Interview questions design guide

Sections	What to ask
Personal background	The section is concerned with individual background, relevant working experience, job title and level, duration of present employment and the job tasks and responsibilities. These aspects will help the researcher to well understand interviewees' answers for the following questions.
Section A – Importance of PFP in the pay system	This section is in relation to research question 1, which illustrates the proportion of PFP in the pay mix, and the extent to which pay depends on performance in the pay structure; and to show how the management sees the use of PFP in their rewards setting process. Therefore, the interview questions must cover pay mix, pay structure, pay determinants and the reasons for PFP.
Section B – PFP design	This section is in relation to research question 2, which examines how PFP is designed by management in the case firms. Therefore, it is necessary to identify what kind of PFP plans are adopted by the management and what might influence their adoption. Thus, the interview questions must cover the PFP plans and the factors that were considered in managerial decision making of PFP.
Section C – PFP implementation	This section is in relation to research question 3, which examines how PFP is implemented. PA was identified as the major practice to measure PFP implementation in this thesis. Thus, the implementation of PA and the utility of PA outcomes are to be covered in the interview questions.
Section D – Line management in PFP	This section is in relation to research question 4, which examines the participation of line managers in PFP. Therefore, line managers' knowledge of PFP and their responsibilities, as well as their activities in each stage of PFP and the supports and difficulties they have are to be included in the interviews.

Source: Developed for this thesis.

The interview guide and specific questions asked in the study are shown in Appendix 5.3a (Interview guide and record form), and Appendix 5.3b 'Interview questions'. The interview questions were linked to the research questions prior to the interviews to ensure adequate cover was attained to ensure information richness. The linkage is shown in Appendix 5.3d 'Interview questions and research issues matrix'. Moreover, during the face to face interviews, the participants were also asked to rank the functions of their PA system for research question 3, which is based on the theory of Cleveland et al. (1989a) (see Appendix 5.3c 'Functions of PA'). Full explanation about the content of the questionnaire was given when necessary to avoid misunderstandings of the items.

5.6.3 Fieldwork

Contact methods

As noted in section 5.5.1, purposive sampling was used to select the cases and interviewees in this study. However, it was a big challenge for the researcher to get contacts for case studies as an individual PhD student. The 12 case firms were selected through 1) the researcher's own access; 2) the researcher's personal network, from which enormous support was given by the researcher's friends, ex-colleagues, relatives and ex-tutors etc.; and 3) both local and international HR consultancy firms, where the researcher presented the research proposal at their seminars and joined the business network parties to meet HR managers of the consultancy firms' clients for potential contacts.

Fieldwork

Prior to the interviews, each case firm received a letter of introduction and an overview of the study (see Appendix 5.4 'Interview cover letter'). Primary data were collected through in-depth interviews with people listed in Table 5.5 and 5.6. The first run of fieldwork was conducted from February to April 2007. However, there were not enough interviews with line managers. Thus, the second run of fieldwork was conducted from April to May 2008 focusing mainly on line managers with the same interviews questions and techniques as used in the first run of fieldwork. Overall, individual interviews lasted between 45 and 120 minutes and were recorded when agreed by interviewees. Due to the sensitivity of pay, only 7 interviewees agreed to tape recording, therefore, interview notes were taken every time. Table 5.9 presents the summary of interviewees, interview times and hours.

Table 5.9 Summary of interviews and hours

	Interviewees	No. of Interviews	Hours
Top management	15	18	32
HRs	14	20	25
Line managers	23	33	30
HR specialists	10	11	15
<i>Total</i>	62	82	102

Source: From interviews.

There were lots of **difficulties** in undertaking the fieldwork. Apart from the time-consuming and cost issues, there were four major problems that the researcher had to

deal with: (1) Difficulties with getting access to some top managers due to their busy work schedule. The researcher made great efforts to impress them with the possible benefits that this research might offer to the organisation; (2) huge difficulties with getting access to the line managers. Most POEs refused to let the line managers be involved in the research because line managers might reveal something that the top management thought should not be known by out-siders. Thus, many interviews with line managers were taken at informal meetings after work; (3) difficulties with getting the data of firms' pay structures, pay distribution, PA documents and employee appraisal records etc. The confidentiality form was not of interest to the case firms. The researcher carefully collected secondary data each time with the permission of HR and some employees' records with job titles but names disguised; (4) difficulties with tape recordings as most of the interviewees did not feel comfortable with being recorded. The researcher made interview notes each time even when tape recordings were taken.

5.6.4 Back translation

All interviews were conducted in Putonghua, the standard form of the Chinese language. Back translations were applied to reduce translation biases in data collection. Factors influencing the quality of translation can include 'gaining conceptual equivalence' and 'the loss of information in translation' (Temple and Young, 2004). One of the greatest difficulties of this research was to gain conceptual equivalence or comparability of meaning because key terms such as PFP, incentives or performance pay etc. probably did not have the exact same meanings in Chinese, and the techniques used to avoid this problem are discussed below. The loss of information in the translation of interview scripts can also affect the quality of research because of the grammar and structure differences between Putonghua and English.

Two types of translation problem were considered - loss before translation and loss in translation. Techniques to deal with these problems involved in the fieldwork and data analysis were as follows: (a) The translation of key items such as 'PFP', 'performance appraisal', and specific names of PFP plans from English to Chinese. (b) Pre-checking those translated items and questions with HR specialists from management consultancies and gate people at the pilot study. (c) Independent translation of those back to English. (c) Simplifying interview questions to avoid conceptual misunderstanding. (d) Consultation again with HR managers and experts. (e) Pre-testing

interview questions at the pilot study, and asking respondents not only for their answer but also for their interpretation of the item's meaning. (f) Confirming interview quotations with interviewees to avoid the loss in translation.

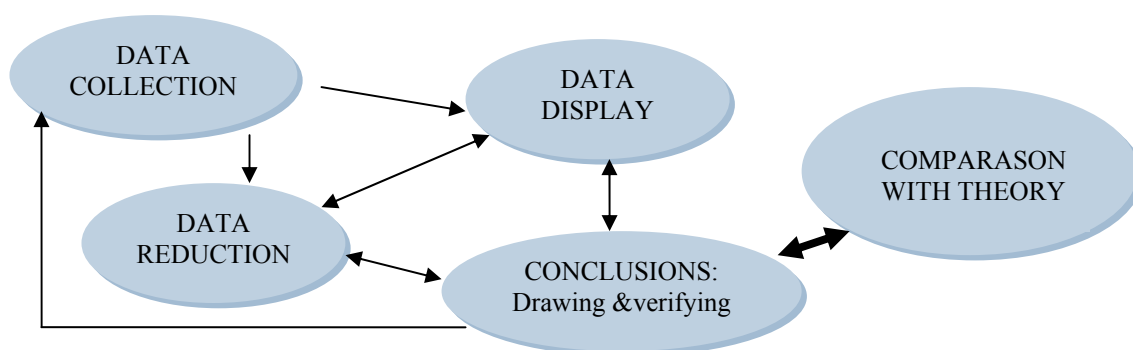
5.6.5 Secondary data collection

Secondary data analysis is the process of exploring survey data which already exists (Burton, 2000). Bryman (2001) states that secondary analysis should be considered a serious alternative to collecting new data. In this study, three types of secondary data were collected from three different sources, including: 1) brochures, newspaper reports, employee handbook and HR records etc. from the case firms, 2) pay survey for knowledge-intensive industries in China and Shanghai from the consultancies, and 3) other case studies and media releases from public publications (See Appendix 5.5 'Secondary data document description').

5.7 Data management and analysis

Huberman and Miles (1994) define data management as the processes needed for a systematic, coherent process of data collection, storage and retrieval. The purpose of data management (Huberman and Miles, 1994) is high quality accessible data; documentation of analysis undertaken; and retention of data and analysis undertaken upon study completion. Three key interactive processes are associated with data management: (a) data reduction; (b) data display; and (c) conclusions: drawing and verifying. Huberman and Miles (1994) also suggest a data analysis process as shown in Figure 5.1. This section presents the process of data analysis in this thesis, including data reduction, thematic analysis and conclusion drawing.

Figure 5.1: Components of data analysis interactive model



Source: Huberman and Miles (1994)

5.7.1 Data reduction

Huberman and Miles (1994) describe data reduction as focusing, simplifying, condensing and structuring the data so that data are managed in units for analysis. Data reduction allows the identification of themes and patterns (Neuman, 2000, Yin, 2003). Semi-structured and open-ended questions, by their very nature, generate large amounts of data. After all the data are considered, data reduction prevents data overload without distorting the validity and richness of the gathered data source. The system of data reduction should be such that cross referencing and triangulation tests can be easily undertaken. In relation to this research, for instance, data on other employee rewards, such as base pay and benefits were partially reduced in the analysis, some media press data and data on training and development details were also reduced in order to focus on PFP design and implementation issues.

5.7.2 Thematic analysis

Yin (2003) describes data analysis as examining, categorising, tabulating or otherwise recombining the evidence to address the research question and issues initially postulated. Huberman and Miles (1994) suggest the use of tables, categories, recombination and patterns to interpret the data to establish meaning to the questions and issues of the research. However, the efficacy is improved if data analysis is done with a pre-determined strategy (Yin, 2003, Neuman, 2000, Berg, 2001). Thematic analysis was adopted in the data analysis for the thesis as demonstrated in the following sections.

Thematic analysis is a poorly demarcated, rarely acknowledged, yet widely used qualitative analytic method (Boyatzis, 1998, Roulston, 2001). Qualitative approaches are incredibly diverse, complex and nuanced (Holloway and Todres, 2003). Thematic analysis is a method for identifying, analysing and reporting patterns (themes) within data. It minimally organises and describes your data set in rich detail. Thematic analysis is widely used, but there is no clear agreement about what thematic analysis is and how you go about doing it (Attride-Stirling, 2001, Boyatzis, 1998, Thckett, 2005). Meehan et al., (2000) argue that thematic analysis is often not explicitly claimed as the method of analysis, when in actuality, a lot of analysis is essentially thematic. At this point, it is important to describe what was adopted in the analysis of this thesis. Steps of thematic analysis for this thesis are summarised in Table 5.10 and demonstrated below.

Table 5.10: Steps of data analysis

No.	Steps	Purpose	Description of the data analysis steps
1.	Transcription	Getting familiar with the data	Transcribing data (if necessary), reading and re-reading the data, noting down initial ideas.
2.	Coding and pattern matching	Generating initial codes	Open coding – coding interesting features of the data across the entire data set, generating categories and collecting data relevant to each code under each category.
		Searching for themes	Axial coding – collating codes into potential themes, gathering all data relevant to each potential theme.
		Reviewing themes	Selective coding – selecting core categories, checking the relationships among them, and generating a ‘thematic map’ of the analysis.
3.	Refining and developing themes		To identify the essence of what each theme is about and determining what aspect of the data each theme captures.
4.	Producing case report		<ul style="list-style-type: none"> - Writing up a thematic analysis for each case; - Compare and contrast the analysis cross the cases.

Source: Developed for the thesis.

Thematic analysis step 1: Transcription

The process of transcription may seem time-consuming, frustrating and at times boring, but it can be an excellent way to start familiarising the researcher with the data (Riessman, 1993). Some researchers even argue that it should be seen as ‘a key phase of data analysis within interpretative qualitative methodology’ (Bird, 2005) p.227. In this research, interview notes and tapes were transcribed, and the transcripts were checked against the notes and tapes for accuracy. Some telephone follow ups were done to further confirm the meaning with the interviewees, e.g. the meaning of the specific PFP plan – year-end bonus. This process involved the researcher in repeated reading of the data, and reading the data in an active way – searching for meanings, patterns, similarities and differences within and across the cases and so on.

Thematic analysis step 2: Coding

The qualitative data analysis package NVivo was considered but not used for the initial stage of coding because of the large amount of data from 12 case firms (62 interviews and secondary data). Coding and pattern matching were involved in data analysis. Both primary and secondary data collected were analysed through coding. Three different types of coding were conducted and the inductive method of data analysis was applied.

Neuman (2000) notes that there are three types of coding: (1) open, (2) axial and (3) selective coding. In open coding data are initially examined to identify and name incidents that relate to the phenomena, resulting in concepts. Each category is further explored to reveal its properties and dimensions. The properties describe the basic nature (i.e. the attributes) of the category while the dimensions refer to the range within which a particular property can be placed (Strauss and Corbin, 1990). Axial coding is a set of procedures whereby data are put back together in new ways after open coding, by making connections between categories. This is done by utilising a coding paradigm involving conditions, context, action/interactional strategies and consequences (Strauss and Corbin, 1990). Selective coding is the process of selecting the core category, systematically relating it to other categories, validating those relationships, and filling in categories that need further refinement and development. The stages of coding involved in the thesis are explained below:

The **first** stage of coding was to generate initial codes by open coding, which fractured the data and allowed the researcher to identify some categories, their properties, and dimensional locations. The process of open coding was conducted on the data set by interview questions to generate the initial codes. Table 5.11 is an example of how open coding was done on the data transcript for interview question C15 (see Appendix 5.3b).

Table 5.11: An example of initial themes and codes list generating

Data extract	Coded for
<p><i>Interview question C15: How does your company appraise your performance?</i></p> <p>‘..Collaborative effort is one of the major performance measurements for my PA because my responsibility is to maintain a good relationship between the company and the government, and provide new policies of medical device production and sales in Shanghai by the government. Therefore, the company wants me to work really closely with the technical department managers...’(Public affairs department manager in MNC3)</p>	<p>* PA * Collaborative effort * Working relationship among line managers</p>

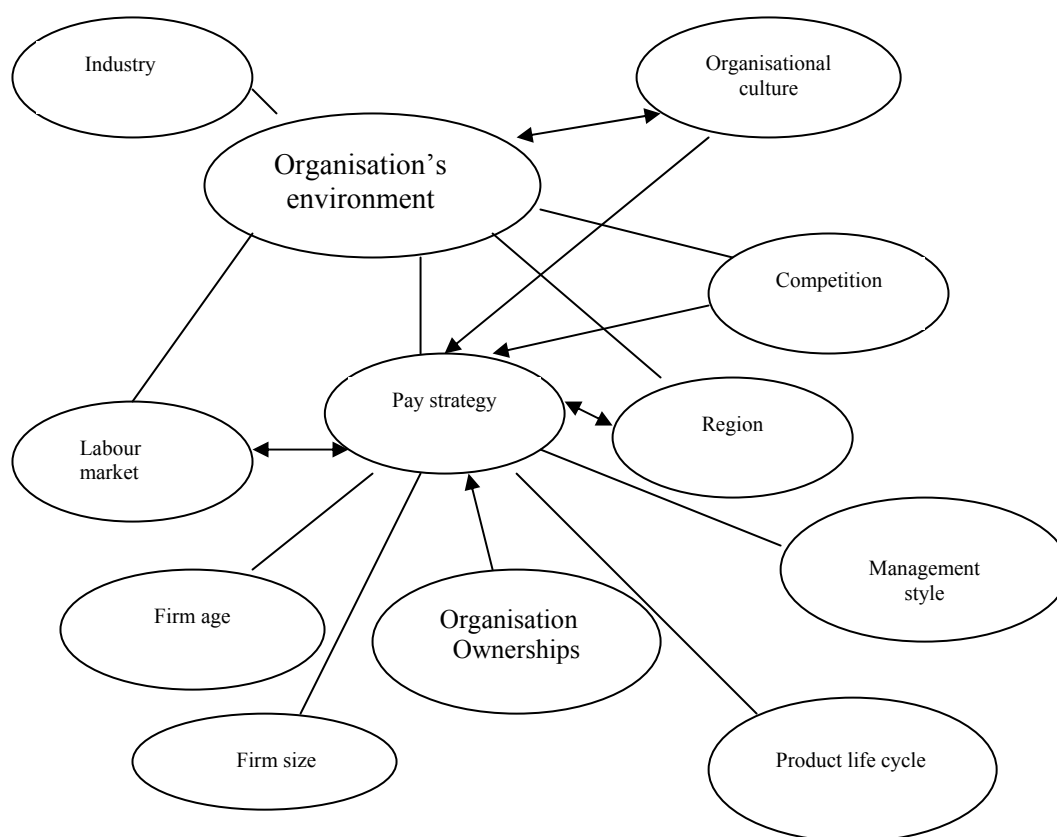
Source: From interview transcripts.

The themes/patterns and codes list for the entire data was generated after the open coding (see Appendix 5.6: ‘Themes/patterns and codes list’). Strauss and Corbin (1990) note that data analysis via coding depends on whether the themes are more ‘data driven’ or ‘theory driven’. In the former, the themes will depend on the data, but in the latter,

you might approach the data with specific questions in mind that you wish to code around. Both ways of generating initial themes and codes were used in this research. For instance, as shown in Appendix 5.6, the way that themes/patterns were generated for research question 1a, such as pay mix, pay structure, pay ranges and progression determinants, was mainly theory driven. The researcher had relevant theories and what types of themes to look for in mind when the data was coded. Whereas the way those themes/patterns generated for research question 1b was data driven because the codes list was developed from the reasons for using PFP by management that interviewees frequently mentioned (see Appendix 5.6).

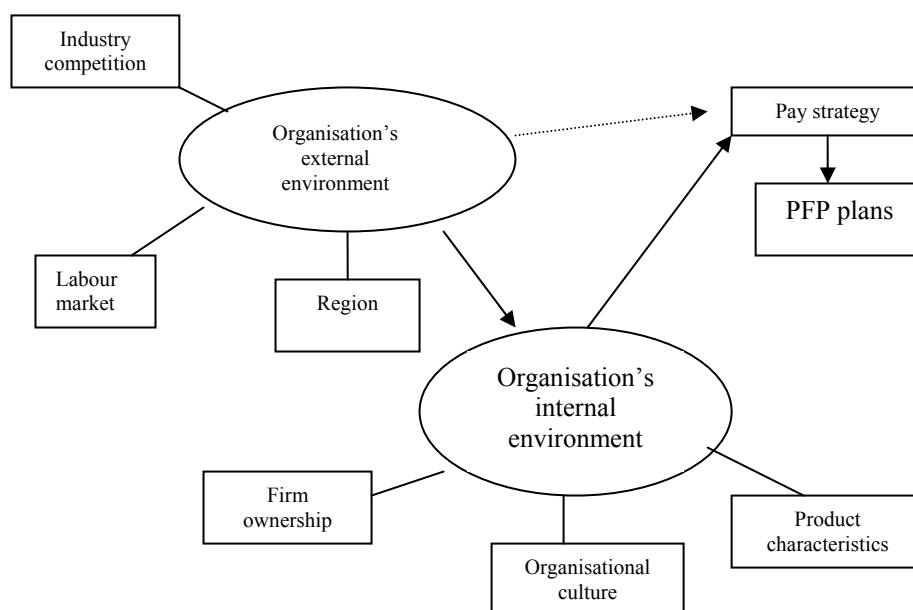
The **second** stage of coding was to search for themes by axial coding. Axial coding puts those data back together in new ways by making connections about the relating of several main categories to form an overall theoretical formulation, where this eventually forms one of several main categories (Yin, 2003). After the data had been initially open coded, the researcher started to analyse the relationships among the codes for each research question, and to consider how different codes could belong to a potential theme or pattern. This process can be explained by the thematic coding maps for research question 2b (see Figure 5.2 and 5.3 below). Figure 5.2 shows that the initial thematic map indicates three major themes that impacted on PFP plans design, namely, organisation's environment, organisations' ownership and its pay strategy. The researcher then started to have a sense of the significance of each main theme and sub-theme in answering the research question.

Figure 5.2: Initial thematic map for research question 2b.



Source: Developed for the thesis.

The **third** stage of coding was to review the themes developed in the second stage and explore the relationships by selective coding. During this stage, it became evident that some candidate themes were not really themes, or not appropriate to answer the research question. Other themes were broken into separate themes. This process can be explained by the example in Figure 5.3. The thematic map was developed from Figure 5.2. Finally, the three main themes were organisation's environment (internal and external), pay strategy and PFP plan. The ownership became a sub-theme belonging to internal environment. The relationships among the themes are illustrated as below.

Figure 5.3: Developed thematic map for research question 2a.

Source: Developed for the thesis.

Thematic analysis step 3: Refining and developing themes

This step of data analysis involved two levels. First, the coded data extracts were read again for each theme by the researcher to further check whether the themes were put under the right pattern or whether they appeared to form another coherent pattern. Second, similar activity was done by the researcher but in relation to the entire data set. At this level, the researcher considered the validity of each theme in relation to the research questions. Therefore, this step was to re-read the data set to confirm whether the themes and patterns could answer research questions and to further check if any codes or themes were missing.

Thematic analysis step 4: Producing case reports

After the final thematic map was completed for each research question, the researcher started writing a detailed analysis to identify the story for each question, and to ensure there is not too much overlap between themes. At the end of this step, a report was done for each case firm to illustrate the story and make an argument in relation to the specific research questions.

5.7.3 Inductive research process and conclusion drawing

The whole research process was inductive as summarised in Table 5.12. First, the researcher joined a phenomenon of interest – PFP in China – with a theoretical lens,

such as the controversy over PFP in the literature and the importance of PFP design and implementation in practice. The researcher then critically reviewed rewards in general, and in Asia and China specifically, to identify gaps in the existing literature (see Chapter 3 section 3.6). Second, the pilot study was carried out to finalise the research objectives, questions and interview guide, during which top managers, HR and specialists from HR consultancies were also involved. Third, the formal fieldwork was undertaken twice. Interviewees were enlarged and initial findings and analysis were verified at the second run of fieldwork. Fourth, thematic analysis and pattern matching were used as the major data analysis strategy with explanation building as a derivative strategy once patterns emerged from the data. The analysis process was done as an inductive process because patterns and categories were identified using key phrases and comments that were relevant to the research questions. In establishing a process to seek pattern, themes and categories, five levels of interrogation for analysis identified by Yin (1994) were followed: Level 1: Questions asked of the specific interviews; Level 2: questions asked of the individual cases; Level 3: Questions asked of the findings across multiples cases; Level 4: Questions asked of an entire study; and Level 5: Normative questions about recommendations and conclusion. Finally, the empirical findings were compared with the theories and reflected back to the existing literature. Two questions were asked by the researcher herself in drawing the conclusion: ‘what does this tell us that we did not already know theoretically?’, and ‘how do the findings differ from other existing studies?’

Additionally, in this study the researcher paid much attention to the problems that usually occur in published qualitative research. For instance, the actual methods of data collection and actual data collected were unclear, the weak linkages between methods citation and what is done in the research; weak descriptions of data analysis, and the lack of connection between research questions and what is done. These problems were considered in undertaking the study and further verified in later sections.

Table 5.12 Research process

Time	Step	Activity	Reason
Jul. 2005– Jan. 2006	I: Getting started	First run literature review and preparation for pilot study.	To identify research gaps and objectives.
Apr. – May 2006	II: Entering the field – Pilot	Translating interview questions and pilot study.	To make research questions more focused.
Feb. – Apr. 2007	III: Modifying research questions and conducting field work.	Case selection and field work.	To collect data.
Jul. – Oct. 2007	IV: First run data analysis	Coding	To analyse within and across cases.
Apr. – May 2008	V: Second run data collection	Going back to the field	To verify findings and analysis.
Jun. - Oct. 2008	VI: Enfolding literature and reaching closure	Further data analysis and conclusion.	To complete the whole research.

Source: Developed for this thesis.

5.8 Tests for research design quality

For any research findings to be applied to support theory, develop theory or contradict theory there must be confidence in the data from which conclusions are drawn. This section outlines the processes to be used to establish the veracity of data in the research.

5.8.1 Tests for reliability and validity

In sections 5.3 and 5.4, the challenges to qualitative research and multiple case studies were discussed. These can be distilled down to a perceived lack of rigor in the design methodology. The tests that are accepted for establishing the quality of the research are construct validity, internal validity, external validity and reliability (Dooley, 1995, Huberman and Miles, 1994, Neuman, 2000, Yin, 2003, Ellran, 1996).

The consideration of these criteria is woven into each step of the research design. Table 5.13 shows these criteria, their definition and the measures utilised in this investigation to establish the quality of the data. Neuman (2000) points out that while reliability and validity are complementary concepts, reliability is a necessary condition for validity to occur. Reliability is a vital step and the review and pilot testing of data collection is worthy of significant effort. Construct validity is a key step as failing to establish the

correct operational measures will render the investigation invalid (Neuman, 2000, Zikmund, 2000).

Table 5.13: Reliability and validity criteria and study tactics

Reliability & validity criteria	Definition	Measurement proposed for the thesis
Construct validity	Establishing correct operational measures for the concept being studied, i.e. is the measure able to test the research questions and research issues and do the indications operate in a consistent manner?	<ol style="list-style-type: none"> 1. Undertake literature review from a broad perspective to single research question issue. 2. Establish key concepts PFP, 3. Use of multiple sets of experience. 4. Established and tested interview protocol in the pilot by HR consultants. 5. Review of draft report by key informants. 6. Analysis of data seeking patterns that can be cross-referenced.
Internal validity	Establishing causal relationship, whereby certain conditions are shown to lead to other conditions as distinguished from spurious relationship, i.e. was the dependent variable changed by a sole cause?	<ol style="list-style-type: none"> 1. Use of multiple cases. 2. Analysis of data seeking patterns that can be cross-referenced. 3. Established and tested interview protocol in the pilot and by HR consultants.
External validity	Establishing the domain to which a study's findings can be generalised to the external environment.	<ol style="list-style-type: none"> 1. Use of multiple sources of secondary data. 2. Use of multiple cases. 3. Analysis of data seeking patterns that can be cross-referenced.
Reliability	Demonstrating that the operations of an investigation such as data collection process can be repeated with consistent results.	<ol style="list-style-type: none"> 1. Triangulation (see section 5.8.2) 2. Established and tested interview protocol in the pilot and by HR consultants. 3. Data collection and coding protocol established, documented and stored in the database. 4. Review of interview reports by key informants. 5. Research design protocol and progress reviewed by supervisor.

Source: Developed for the thesis.

5.8.2 Triangulation

As has previously been stated in section 5.3 and 5.4, a major criticism of qualitative approach, in particular case study investigations utilising interviews, is the lack of scientific rigour and objectivity. To mitigate this criticism data verification and testing for data reliability, rigour and data analysis was used.

In the first phase of data verification Human & Miles (1994) nominate a checklist of shortcomings, such as: a) data overload in the field; b) selectivity of over-confidence in some data; c) co-occurrences seen as correlations and evidence of causal relationships; d) misuse of base rate proportions; e) unreliability of data from some sources; f) over accommodation to information that questions an emerging hypothesis; and g) over emphasis of first impressions or dramatic incidents. This checklist was used during the data analysis phase of the thesis.

The most common strategy for data verification is that of triangulation (Huberman and Miles, 1994, Janesick, 1994, Yin, 2003, Neuman, 2000). Triangulation is a term that in qualitative research means multi-operationalism or multi-measures. Use of multiple sources that establish any themes or features from the data analysis are a trait of the investigation and not associated with the measure or any one source (Huberman and Miles, 1994). Table 5.14 presents the summary of data triangulation in the thesis.

Table 5.14 Triangulation of data

Data source Use of different data sources	Interviewing managers at different times; Secondary data were from case firms, HR consultancy firms and Chinese publications.
Method Use of different research methods	Pilot study, interviews and observations.
Theory Use of multiple theoretical perspectives	Theories and frameworks covered the area of PFP, reward management models and HRM convergence and divergence perspectives.

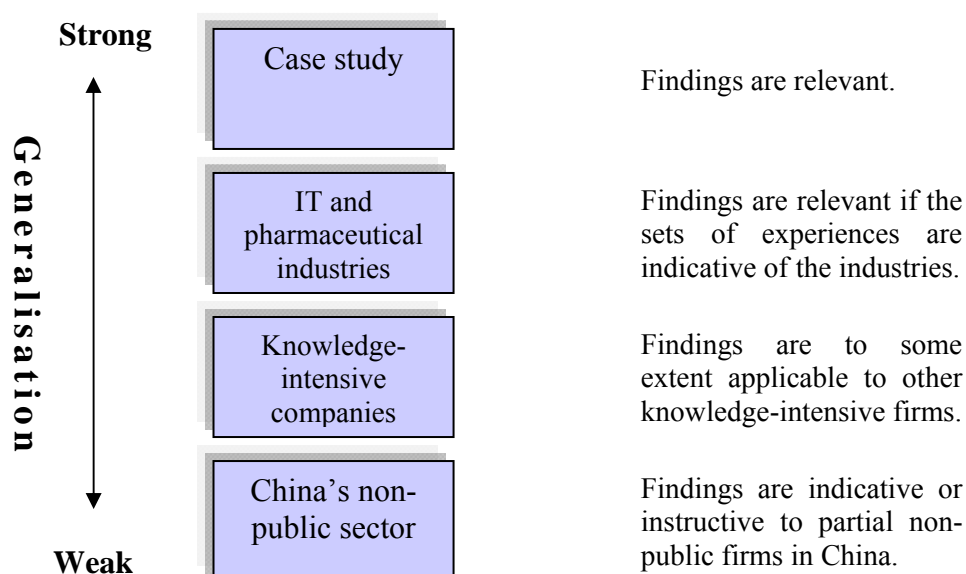
Source: Developed for this thesis.

5.8.3 Generalisation of research findings

The application of the findings of this thesis is constrained by the selection of case study methodology utilising interviews. This is primarily because cases can not represent the world, but represent the firm itself or to some extent the industry. The analysis of the 12

case studies is aimed at gaining understanding of PFP design and implementation in the non-public sector knowledge-intensive industries in China, and how the understanding supports or contradicts existing theory of PFP. Generalisation is strong within the case and progressively weakens as links to the case become more remote (see Figure 5.4).

Figure 5.4: Generalisation links



Source: Developed for this thesis.

5.9 Ethics and confidentiality

Dooley (1995) states that ethics is the study of right and wrong conduct and the essential ethical question is the reconciliation between two or more conflicting preferences and, as such, is a philosophical question (Zikmund, 2000). The major conflicts that must be considered are: (1) research goals versus subject rights; (2) veracity of research findings versus research motivation; and research claims to original work versus attributing work by others. Hence, these concerns revolve around harm, consent, deception, privacy and confidentiality of data (Punch, 1994).

In research, the principal purpose of an ethics process is to protect the subjects from physical and psychological harm, to ensure the subjects' rights are not violated and to ensure the research findings are based on an appropriate methodology (Dooley, 1995). Dooley (1995) further clarifies the focus of ethical research practices as (a) the protection of human and non-human subjects; (b) appropriate methodology; (c)

inferences, conclusions and recommendations based on actual findings; and (d) complete and accurate research reports.

The ethical practices adopted in this research were as follows: (1) Interviewees were contacted and given an outline of the interview questions in advance so that they could make an informed decision to participate; (2) Participants were free to choose the interview time and place, and they could withhold information about which they felt uncomfortable; (3) The confidentiality of the identity of information sources was maintained. Specific data would not be identified to specific participants or firms; (4) The duty and responsibility for gaining the consent and ensuring the confidentiality and privacy of the participants lay with the researcher and could not be delegated; (5) Interview notes were sent back to participants to ensure nothing was misinterpreted.

5.10 Conclusion

This chapter outlined the research methodology and design used in the research. The research objectives and questions were reviewed, along with the setting of the research in order to choose the appropriate research paradigm – the critical realism – for the thesis. From this, a qualitative research approach utilising a multiple case study method and semi-structured interviews was justified as being appropriate to the research. Meanwhile, a detailed research protocol was presented, which covered sampling, data collection and analysis, and research process.

In undertaking the multiple case study methodology, the direct process of establishing the validity and reliability of data by using a standard research protocol for all interviews and set probe questions was applied. The protocol was first tested in a pilot study for its functionality and applicability, and by experienced HR consultancies and practitioners. Multiple sources of data and coding by pattern seeking were also used in data analysis and findings. Triangulation processes from multiple interviews, multiple cases and secondary data were also applied to establish data reliability. Additionally, the confidentiality issues of the participants and cases were highly considered in the research.

CHAPTER SIX

IMPORTANCE OF PAY FOR PERFORMANCE IN THE CURRENT PAY SYSTEM

6.1 Introduction

To explore the research questions identified in Chapter 4, methodological issues were discussed in Chapter 5. Chapters 6-9 present empirical findings for each of the research questions respectively. This chapter provides the findings for research questions 1: How important is PFP in the current pay system? This question is answered by using the findings for the two sub-questions, namely, 1a: To what extent is PFP adopted? and 1b: Why do firms use PFP?

This chapter consists of three parts. First, the identification of critical employee groups among the case firms is presented. The cases are knowledge-intensive organisations in investment/marketing research, IT and pharmaceutical industries. Due to the different employee posts, this chapter begins with identifying the common critical employee groups of each firm. This enables the author to effectively compare and contrast the pay systems and PFP within and across the cases throughout the thesis. Second, findings for research question 1a are analysed. In order to examine the extent to which PFP is adopted in the pay system, several factors within the current pay system are examined, including components of pay mix, pay structure and determinants of pay range and progression (based on the discussion in Chapter 4 section 4.3.1). The proportion of PFP in pay mix, and the significance of performance as a norm for determining pay within pay structures are illustrated. The third part concerns findings for research question 1b, in which reasons for using PFP by the managers interviewed are demonstrated in relation to the possible theoretical explanations of PFP adoption (see the discussion in Chapter 4 section 4.3.2).

6.2 Critical positions

The case firms were from POEs, JVs and MNCs in investment/marketing research, IT and pharmaceutical industries (see the sample profile in Chapter 5). Each firm had to some extent different names for employee posts. In order to effectively study pay systems and PFP within and across the cases, employees were categorised into four groups according to the common and critical posts, namely, senior management, sales &

marketing, professionals and junior employees (see Table 6.1). This identification of the employee groups was confirmed by the HR managers interviewed.

Table 6.1 Critical employee groups in the case firms

Critical positions	Investment & marketing research	IT	Pharmaceuticals
Senior Management	Senior: CEOs, general managers, managing directors, regional managers, financial/HR controllers, head of the department etc.		
Sales and marketing	Project development, marketing research and advertising staff.	IT sales, customer service, marketing development staff.	Prescription, marketing research and management, OTC (over the counter sales) staff.
	Line managers are included.		
Professionals	Financial specialists, venture capital specialists, project analysts & evaluators	IT engineers, product specialist, network maintenance, R&D staff.	regulatory affairs, quality assurance and quality control staff
	Line managers are included.		
Junior employees	Administrators, secretaries, assistants, receptionists etc.		

Source: From interviews and HR documents.

The senior management group includes CEOs, vice presidents, general managers, managing directors, and department heads etc. Sales and marketing people include line managers, IT sales, prescription sales in pharmaceuticals, marketing research and management in investment firms etc. Professionals comprise line managers, project leaders, HR and financial specialists, IT engineers, financial specialists, regulatory affairs, quality assurance and quality control staff etc. Junior employees include administrators, secretaries and assistants etc. This categorisation was used throughout the whole thesis.

6.3 Findings for RQ1a: To what extent is PFP adopted?

This section presents findings for research question 1a. Components of pay mix were examined to explore the extent to which PFP weighted in pay mix. Types of pay structures in the current pay system were identified and determinants of pay range and pay progression were also examined to illustrate the extent to which pay depended on employee performance within the pay structures.

6.3.1 Components of pay mix

Armstrong & Murlis (2004) divide a pay mix into three key areas: base pay, variable pay and employee benefits (see Chapter 4 section 4.3.1). All three taken together make up the total remuneration received by the individual. Similar components were found in the study. The employee pay mix in all case firms consisted of three components, namely, base pay (fixed pay agreed in the employment contract), PFP (payments that are tied to performance individually and collectively) and benefits (including compulsory and/or additional parts according to Chinese labour law) and allowances (payments that are linked to individual positions or jobs). An employee's total cash income was base salary plus PFP. Each component is explained below, and the proportion of base pay and PFP within employees' total cash income is shown in Table 6.2.

Base pay

Base salary was the primary component of pay mix which was fixed in the employment contract and served as a benchmark for other pay elements. For instance, Chinese labour law requires that 8 percent of employees' base pay should be contributed to their medical insurance, and 2 percent of base pay is for their unemployment pension. Some firms (POE3 and POE5) set up ceilings for the PFP of sales or executives, which could be 200 or 300 per cent of their base salary. Moreover, base salary per month was what most Chinese discussed when they compared internal and external equity and subsequent employee turnover within peer groups. Although rewards preferences are not the research focus in this study, the researcher's observation to some extent supports the results found in previous studies, such as Chiu and Luk (2002) and Chiu, Luk and Tang (2001), who note that the pay level of base salary is one of the main determinants that employees use when they make an employment decisions.

As shown in Table 6.2, the weight of base pay in total cash income (excluding benefits and allowance) varied for each of the critical employee group (see Table 6.1). Base pay was about 60 to 80 per cent of the total cash income for top management (50 percent for executives in some firms), 50 to 60 percent for sales and marketing people, 70 to 80 per cent for professionals and 80 to 90 per cent for junior employees.

PFP

PFP comprised monthly, quarterly and/or annual payments that were additional to base pay but tied to individual or collective performance. In the observation, PFP as a HRM concept or management tool was widely accepted by managers and used in the firms. PFP policies were written into firms' employee handbooks or HR documents. PFP plans varied for each group of employees. For instance, year-end bonus based on firm performance measurement for everyone, sales commissions for sales and marketing people, project related incentives for R&D professionals, and cash profit-sharing plans for top managers. The specific PFP plans and design are discussed in Chapter 7.

Table 6.2 shows the percentage of PFP in total cash income for different groups of employees. PFP usually was about 30 to 40 per cent of the total cash income for top management (50 percent for executives in some firms), over 40 to 50 per cent for sales and marketing people, between 10 to 20 percent for professionals, and around 0 to 10 per cent for junior staff. Apparently, PFP was an important part of income for employees in the non-public sector knowledge-intensive enterprises.

Table 6.2 Weight of base pay and PFP in total cash income in the case firms

Firms	Groups	Base salary in total cash income %	PFP in total cash income %
POE1	Senior management (GMs, VPs, Directors)	60-70%	40-30%
	Middle management	70-80%	20-30%
	Junior staff	90%	10%
POE2	Senior management	70%	30%
	Professionals	80%	20%
	Sales & marketing	60%	40%
	Junior staff	90%	10%
POE3	Executives	70%	30%
	Middle management	80%	20%
	Professionals	90%	10%
	Sales & Marketing	60%	40%
	Junior staff	90%	10%
POE4	Senior management	70%	30%
	Sales & marketing	60%	40%
	Staff during probationary period	20-30%	70-80%
POE5	Senior management	70%	30%
	Sales & marketing	50-60%	40-50%
	Junior staff	90%	10%
JV1	Management	70%	30%
	Sales & marketing	50%	50%
	Professionals	80%	20%
	Junior staff	90%	10%
JV2	Management	70%	30%
	Sales & marketing	50%	50%
	Non-sales	90%	10%
MNC1	Management	85%	15%
	Non-management	85%	15%
MNC2	Senior Management	70%	30%
	Sales	50%	50%
	Non-sales	70-85%	15-30%
MNC3	Senior Management	80%	20%
	Sales & marketing	60%	40%
	Professionals	85%	15%
	Junior staff	90-95%	5-10%
MNC4	Senior Management	80-85%	15-20%
	Sales	60-70%	30-40%
	Non-sales	85-90%	10-15%
MNC5	Senior Management	70-80%	20-30%
	Sales & marketing	50-70%	50-30%
	Professionals	90%	10%
	Junior staff	95-100%	0-5%

Source: From interviews and salary documents.

Allowances & Benefits

Allowances were payments that were linked to employee posts and job activities, such as overtime working, mobiles, transportation and company lunch/car allowances, business trip allowances, positional allowances, etc. Allowances for posts, such as housing, health care and schooling, varied at different level of management posts, which was used as one of the motivational tools by employers to attract and retain good performers at management levels.

Common benefits included health insurance, housing allotment, pension scheme and unemployment compensation. Contributions for benefits were made by both the company on behalf of the incumbent and the incumbent themselves as a result of Chinese labour law and/or reward strategy. Chinese labour law identifies and updates compulsory and additional contributions to benefits each year for employers to apply. The bases of these employers' contributions set by labour law in 2008 were (See Table 6.3): (a) Medical Insurance: rate contently 8 per cent of base salary (Shanghai was higher than 6 per cent in other cities of China); (b) Pension plan: currently 22 per cent of base salary; (c) Housing allotment: variable per cent of base salary, as cash allowance or loan; (d) Unemployment compensation/severance payment: 2 per cent of base salary.

Every JV and MNC in the sample provided the above basic benefits, and made additional contributions for certain groups of people, such as senior management in order to motivate them to a greater extent, whilst some POEs did not fully supply what the labour law required, such as POE1, POE3 and POE5 (see Table 6.3).

Table 6.3 Benefit schemes in the case firms

Firms	Medical insurance 8%	Pension plan 22%	Housing allotment	Unemployment 2%	Additional housing & pension
POE1	√	×	×	√	×
POE2	√	√	√	√	×
POE3	×	×	×	×	×
POE4	√	√	×	√	×
POE5	√	×	×	√	×
JV1	√	√	√	√	√
JV2	√	√	√	√	√
MNC1	√	√	√	√	×
MNC2	√	√	√	√	×
MNC3	√	√	√	√	×
MNC4	√	√	√	√	×
MNC5	√	√	√	√	×

Source: From interviews and reward documents. √ Present practice, × No present practice.

It was observed that providing less or no benefits schemes as required by labour law did exist in many other POEs in general, the main reasons given by managers in POEs were:

(1) Employees preferred a better cash income package to benefits schemes. The cash mentality was confirmed by most of the top managers in POEs; (2) Benefits schemes were a big financial burden for some large employers like POE1. Moreover, the future returns of those benefits schemes were poor or unknown. Because the contributions by the employer to benefit schemes were based on employees' base pay level, many POEs set very low base pay level for their employees in order to avoid high contribution to their benefits. Therefore, the future return of those benefit schemes would not be attractive to employees. The top management in POE1 explained their concerns as below:

“...providing benefits costs a lot of money... but we are considering that and perhaps it would be given to employees some time next year...However, on one hand, employees would not get a good return from their benefits in future. On the other hand, our corporate culture is ‘honesty, loyalty and devotion’, our employees are expected to understand that they gain a lot through working for us because of the high reputation we have in not only the industry but also China, which is more than any financial benefits.” (Chairman of the board of directors in POE1)

(3) Some private owners' beliefs determined their employees' benefits options and the HR was not strong enough to influence the top management as the HR manager in POE1 pointed out:

“We advised our boss several times over the last two years to provide at least the basic pension plan to meet the requirement of labour law, but line managers like me are too small to make it happen, our boss has his own way of making decisions. So we do tell our candidates that we don't offer pension schemes while recruiting them through interviews. But because we are such a big and top leading firm, normally candidates would still want to join us because our reputation would add excellent value to his/her CV.” (HR manager in POE1)

(4) IT and pharmaceutical industries had more relatively young employees than other traditional industries. Some POEs believed that those young employees' first priority was good posts or titles for future career development rather than current pension plans as stated by the general manager in POE3 below.

“...in POEs, we emphasize pay or base pay rather than benefits...cash income and job opportunities are more important sometimes for sales people, they can buy social insurance and pension schemes by themselves anyway when they have a very good income...” (General manager in POE3)

There were additional benefits available in some cases, for instance; presents for holidays such as birthday, Valentine's day, Children's day, Christmas and New year's day, special gifts for newly married people, new born babies, women's day, and mother's day etc., shopping, gym, club cards and parties organised by the firm to entertain young IT staff or for them to meet new female friends as IT is a male intensive industry. The above benefits mainly happened in JVs because of the influence of their Chinese parent companies, and private firms like POE1, where the owner was from the SOE sector.

6.3.2 Pay structures

Main types of pay structures are identified by Armstrong and Murlis (2004) as graded, broad-banded, career family and job family (see Chapter 4, section 4.3.1). Two major types of graded and broad-banded pay structures were found in the case firms. The summary of the pay structure in each firm is shown in Table 6.4. Graded structure was

the dominant pay structure, altogether 9 (4 POEs, 1 JV and 4 MNCs) companies out of 12 used graded structures, and the other 3 companies applied broad-banded structure.

Table 6.4: Summary of pay structures in the case firms

Firms	Pay system	Grades and bands
POE1	Broad-banded	3 bands with 4 levels in each band.
POE2	Informal graded*	4 grades
POE3	Informal graded*	4 grades
POE4	Informal graded*	6 grades
POE5	Informal graded*	6 grades
JV1	Graded	10 grades
JV2	Broad-banded	3 bands with 4 levels in each band.
MNC1	Graded	11 grades
MNC2	Graded	8 grades
MNC3	Graded	20 grades
MNC4	Graded	11 grades
MNC5	Broad-banded	3 bands with 2-4 levels in each band.

Source: From interviews and HR documents.

* No formal structured written policies and display of their graded structures, data from interviews only.

Graded pay structure

Graded pay structures were found in POE2, POE3, POE4, POE5, JV1, MNC1, MNC2, MNC3 and MNC4 (See Appendix 6.1a). Graded pay structures in POEs were informal as the pay structure was graded by employee education certificates rather than a job evaluation. Moreover, there was no written document about the pay structure displays.

Graded structures in JVs and MNCs were formal (see Appendix 6.1a). Jobs were allocated to job grades on the basis of an assessment of their relative size and all jobs allocated to a grade are treated the same for pay purposes. Moreover, the pay structure was allocated according to their organisational structure. For instance, in JV1 (see Appendix 6.1a) grade A is for directors with pay range between RMB 200k and 400k. Grade B is for senior managers with pay range between RMB 140K and 250K. Grade C is for middle managers with pay range between RMB 100 and 180K. Grade D and E are for junior managers with pay range between RMB 60 and 120K. Grade F, G and H are for professional and technical staff with pay range between RMB 24 and 120K. Grade I and J are for junior officers and staff with pay range between RMB 20 and 60K.

The pay range attached to each grade defined the minimum and maximum amount for any job in the grade and also indicated the scope provided for job holders to progress through the range. Pay increases to individual job holders and progression within a range varied according to assessments of performance, contribution, skill or competence and, to some degree, length of service or time in the grade. For instance, the graded pay structure in MNC1 showed that there were 11 grades for staff from junior officers to VPs, grade 1 to 3, 4 to 5, 6 to 7, 8, 9, and 10 to 11 are for junior staff, professionals, senior professionals, engineer managers, line managers and senior managers respectively (see Appendix 6.1a). The minimum and maximum pay range was attached for each grade which guided the future pay increases.

Broad-banded pay structure

Broad-banded pay structure can also be called a variant graded structure, which was found in case firms POE1, JV2 and MNC5 (see Appendix 6.1b). Their pay structures had similar characters. First, each structure had a limited number of bands. There were three or four bands to cover all employees in the above three firms. Second, the range of salary in the band was 100% or more. Third, a large overlap between bands of 5 percent or more – this provided room for individuals in a band to continue receiving ‘career development’ pay increases without having to be upgraded. Fourth, broad bands adopted in the cases did not have midpoints, as in a conventional graded pay structure, to provide a basis for the traditional control systems of compa-ratios and mid-point management. Fifth, target rates of pay might be assigned to individual jobs or generic roles with are determined by reference to market values or job evaluation – but the range of pay around this target rate which can be earned by individuals may not be defined.

Examples can be found in Appendix 6.1b. The broad-banded pay structure in POE1 applied to every staff member including its subsidiaries all over China. The pay structure consisted of a sequence of job grades to each of which is attached a pay range and pay ranges were overlapping. The pay structure had three bands and 11 grades all together. Employees were divided into three bands. Band A was for senior management, 5 grades were set for this band including VP, managing director, deputy VP, financial controller and VP assistant. Band B was for middle management with 5 grades. Band C was for junior staff set with 5 grades. Band D was for others such as securities and cleaners. A pay range was attached to each grade in the band. JV2 had a similar broad-

banded structure to POE1. There were 3 bands with 4 pay levels in each band, G1-G4 were set for general staff, P1 to P4 were set for professionals and M1-M4 were for management staff. Jobs were allocated to band ranges on the basis of an assessment of their relative department or subsidiaries size and all jobs allocated to a grade were treated the same for pay purposes.

6.3.3 Pay determinants within the pay structures

Within the graded and broad-banded pay structures, the important factors adopted by employers to determinate the pay ranges for each pay grade or band, and the important determinants of deciding employee pay progress, and moving people within or across grades and bands are discussed below.

Pay range determinants

Senior managers and HR were asked to give at least three factors that they thought were important to determine employee pay ranges. The results are listed in Table 6.5. The important determinants of pay range for each grade or band within the pay structure were external factors such as market rate and relevant information about competitors; internal determinants were job evaluation/scope and individual working experiences and qualifications that related to the post.

Table 6.5 Important pay range determinants in the case firms

Firms	Market rates	Competitor	Job evaluation	Qualification	Experience	Pay consultant	Firm revenue
POE1	√	√	√	√	√	×	×
POE2	√	√	√	√	√	×	√
POE3	√	√	√	√	√	×	×
POE4	√	√	√	√	√	×	×
POE5	√	√	√	√	√	×	√
JV1	√	√	√	√	√	×	√
JV2	√	√	√	√	√	√	×
MNC1	√	√	√	√	√	√	√
MNC2	√	√	√	√	√	√	√
MNC3	√	√	√	√	√	√	√
MNC4	√	√	√	√	√	√	√
MNC5	√	√	√	√	√	√	√

Source: From interviews with managers. √ - Very important, × - not very important.

It must be noted that market rates were highly valued in setting pay by employers and in pay range determination. Most of the case firms used the annual salary survey of Shanghai or their specific industries' provided by international HR consultancies, such as Mercer, Wyson and Hewitt as a helpful reference to decide their pay rate. Meanwhile, JVs and all MNCs joined the pay survey by Mercer each year. The pay levels of their competitors were inclusive and strongly valued in positioning pay strategies by the case firms. Individual experiences and qualifications highly influenced the pay range level. Examples of the importance of experiences and qualifications in setting pay ranges for HR, sales and marketing, professionals and administration employees in the case firms can be found in Appendix 6.2(a-d). In sum, these determinants indicated that the pay range was basically related to the job based on its relative value, which was assessed internally and externally. Internal value was determined based on job evaluations, and external value was determined based on market value of the assigned job.

Pay progression determinants

The managers were also asked to give the importance factors that influenced employee pay progression. The results are listed in Table 6.6. The top factors that determined pay progression were individual performance, firm revenue and cost. Person factors were used for pay progression; in other words, the current value of employees determined their pay progression. Individual performance was the most important factor in deciding pay progression at all levels, which was given much more prominence than other input measurements such as years of service, competencies and skills. Different emphasis was also put on the importance of the labour market and the performance of the enterprise. This can be demonstrated by some managers' points below.

“...our philosophy of pay is just as what we put on our website - ‘Salary is determined by job related performance and achievement, promotions are determined by competences.’” (General manager of JV1)

“As a private owner like me, the way I measure my people (the key managers that work for me) is to see whether they can solve the problems very well for me within a certain period of time. I don't really care what they do or how they do...” (Owner of POE2)

“...we tend to give new staff especially sales people low base pay to start during their probationary period, so if they want to earn more they really have to work very hard to get the commission and show good results to convince us to increase their base pay level.” (General manager of POE3)

Table 6.6 Pay progression determinants in the case firms

Firms	Firm revenue	Individual performance	Cost	Inflation rate	Service length	Skill/ competence
POE1	√	√	√	√	×	√
POE2	√	√	√	√	×	×
POE3	√	√	√	×	√	×
POE4	√	√	√	×	×	×
POE5	√	√	√	√	×	×
JV1	√	√	√	√	√	×
JV2	√	√	√	√	√	×
MNC1	√	√	√	√	×	√
MNC2	√	√	√	√	×	√
MNC3	√	√	√	√	×	×
MNC4	√	√	√	√	√	√
MNC5	√	√	√	√	√	√

Source: From interviews. √ - Very important, × - not very important.

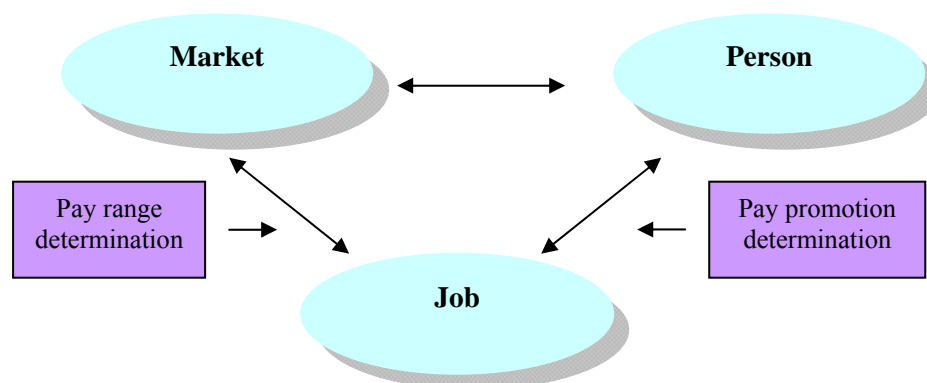
Characteristics of the current pay structure

The literature shows that there are three factors that determine pay structures – job, market and person (Suda, 2007) (see Chapter 4 section 4.3.1 for details). Labour markets are generally divided into two types: external labour markets and internal labour markets (Doeringer and Piore, 1971, Williamson, 1975). As discussed above, job, market and person factors were interrelated in determining pay range and progression within both graded and board-banded pay structures in the case firms. The job itself such as its scope, the market rate for a specific job position including the rate of competitors and individual criteria such as working experiences and certificate (see Table 6.5) determined pay ranges. Those determinants were based on job evaluation and external market value. Base pay levels were determined by job evaluation and external market value, which was the integration between the market and the job itself. Pay progression depended on individual job related performance and contributions which were the integration between job and person factors (see Table 6.6).

Figure 6.1 illustrates how pay range and pay progression were determined by factors of the market, job and person in the case firms. The discussion in Chapter 4 section 4.3.1 shows that there are two basic types of pay structure - job-based and person-based (Lawler, 1990, Milkovich and Newman, 2002, Lawler, 2000). The author argues that based on the findings, factors related to jobs were emphasised more than the person

factors. Although there is no clear cut distinction between a job based and a person based pay structure, still the current pay structure in the non-public sector knowledge-intensive firms of China is more job based rather than person based.

Figure 6.1 Pay range and pay progression determination in the case firms



Source: Developed for the thesis.

6.4 Findings for research question 1b: Why do firms use PFP?

This section presents empirical findings for reasons that the case firms adopted PFP plans. Three types of relevant theories were introduced in the literature review as possible explanations for why companies use of PFP schemes: agency theory, motivation theories (expectancy, equity), and institutional and legitimacy theories (see Chapter 4, section 4.3.2 for details). In the study, each case firm used both short term and long term PFP plans. During the interviews, participants were asked to give reasons why their firms used PFP. In coding the interviews, the author considered whether and how the managers' answer could be explained by the existing theories. Apart from extensive interview notes taken by the author, the documentary sources were also used. These included the companies' financial statements for the current and preceding years, consultancy reports, and internal documentation surrounding the pay setting process etc. The managers' explanations of using PFP plans are discussed as blow.

PFP as a motivator

PFP was used for motivational purposes as believed by quite a few managers. Below is the typical expression of this belief, which is a basic assumption agency theory view that paying individuals to achieve results will motivate them to work harder and result in better outcomes for the organisation, as the general manager in POE4 noted:

“Our sales people actually desire a higher variable pay level and that if their base pay is too high they won’t do anything.” (General manager in POE4)

However, some managers took the view that PFP might motivate people but did not retain staff in the longer run. This is seen in the next quote:

“I do not apply incentive plans to my senior managers but the lower staff. Those people are the king posts in my company and I motivate them by building up a good relationship with them, making them happy to work for me and promising to provide future stock options after we become listed company. Money can be an incentive but not a real motivator for the long term.” (The general manager in POE2)

A HR specialist also responded with similar views that incentives in the current pay systems of knowledge-intensive firms seemed to be overplayed. The management obviously had too much expectation of their PFP plans without taking enough consideration for other possible long term rewards as stated below:

“There is a trend in IT and Pharmaceutical industry of Shanghai that the quantity of incentive in pay package is getting larger, and reaching almost half of the total cash income. But it is surely for the short term motivation only, not a good idea for retaining good performers in the long run.” (Principal consultant of Watson Wyatt Shanghai)

Retaining staff

Similar to the motivational purposes discussed above, PFP plans were also taken as the alternative to training and other rewards to keep the good performers, as the sales manager in POE2 mentioned below:

“We know money can not keep good performers for long, probably attractive training and development programmes would be much better than PFP. However, if we train our IT engineers, they would leave for other competitors with what they have learnt afterwards to get better job position or pay etc. Therefore, we offer them PFP, even though it is for the short term.” (Sales manager in POE2)

Promoting business strategies

PFP plans were applied to sell the new organisational mission to employees as the HR specialist in MNC1 said:

“In order to promote our business focus – ‘Sales Guarantee’ this year, new PFP plans were applied to sales & marketing staff. The specific PFP plan gives employees the message of our new mission.” (HR specialist in MNC1)

A similar purpose for using PFP plans to encourage firms’ annual business objective was also found in the explanation by the HR director in MNC3 as below:

“We are a European company; therefore, our PFP plans are not aggressive compared to American firms. However, we use PFP to drive certain business focus each year. For instance, last year was ‘cash flow’, this year is ‘cost control’. Therefore, the business focus becomes one of the important measurements of PFP.” (HR director in MNC3)

An effective management tool

Some HR managers seemed to love PFP as an easy and useful management tool to tie people closely to their outputs. Those managers strongly supported results orientated PFP systems as explained by the HR manager in MNC5:

“I highly support the philosophy – managing people by measuring their results. Output orientated is one of our key HR characteristics. I think PFP is an effective management tool which made my life a lot easier.” (HR manager in MNC5)

However, many others managers expressed the opposite opinion, especially line managers. One of the HR specialists argued that the statement above only revealed that the HR manager was too naïve or lacked a strategic mind. Many interviewees did not believe that PFP influenced effort especially at a senior level of the business as mentioned by the finance manager in JV1:

“I’m not sure that anyone believes in practice PFP makes very much difference, especially at the very senior level of the organisation. In my view, senior managers are motivated by something other than money.” (Finance manager in JV1)

Some managers even at senior level understood the reason for using PFP but they were not very confident or did not believe the expected effect would come out, as the senior manager in JV2 wondered below:

“I’m highly sceptical myself as to how much extra people really put in. PFP has an impact, it does have an impact, or sometimes PFP is an effort bargaining. But I think it can be overplayed.” (Senior manager in JV2)

A good communication tool

Most of the line managers mentioned PFP as a good communication tool to improve their working relationship with team members regularly, and make them focus a lot more on the team business targets. This can be seen in the quote below by the sales manager in MNC1.

“PFP plans forced me to have meetings with my team time to time, so that I make sure they understand the target and things are moving forward. This is the only great benefit I can think of PFP, or the main reason why we should use PFP.” (Sales manager in MNC1)

Market practice

The reasons discussed above suggest that PFP was used in order to encourage certain behaviour from the management, which was a matter internal to the company with pay being the principal link between the individuals and the company. However, the research indicated that external factors also came into play when companies were deciding whether to implement a PFP scheme.

Many interviewees mentioned that they had a PFP scheme because it was market practice so to do. MNCs in the study all joined the annual pay survey by the global leading HR consultancy – Mercer or Watson Wyatt. The management usually updated their PFP plans with external information from the consultancies. Other case firms followed public pay information or suggestions from the local HR consultancies.

Best practice

Many participants, mostly from POEs, pointed out that use of PFP was because that was seen as ‘best practice’. Some of the POEs copied the practice from their competitors and believed PFP was a good way of managing companies. This can be found in the following:

“We do not join any pay survey with external HR consultancies. However, I can tell PFP is necessary to be offered to employees when I interview candidates. It’s seen to be a good thing.” (Director in POE1)

“I’ve worked in MNCs before I joined this firm, the PFP system we are using now is actually the copy of what I did in the previous company. We need a bonus structure, and I think it’s a

conventional wisdom and a good way to pay people.” (The general manager in POE4)

In sum, three main reasons for adopting PFP schemes by management can be summarised from the data analysis above. The first concerned external factors - market practices/best practices, the other two factors were internal reasons – the need to attract and retain good performers as well as the need to improve employee performance. PFP plans were used to set certain targets for employees and adopted as an effective communication tool for managers to monitor their people. Moreover, the PFP awards were not only regarded as monetary rewards, but also the recognition of individual success, the promotion of firm missions and business objectives.

6.5 Conclusion

This chapter presented empirical findings for research question 1a – To what extent is PFP adopted? And 1b - why do firms use PFP? Three steps were taken in the analysis. First, employees in the cases were categorised into four groups, namely, senior management, sales & marketing, professionals and junior staff in order to effectively compare and contrast their PFP schemes in this thesis.

The second step was that the importance of PFP was examined in the pay mix and pay structure. Employee pay mix in the case firms consisted of base pay, PFP and benefit and allowances. PFP was obviously an important component for the four employee groups because PFP was about 30 to 40 per cent of the total cash income for the top management, over 40 to 50 per cent for sales and marketing people, between 10 to 20 percent for professionals, and around 0 to 10 per cent for junior staff. Moreover, graded and broad-banded pay structures were identified in the case firms. It was also found that the current pay structures in the non-public sector knowledge-intensive companies of China were job and market based rather than person based. Individual previous experiences and current performance/achievement were important determinants in setting employee pay range and pay progression.

The third step was analysing the reasons for using PFP in the cases. The findings indicated that many companies adopted PFP despite a belief that money was not a long term motivator. Importantly, institutional factors such as market practice / best practice were the main external reasons, since companies used PFP because their competitors

did or else it was from the survey by certain HR consultancies. Internally, companies adopted PFP to attract and retain good performers, and improve performances, which could be explained by motivational theories such as expectancy issues. However, there was very little evidence to support legitimacy. This could be simply because of the absence of government guidance on PFP for non-public enterprises.

Chapter 7 will further analyse findings for research question 2, the PFP plans adopted by the case firms and factors that impact on adoption.

CHAPTER SEVEN

PAY FOR PERFORMANCE PLANS AND DESIGN

7.1 Introduction

This chapter presents empirical findings for research question 2 regarding the design issues of PFP in China's non-public sector knowledge-intensive industries. Findings are displayed for the two sub-questions 2a: What types of PFP plans are adopted? 2b: What are the contextual factors that impact on the adoption?

This chapter consists of three parts. First, the meanings of PFP plans found in the case firms are clarified. Second, specific PFP plans for each of the critical employee groups identified in Chapter 6 section 6.2 are discussed. The forms, focus and characteristics of PFP plans for senior management, sales and marketing, professionals and junior staff groups are analysed. The second part of this chapter is the examination of contextual factors that affect the design of PFP plans adopted in the case firms. Factors of organisational environment, organisational characteristics and pay strategies are discussed.

7.2 Findings for RQ2a: what types of PFP plans are adopted?

The exact names and meanings of PFP plans can be complicated. Therefore, in the interviews the researcher provided definitions of PFP plans by Brown and Armstrong (1999) and asked HR managers to confirm if the PFP plans adopted by the case firms matched the meanings that were defined in the literature. PFP plans such as commission, year-end bonus, cash profit sharing, project/group based bonus and stock plans were found in the case firms. The name and definition of each PFP plan were agreed by the HR managers in the case firms, which are listed in Table 7.1 below.

Table 7.1 Definitions of PFP plans

PFP plans	Definitions agreed by HR managers in the case firms	Performance measure level
Commission	A cash bonus to the results achieved by the individual and/or team. For instance, sales commissions and project based commissions.	Individual/team performance
Year-end bonus	Non-recurring cash lump sums related to the performance achieved by the team and/or organisation at the end of the financial year. It's paid in cash with a fixed percentage or discretionary.	Team or organisational performance
Cash profit sharing	Schemes which share a proportion of a company's profit with employees, typically on a common basis. It is a result-oriented plan that depends on collective performance. It's paid in cash and often covers senior management or above with a fixed percentage or discretionary.	Team and/or firm performance
Project/Group based bonus	A results-based programme that links pay to performance at a collective level. It often covers project teams or professionals when certain objectives are achieved during a time period.	Team performance
Stock plans	Stock plans are based on a results-oriented measure at a collective level (stock price appreciation or stock price appreciation plus dividends). Those plans are heavily weighted toward executives and pay is linked to stock performance but with no actual option or ownership.	Organisational performance

Source: From Brown and Armstrong (1999) p.20 and interviews.

According to the literature, the three major types of PFP plans are: payment by results schemes, performance schemes and financial participation schemes (Reilly, 2005) (see Chapter 4). The sections following present specific PFP plans adopted for each identified critical employee group (senior management, sales and marketing, professionals and junior staff respectively).

7.2.1 PFP plans for senior management

The types of PFP plans adopted for senior management in the case firms are listed in Table 7.2.

Table 7.2 PFP plans for senior management in the case firms

Firm	Payment-by-result schemes	Performance schemes	Financial participation schemes
POE1	-	Cash profit sharing	Stock options – Key share holders, 4 people
POE2	-	Year-end bonus	Stock options – Key share holders, 6 people
POE3	-	Year-end bonus, 10-20% of total cash income	-
POE4	-	Year-end bonus, 33% of total cash income	Stock options – Key share holders, 6 people
POE5	-	Year-end bonus	-
JV1	-	Year-end bonus	-
JV2	-	Year-end bonus	-
MNC1	-	Cash profit sharing by firm sales volumes and profit margin	Company share option plan (from 2007)
MNC2	-	Cash profit sharing by business unit achievement	-
MNC3	-	Year-end bonus, 20-35% of total cash income	-
MNC4	-	Year-end bonus, 1-2 months salary	-
MNC5	-	Year-end bonus	Stock options.

Source: From interviews and HR documents.

The characteristics of PFP plans for senior management are discussed below.

(1) Performance schemes, such as year-end bonuses and cash profit sharing, were the main types of PFP plans for senior management. Cash profit sharing and year-end bonus were short term orientated and based on the achievements made by senior management within a year or two. Payment-by-result schemes were not used for senior management.

(2) Financial participation schemes, such as stock option plans, were not widely adopted. Stock option plans were long term (on average 3.5 years) based, and applied to very few key leaders in some of the cases only (POE1, POE2, POE4, MNC1 and MNC5). Stock option plans were not favoured by every case firm because of the tax problems, contract issues and other practical concerns by the owners as explained by the general manager in POE2 below.

“Tax and practical issues can be the big problem in China for implementing stock option plans. For instance, once the stock

shares were sold, high ‘capital gain tax’ would be charged by the government. Shares in some companies were not allowed to be sold within 5 years, but the employment contract is normally for 3-5 years. Moreover, owners of POEs tend to offer stock option plans to very limited people, such as the key leaders. Therefore, the stock option plans do not really attract most of the senior management.” (General manager in POE2)

There was evidence that executive stock ownership was related to measurable gains in shareholder value. However, the findings could not support that the case firms were likely to perform consistently with shareholder interests when executives or others in the workforce had stock options in the company because this research did not examine effectiveness of the PFP plans. It was observed that owners and senior managers who had stock option schemes were lacking in confidence about stock ownerships. This can be understood from what the general manager in POE4 stated below:

“We offer stock option plans to six of our key senior staff only. I personally am not very positive about stock options because it only is attractive to employees when it’s a big amount of shares. Otherwise, stock option plans would have too many practical problems and little financial return.” (General manager in POE4)

(3) Discretionary year-end bonuses were most frequently provided to senior management in order to recognise some extra effort or a job well done, especially in POEs. However, this type of linking pay to performance caused internal inequity and de-motivation problems. Discretionary year-end bonuses were often reactive and subjective in the amount and its distribution and did not always differentiate on the basis of performance. Thus, high performing senior managers might feel that their particular contribution was not being sufficiently recognised. This can be illustrated by two senior managers’ comments below.

“I’m not happy about the annual bonus given by the general manager. It was RMB 70,000 for me, but I think it supposed to be RMB 100,000. The boss didn’t tell me how the bonus arrived at that figure.” (Financial controller in JV1)

“Our bonus system doesn’t recognise the top people. It all depends on our boss’s mood and your personal relationship with him because it’s his money and his company too.” (VP in POE1)

(4) In order to make the PFP plans attractive and competitive, other relevant considerations were provided to support PFP plans for senior management as explained below.

Special benefits and allowance packages

Special benefits were offered to senior management aligned with the PFP plans. Those benefits covered not only the compulsory contributions required by Chinese labour law but also additional ones such as long term pension plans. Moreover, post-related allowances were provided too, including company car, entertaining fees, company loan with no or very low interest rates to support senior managers to have a good condition of living and work environment.

Long-term assignment

It has been recognised by POEs and FIEs that problems of recruiting and retaining employees, particularly highly skilled senior managers, are raising the cost of doing business in China. “If you think that China is a cheap place for labour, think again,” says Mr. Jeffrey Fan, the business leader of Mercer human-resources consultancy Shanghai. The particular shortages mentioned most often by the interviewees were of creativity, of an aptitude for risk-taking and, above all, of an ability to manage in everything from HR and accounting to sales, distribution, branding and project-management. As China entered the WTO and more foreign investments poured into China, the demand for Chinese executive talent has been even further increased and the labour market has been tightened up too. As a scarce commodity, Chinese executives in knowledge-intensive companies have become even more valuable and their price and cost to employers thus increase. With the dramatic changes occurring in China, one key aspect has remained the same: apart from the competitive PFP plans, a successful Chinese assignment for senior management must be a long-term one in both POEs and FIEs. The Mercer business leader in Shanghai made his points below.

“Culturally, bureaucratically and professionally, business in China must be conducted over the long term – typically, longer term than in most other countries. Companies must determine, therefore, whether some PFP plans and allowances are required to compensate for the extended duration of a Chinese assignment”.
(Mercer business leader in Shanghai China)

Improved PFP systems needed for Chinese returnees

‘Chinese returnees’ are those Chinese who once studied, lived and/or worked overseas, possess a foreign passport or residency, and then return to participate in the growth of China’s market and benefit from the career opportunities available. As part of the general upward trend of expatriates in China's major cities, there has been an increase in the return of overseas Chinese (e.g., Mainland Chinese with overseas education and employment background, Taiwan, Singapore, Hong Kong). There has been a debate over whether the Chinese returnees should be considered expatriates or locals. The current tendency is to treat them as local Chinese. It was found that FIEs in the study owned many more Chinese returnees than POEs. For instance, the CEO and general manager in JV1 were both local Chinese who possess MBAs and residency requirements for New Zealand. The HR VP in MNC2 and marketing managing directors in MNC1 and MNC5 were Shanghai local with English Masters degrees. However, returnees in POEs were obviously less satisfied than those in MNCs about their PFP plans just as the general manager in POE1 pointed out below:

“...I studied my PhD at King’s college in London, and then joined this company. I personally think that HR or performance evaluation in this firm is far behind what we say in strategic HRM because the management style here is just too paternalistic. Boss decides everything, the recruitment of senior staff and the bonus schemes etc. In a way this kind of management style worked in the past and perhaps still working now. However, for the long run, he seriously must consider at least to have a formal HR department as we are such a large company now. We need a formal and proper PFP system. So I would suggest that it may not be a good idea for you to join a POE after your PhD...” (General manager in POE1)

7.2.2 PFP plans for sales and marketing

PFP plans adopted for the sales and marketing group in the case firms are listed in Table 7.3.

Table 7.3: PFP plans for sales and marketing in the case firms

Firm	Payment-by-results schemes	Performance schemes	Financial participation schemes
POE1	Commission	-	-
POE2	Commission = (Sales profit – sales target)*commission rate	-	-
POE3	Commission = (Sales profit – sales target)*commission rate	-	-
POE4	Commission = Sales profit * (individual sales profit/total sales department sales profit)	-	-
POE5	Commission = Sales profit * (individual sales profit/total sales department sales profit)	-	-
JV1	Commission = (Sales profit – sales target)*commission rate	-	-
JV2	Commission	Individual performance bonus + team bonus	-
MNC1	Commission	Gain-sharing Payment by team targets	-
MNC2	Commission	(20-30%)* 12 months salary	-
MNC3	Commission	Department group bonus	-
MNC4	Commission	Department group bonus	-
MNC5	Commission	Individual performance bonus + team bonus	-

Source: From interviews and HR documents.

The characteristics of PFP plans for the sales and marketing group are discussed below.

(1) Compared to the other three critical employee groups, sales and marketing staff had substantially low base pay but high PFP in their pay mix. The average contribution of PFP to total cash income for sales and marketing was in between 40 and 70 per cent.

(2) Payment-by-results schemes, such as commissions, were the main type of PFP plans for the sales and marketing group. Sales commission rates were very market sensitive and tailored to meet specific company needs. MNCs and JVs provided performance schemes, such as individual and/or performance bonuses to sales and marketing, because the marketing people might not gain as much commission as the sales. However, POEs offered commissions only to the sales and marketing people.

(3) In order to effectively link pay to sales volumes, several ways were used by management to monitor their sales forces. The most frequent methods are as follows (see Table 7.4).

Table 7.4 Methods used to monitor the sales force in the case firms

Methods	Firms used
Meeting sales objectives	ALL
Turnover against set targets	ALL
Call rates	IT and pharmaceutical case firms
Market share	ALL
Customer relations	ALL
Internal relations	ALL
Gross profit per order	ALL
New account	ALL

Source: From interviews and HR documents.

(4) Additional allowances were also integrated with PFP plans for sales and marketing staff. In addition to base pay and pay for performance sales representatives receive other benefits and allowances. Companies regarded benefits required by Chinese labour law as additional standard industry payments to their employees and, thus, not as incentives. Allowances received by the sales and marketing force are listed in Table 7.5.

Table 7.5 Allowances received by the sales force in the case firms

Allowances	Companies provided
Company car/car scheme	-
Company mobile phone	POE2, POE4, JV2, FIE2, FIE4, FIE5.
Phone allowance	ALL
Transportation allowance	ALL
Expense allowance	ALL
Over time working allowance	ALL

Source: From interviews and HR documents.

Every firm provided phone, transportation, expenses and over time working allowances to their sales and marketing people. No firm gave company cars to their sales, but did cover taxi fees. The driving factors for the companies to adopt these variable plans were to direct the efforts of the sales force and to reward the good performers as their sales and HR managers identified. Thus, the case firms used PFP not only to influence behaviour positively, but also to reward them appropriately.

(5) Non-financial rewards (see Table 7.6) consisting mainly of promotion opportunities, recognition programmes, such as annual ‘Top sales’ award and training, were adopted for improving sales skills. However, non-financial rewards were obviously seen as less important than financial incentives and not widely used in every case firm, especially not in POEs. Training was provided mainly for new sales via on the job training programmes.

Table 7.6 Non-financial rewards for sales & marketing in the case firms

No-financial rewards	Companies adopted
Promotions	ALL
Top sales	ALL
Excellent employees	ALL
Training programmes	POEs – on the job training for new staff in probationary JV and MNCs – on the job training, sending sales to head office for training
Talent pool	MNC3, MNC4, MNC5 for sales & marketing managers.

Source: From interviews and HR documents.

7.2.3 PFP plans for professionals

PFP plans adopted for professionals in the case firms are listed in Table 7.7.

Table 7.7: PFP plans for professionals in the case firms

Firm	Payment-by-results schemes	Performance schemes	Financial participation schemes
POE1	-	Year-end bonus. No specific scheme for professionals.	-
POE2	Project based commission schemes	(0-1.5)* one month salary	-
POE3	Project based commission schemes.	-	-
POE4	Product based commission schemes.	-	-
POE5	Project based commission schemes.	-	-
JV1	-	No specific scheme. Maximum two months salary	-
JV2	Product based commission schemes.	-	-
MNC1	-	2-3 months salary	-
MNC2	-	Year-end bonus (20-30%)* 12 months salary	-
MNC3	-	Year-end bonus (20-40%)* 12 months salary	-
MNC4	-	Annual bonus 1-2 months salary	-
MNC5	(1-3%)* project sales	-	-

Source: From interviews and HR documents.

The Characteristics of PFP plans for professionals are discussed below.

(1) A good design for PFP schemes for professionals can be very critical because of the special characteristics of their work. For instance, professionals' work processes are not easy to check, their achievement and working time are hard to measure. Moreover, professionals can be very demanding in the job market and many of them probably work with relatively low job titles, which may not offer them many posts-related benefits or allowances. Thus, well designed PFP schemes become extremely significant to make their pay package competitive. However, compared to management and sales forces, PFP plans for professionals in the case firms seemed to be much simpler and less sophisticated. Performance schemes, such as group base bonuses and/or individual year-end bonuses, were the main type of their PFP plans (see Table 7.7).

(2) Professionals' skills and knowledge were rewarded in base pay, which was much higher than was that of sales forces. However, PFP schemes were designed to reward their projects' completion by project based commissions and to reward team achievement by team performance schemes (see Table 7.7). It was found that short-term PFP plans were adopted as the primary performance pay solution for professionals in the case firms. However, the PFP plans were too results orientated, which did not encourage professionals to further development or update their existing competence, skills and knowledge, which could be rather valuable to the firms' development. This can be found in the statement made by the quality assurance manager in MNC2 below.

“Our PFP schemes are based on team or company performances, which do not encourage us to further update our knowledge about new standards of product quality etc.” (Quality assurance manager in MNC2)

It was also observed that on one hand, the case firms were aware of the challenges of recruiting and retaining desirable talents. For instance, the turnover rate in IT firms like POE3 and MNC4 was about 30 to 40 percent per year. On the other hand, the case firms offered only results orientated PFP plans to their professionals. No special awards were offered to reward professionals who stayed for the term of a customer project, which would make it more challenging to a competitor to take a key professional away. This can be found in the points below made by the project manager in JV2.

“At the moment I feel it's hard to hire a good IT professional under our current pay system because our PFP is bonus based only, although the benefits are better than average in the industry. I think our PFP plans are a bit like the system in SOEs, probably because two of our general managers are from SOE sector.” (Project manager in JV2)

7.2.4 PFP plans for junior staff

PFP plans adopted for junior staff in the case firms are listed in Table 7.8. The characteristics of PFP plans for junior staff are discussed below.

(1) The main type of PFP plans for junior staff was performance schemes, such as year-end bonus or annual double pay. No other particular PFP plan was designed for junior employees. Year-end bonus was normally 7 to 10 per cent of the total annual cash income or one more month pay depending on the organisational performance, which was decided by the management at the end of the year.

(2) The PFP scheme for junior staff became a fixed payment in some case firms because it was only linked to organisational performance. When the organisational performance was successful, every junior staff was entitled to have the PFP scheme. In JV1 and MNC5, even when the organisational performance was unsuccessful, the junior staff still got a similar amount of year-end bonus as usual.

(3) Some POEs deducted 10 per cent from monthly salaries to be the amount of PFP at the end of the year, which dissatisfied junior staff to a great extent, as seen in the complaint made by the HR manager in POE1.

“Junior employees have 90 per cent of their monthly salary, and the employer keeps the other 10 percent. At the end of the year, the rest of salary will be rewarded according to the individual performance appraisal as the PFP for junior staff. This means that some junior staff that do not perform very well would have lower pay at the end of the year than what is agreed in the contract. This really de-motivated those junior staff.” (HR manager in POE1)

Table 7.8: PFP plans for junior staff in the case firms

Firm	Payment-by-results schemes	Performance schemes	Financial participation schemes
POE1	-	Year-end bonus (10% of monthly salary was deducted each month to be the year-end bonus).	-
POE2	-	Year-end bonus (One month salary)	-
POE3	-	Year-end bonus (7% of annual cash income)	-
POE4	-	Year-end bonus (One month salary)	-
POE5	-	Year-end bonus (8% of annual base pay)	-
JV1	-	Year-end bonus (50% of one month salary)	-
JV2	-	Year-end bonus (0-1.5)*one month salary	-
MNC1	-	Year-end bonus (10% of annual base pay)	-
MNC2	-	Year-end bonus (10% of annual base pay)	-
MNC3	-	Year-end bonus (12-20% of annual base pay)	-
MNC4	-	Year-end bonus (one month salary)	-
MNC5	-	Year-end bonus (40-90% of one month salary)	-

Source: From interviews and HR documents.

7.3 Findings for RQ2b: what are the contextual factors that impact on the adoption?

This section analyses findings for RQ2b regarding the contextual factors that influence management's design of PFP plans in the case firms. Relevant literature was reviewed in Chapter 4. During the interviews, managers were asked to give the reasons why a specific PFP plan was introduced and the elements that they considered important. It was found that factors in the organisation's environment influenced management in building external competitiveness in the firm's PFP plans. Factors in the organisations' characteristics influenced internal alignment. The above two types of factors directly or

indirectly formed organisational pay strategies, which had a direct impact on specific PFP plans in the case firms. This can be found in the following sections.

7.3.1 Factors in the organisation's environment: External competitiveness

In terms of an organisation's environment factors, competitiveness and industry characteristics were the main elements that directly impact on pay strategies and indirectly determine PFP plans design.

Environmental competitiveness

As an investment firm, POE1 had business in various areas including clothing, technology, trading and Bio-chemistry. Cash profit sharing and stock option plans were adopted by POE1 for senior management and executives, who were the main focus of their PFP system. POE1 itself invested in different types of business through establishing JVs with their business partners. Therefore, effectively motivating POE1's senior management in their JVs became the key pay strategy which highly impacted on the PFP plans adopted. Moreover, investment is an extremely competitive industry, the more competitive the market conditions, the greater the match between employers' PFP plans and the organisation's environment (Miceli and Heneman, 2000). Thus, senior management in POE1 was the owner's favourite group to implement a sophisticated PFP scheme.

Industry

Some 5 out of 12 of the case firms were from the pharmaceutical industry, including 1 POE, 1 JV (China and Switzerland) and 3 MNCs (England, US and Germany). Interviews with HR managers in those companies revealed their consideration of following or competing with competitors' PFP plans in the industry to design their own programme. This can be found in the following:

“There is no big difference of short term PFP plans among pharmaceutical firms in Shanghai but the proportion and long term plans because most of the companies joined salary survey with global HR consultancies such as Mercer, therefore we know what's popular in the market and adjust our plans according to those survey reports each year.” (HR director China in MNC1)

Region

Firms' location also affected the adoption of PFP plans. The HR director China in MNC3 pointed this out:

“Our subsidiaries covered at least 5 major cities of China. However, the PFP plans for each location have to be slightly different not only because of the living expenses or cost concern in each place, but the management's buy-in as well. For instance, managers in Shanghai have high ability of buy-in HR knowledge. Whilst in Wuhan (south east China) and Shenyang (northern China), it was really hard for us to promote the PFP plans. Unlike managers in Shanghai, those managers are highly knowledgeable about pharmaceuticals but not aware of motivating their staff to focus on financial results etc...” (HR director in MNC3)

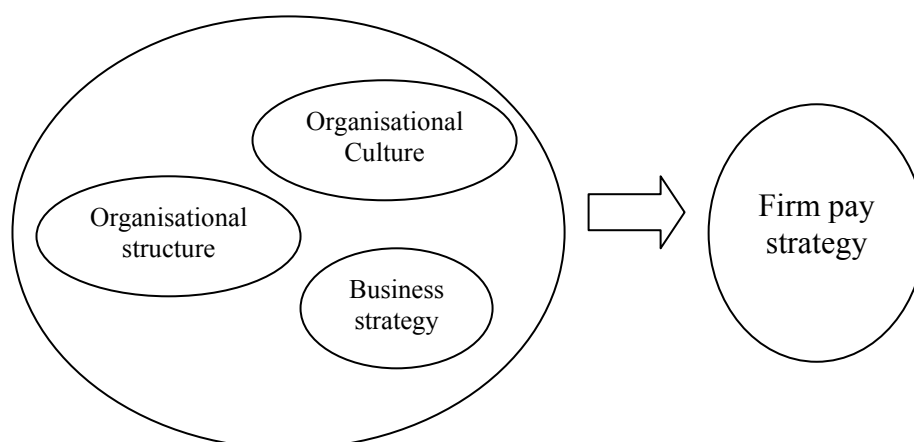
Labour market

Some 4 out of the 12 case firms were from the IT industry, which was extremely fast developing and competitive. The average staff turnover in the four IT cases was above 40 per cent per year, which was much higher than 10 to 20 percent in other labour intensive industries (Survey by Mercer, 2007). This was because there was not a big shortage of lower level IT skilled workers but only the experienced IT professionals. The case firms had to offer competitive PFP plans to IT professionals. Some POEs were afraid of providing training to IT professionals because of the high turnover rate. Therefore, the labour market issue strongly impacted on PFP plans in the four IT case firms. This can be found in the following

“...I tend to give sales and marketing people good incentives based on their achievement, we don't train them because the more you train them the more frequently they go to other competitors for better pay and position etc. But we do offer a good pay package to my key senior staff” (General manager in POE3).

7.3.2 Factors of organisation's characteristics: Internal alignment

In terms of an organisation's characteristics, companies' business strategy, ownership and organisational culture played a great role on PFP plan design. The inter-relationship among these factors can be illustrated in Figure 7.1 below. The integration of organisational culture, structure and business strategy was observed in management's decision making of PFP plans in the case firms.

Figure 7.1 Internal alignments in PFP design

Source: Developed for the thesis.

The following explains how business strategy, organisational culture and ownerships influenced management in deciding PFP plans of the case firms.

Business strategy

POE3 (IT) and MNC5 (marketing research) adopted a business strategy of attracting and motivating high-performing employees at a lower cost because they were start-up companies in those industries. Therefore, a low cost pay strategy was applied in the two firms. POE1 (investment) and POE3 (IT) advocated small pay gaps for performance among junior employees due to their corporate culture that emphasized self-motivation and commitment to the organisation. Behavioural performance measures dominated in the performance appraisal of MNC1 (pharmaceuticals) and MNC3 (Medical device) because of the long term orientated philosophy of both of the firms.

Organisational culture

Organisational culture did influence the characteristics of PFP plans. For instance, POE1 wanted to encourage the long-term relationship with their senior management, therefore, their PFP system focused on the top management much more than other levels of employees integrated with attractive long-term assignment and allowances. Stock option plans were offered to general managers in POE3 and POE4 in order to promote the high commitment culture. MNC favoured less competitive PFP plans than other medical device companies in the industry, but an attractive training programme because of their organisational culture emphasised individual development, and knowledge workers' ongoing learning.

Organisational ownership

Organisational ownership types had extremely high impact on its PFP design. For instance, it was found that the pay strategy of the head office had very strong influence on the PFP plan in the MNCs, just as the HR director in MNC3 (the French medical device company) pointed out: “Our PFP plans are not very aggressive compared to American firms in Shanghai, which is quite common in European MNCs.” The PFP strategy in JV2 (pharmaceutical) was highly influenced by their American parent company. However, in POEs PFP plans somehow depended on the private owners. For instance, the amount and distribution of the discretionary bonuses for CEOs in POE1 and POE3 were decided by their owners only.

7.3.3 Factors of organisation’s pay strategies

In terms of organisation’s pay strategies, it was found that environmental factors mainly external as well as organisation characteristics give employers more actual latitude to select optimal pay strategies in our case firms, which directly impact on the PFP plans design. For instance, MNC2 (pharmaceutical) adopted the cash driven and short term focused PFP system because of the competitor who was the leading firm in the market. MNC2 had to recruit high performers via short term effective incentive plans in order to enlarge their market share at the present time.

7.4 Conclusion

This chapter presented and discussed empirical findings in relation to how PFP plans were designed. Specifically, the chapter analysed the types of PFP plans adopted in the case firms and the main contextual factors that affect the adoption.

Specific PFP plans adopted in cases for their senior management, sales & marketing people, professionals and junior staff were identified. The main PFP plans were commission, year-end bonus, cash profit sharing, group based bonus and stock plans. PFP plans for the senior management were performance schemes such as cash profit sharing and financial participation schemes such as stock options; PFP plans for sales & marketing were highly commission based; PFP plans for professionals were heavily project commission scheme based, which was much simpler than the senior management and sales & marketing group; and PFP plans for junior staff were year-end bonus only. The characteristics of PFP systems were demonstrated to be results and short-term orientated and cash driven, with bonus as the major payment method, and

poor connection of PFP plans to long-term cognitive learning and development, especially for professionals in those knowledge-intensive companies.

Contextual factors in terms of organisational environment, pay strategies and organisational characteristics that affected PFP design in the case firms were analysed. It is evident that for instance, organisational environmental factors (such as competitiveness, region, labour market and industrial factors) and organisation characteristics such as business strategy, ownership and organisational culture were associated with organisational pay strategy, which directly impacted on firms' PFP plans.

The next chapter will provide empirical findings for research question 3 concerning how PFP plans are implemented.

CHAPTER EIGHT

IMPLEMENTATION AND FUNCTIONS OF PERFORMANCE APPRAISAL

8.1 Introduction

Chapters 6 and 7 analysed findings for the importance of PFP in the current pay system of China's non-public sector, and the types and design choices of PFP plans. This chapter presents empirical findings for research question 3 regarding the implementation of PFP in the case firms. PA was defined as the key part of PFP implementation in this thesis (see Chapter 4 section 4.5). Therefore, two aspects of PA are examined to answer research question 3, namely, the implementation of PA (RQ3a) and the functions of PA in PFP (RQ3b).

PA is currently being promoted as a modern western HRM concept in China. This is in spite of the fact that performance practices have long existed in China with strong Chinese characteristics. The existing literature shows that there are numbers of factors that influence PA in China, mainly in the design of the performance indicator, and the process of conducting PA. Moreover, the results of PA have not been widely utilised by companies in China (see Chapter 4, section 4.5 for details). Therefore, this chapter demonstrates findings for PA practices in China's non-public sector knowledge-intensive industries. First, empirical findings of elements of PA implementation in the case firms are presented with regard to aspects of performance measured, criteria for performance judgement, appraisal instruments and the process of performance measurement. Second, the utility of PA outcomes by the case firms is discussed in relation to PA functions listed by Cleveland et al., (1989). Moreover, the development of PA and challenges to implementation and functions of PA are further examined.

8.2 Findings for RQ3a: In what ways is performance measured?

This section analyses findings for ways that PA was implemented in the case firms. Development and challenges to PA implementation are also explored.

8.2.1 Implementation of PA

Every case in the study had a formal PA process as one of their management tools. Employee performance used to be measured within two different employee groups –

cadres and workers before the economic reforms in China, which still exist in present SOEs (see Chapter 4 section 4.5 for details). However, the distinction between cadres and workers was no longer the case in the firms studied (POEs, JVs and MNCs). Employees belonged to either managerial/executive or non-managerial/executive groups. Except POE1, other companies had formal appraisal forms for managerial and non-managerial groups. The ways that PA was conducted in the case firms are shown in Table 8.1 and discussed below.

Table 8.1: PA implementation in the case firms

Firm	What aspects of performance are appraised?	Is performance described as narrative? (ranked or rated)	Criteria of judgements (Behavioural or results)	Conductors of appraisal	Frequency of appraisal	Comments
POE1	Performance measured by job descriptions for non-executives Performance measured by the achievement of 'sales, profit, stock and cash flow' for executives	No	Results	Self-assessment Appraisees' managers	Once a year	Vague criteria Results based only
POE2	Performance – Responsibility, quality of work and efficiency 40% Attitudes and competency – pro-activity, coordination and self-discipline 30% Ability – dealing with daily job and writing skill 20% Attendance 10%	Ranked	60% - results 40% - behavioural	Self-assessment Appraisees' managers Customers	Monthly for product dept. Twice a year for others	Heavily focused on sales & marketing staff
POE3	Task achievement – 70% Work attitudes – 10% Competence, knowledge, self-motivation – 20%	Ranked	70%-results 30%-behavioural	Self-assessment Appraisees' managers Customers	Monthly for workers, quarterly for sales and yearly for others.	Heavily focused on workers and sales.
POE4	Performance measured by company profit for management Performance measured by set targets for sales	No	Results	Appraisees' managers	Quarterly for sales Yearly for others	Heavily focused on sales
POE5	Performance measured by company profit for management Performance measured by set targets for sales	No	Results	Appraisees' managers	Quarterly for sales and yearly for others	Heavily focused on workers and sales
JV1	Basic assessment – Attendance, responsibility, planning, knowledge. Performance assessment – Work load, efficiency, cost control ability, coordination, leadership etc.	Rated	Behavioural	Self-assessment Appraisees' supervisor and manager	Yearly for management and quarterly for non-management	Very detailed and behavioural based
JV2	Achievement – 50% (90% measured by KPI) Competence – 30% Attitude – 20%	Rated	50% by results 50% by behaviour	Self-assessment Appraisees' manager Customers	Quarterly for sales and yearly for others.	Newly designed by professional consultancy KPI applied

Firms	What aspects of performance are appraised?	Is performance described as narrative? (ranked or rated)	Criteria of judgements (Behavioural or results)	Conductors of appraisal	Frequency of appraisal	Comments
MNC1	KPI measurement 60% Corporate value, leadership and functional development 40% Balance score card implied	Yes, performance is rated and the overall score is ranked	60% results 40% behavioural	Self-assessment Appraisees' manager	Quarterly for marketing staff and twice a year for others	Good design but poor implementation
MNC2	Individual performance objectives 70% Knowledge, skills and leadership 30%	Yes, performance is rated and the overall score is ranked	60-80% quantified, 20-40% qualified.	Self-assessment Appraisees' manager Customers	Monthly for sales and yearly performance review for everyone	Well designed and clear linkage among performance, rewards and development.
MNC3	Individual performance objectives 60% Knowledge, competence 30% Attitudes 10%	Yes, performance is rated and the overall score is ranked	60% results 40% behavioural	Self-assessment, Appraisees' manager. Customers	Monthly for sales target review and yearly for everyone.	Well designed with training programme for implementation.
MNC4	Individual performance objectives 60% Working activity 30% Attendance 10%	Yes, performance is rated and the overall score is ranked	60% results 40% behavioural	Self-assessment, Appraisees' manager. Customers	Monthly for sales target review and twice a year for everyone.	Well designed and consistent appraisal system review applied.
MNC5	Results, skills and behavioural based measurements	Yes, performance is rated and overall score is ranked.	60% results 40% behavioural	Self-assessment, Supervisors	Twice a year for everyone.	Well designed appraisal forms.

Source: From interviews and HR documents.

Aspects of performances measured

As shown in Table 8.1, three major aspects of employee performance in the cases were measured: working attitude/attendance (weighting 10% on average), individual knowledge and competence (weighting 20-30% on average), and targets/goal achievement (weighting 60-70% on average). It was observed that JVs and MNCs had clear documents of what to measure and how to measure employee performance, whereas POEs (especially POE1, POE4 and POE5) used job descriptions as their performance measurement documents.

Description of the expected performance

As shown in Table 8.1, POE1, POE4 and POE5 did not describe the expected performance as ranked or rated, so that the measurement was vague and hard to be implemented and controlled by managers. JVs and MNCs had proper descriptions of the expected performance. Performance was described as rated in most of the firms and the overall rate of the individual's performance was ranked, such as: excellent, very good, satisfactory, improvement needed and unsatisfactory. The distribution of those ranking results was reported to HR head office and the balance of the distribution for each department was required in MNCs.

Criteria in performance judgement

As shown in Table 8.1, both behaviour-oriented and results-orientated performance measures were adopted in the case firms. However, more than 50 per cent of the measurements were results based. For instance, POE1, POE4 and POE5 were fully results orientated; MNC2, MNC4 and MNC5 strongly focused on results too.

Conductors of appraisals

Table 8.2 shows the summary of conductors of PA in the case firms. PA was primarily under the control of appraisees' managers or supervisors, apart from self-assessment. The HR department was mainly responsible for promoting and organising the appraisal process. Although HR managers in MNCs reported that proper training programmes for appraisal were offered to line managers each year, however, the actual delivery of this type of training was not recognised by their line managers during the interviews. Only one out of the twelve firms had involved peer groups in their PA, and three out of twelve firms applied customer feedbacks, in this case to assess their sales people's achievement of relationship building with customers (See Table 8.2).

Table 8.2 Appraisers of PA in the case firms

Organisational role	Contributions
Appraisee	Self-assessment 100%
Appraisee's manager	100%
Appraisee's peers	Only one company used
Appraisee's employees	No contribution
Customers	3 companies used for their sales only

Source: From interviews.

The multi-source feedback system (MSFS) - 360 degree appraisal - was not used in the cases. The reasons were the time required, heavy paperwork, and lack of transparency of feedback, which can be found in the following:

“360 degree measurement is too time-consuming and managers probably think it's too much paperwork. Additionally, 360 degree appraisal won't work well because there is no effective communication channel in the firm. The feedback won't be delivered to the appraisees appropriately.” (Marketing manager in MNC1).

Some other managers mentioned that personal relationships (guanxi) between the appraisers and the appraisees could distort the results of MSFS. The quality of customers' feedback was also problematic as the HR manager in MNC2 (pharmaceutical) explained below:

“We tried to apply 360 degree measurement a few years ago. However, it was found that some sales and marketing (comprising Prescription) staff were given very high rates by their external appraisers – the doctors in the hospitals who were our customers. We then realised that the hidden reason was that those doctors had commissions from our sales and marketing people, therefore, they gave our sales very good rates for appraisal. So, 360 degree measurement was stopped afterwards because we couldn't really trust the rates given by our customers.” (HR manager in MNC2)

Frequency of appraisals

As shown in Table 8.1, PA was generally conducted once a year for each member of staff in the cases, or twice a year in some firms, and quarterly and monthly even for sales and marketing staff. The mid-year assessments were basically target checks, while annual appraisals were linked to pay.

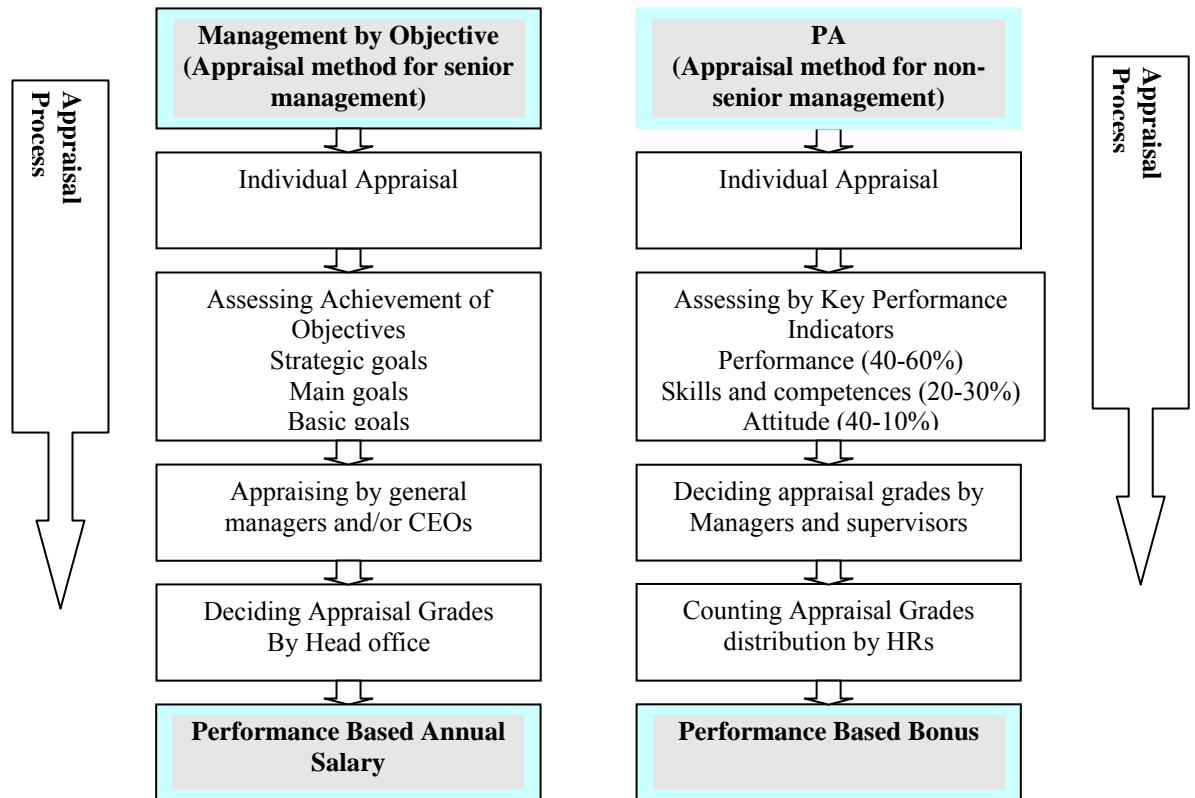
Appraisal instruments applied

The combination of two methods was used in case firms: Management by Objectives (MBO) and PA ratings (PAR). Figure 8.1 shows the processes of the two PA methods. MBO was used for senior management and based on evaluation by the degree of goal accomplishment, which was linked to their annual PFP scheme. For instance, “Total Budget Control” was the strategic goal in POE1 to measure their top managers’ performance. Similarly, increasing regional sales and market share was the main goal to measure the performance of regional managing directors in MNC2, MNC3 and MNC5.

As shown in Figure 8.1, the appraisal of senior management was often conducted by owners or head offices. In the beginning of a performance review period, the employee and their supervisor or owner discuss performance objectives and meet to record results formally. Results are then compared against objectives, and a performance rating was then determined based on how well objectives were met. Such performances are evaluated at the end of the year in terms of accomplishment of objectives.

PAR was used for mid and lower level staff in the case firms, appraising performance by the following formula (shown in Figure 8.1): performance (40-60%) via key performance indicator (KPI) set in advance, ability/competences and knowledge (20-30%) and attitude (40-10%). For instance, KPIs for sales and marketing people are objective based, such as meeting sales objectives, turnover against set target, call rates, market share, customer relations, internal relations and group profit per order and new accounts development. Competences and knowledge are measured by selling skills, knowledge of products. Attitude includes lateness, absence, discipline and cooperation with colleagues. The results of ratings were linked to individual PFP, such as year-end bonus, team based gain sharing and commissions etc.

Figure 8.1 PA processes in the case firms



Source: From interviews.

8.2.2 Development and challenges for PA implementation

Chapter 4 section 4.5 reviewed the history of PA in China before and after the economic reforms in 1978. PA practices in China have been developing. Notwithstanding these changes, PA practices are different from those practices in the West even though they are, in many cases, adaptations of Western practices (Deng et al., 2003). As Saha (1993) argued, environment, national culture and organisational characteristics shape HRM practices in a country. In particular, the Chinese institutional environment, cultural values and type of firm ownership have influenced the adoption of Western HRM practices. So, if changes in the PA system have indeed occurred, which elements of the system have changed (*change content*)? The difficulties in executing PA are widely reported in the literature. Given the fact that knowledge-intensive organisations are characterised by a large number of highly skilled employees, it could, therefore, be expected that performance evaluation for intangible intellectual skills would be even more difficult there. So, what factors have facilitated or hindered the implementation of new PA (*change context*)? The development and challenges to PA implementation are discussed as below.

Development of PA

In the case firms, it was observed that there were changes in all key elements of the PA system. Table 8.3 is the comparison among PA in China before the economic reforms in 1978, PA in the 1980s and 90s, and the current PA practices in the case firms. It is evident there has been PA content change in the areas of the focused groups of PA, the performance measurement, the appraisal instruments, process and the emphasis of the PA system. For example, the criteria of judgement changed from political loyalty and work attitude to performance results, skills and competency. Rates expanded to include people from different feedback sources (e.g. peer group, subordinates, and external clients). Both hard quantitative financial objectives as well as soft qualitative competence and skills were considered. The results of evaluation were, to various degrees, linked to reward and personal development.

Table 8.3 Development of PA elements

	Before 1978	1978-1990s	Current practice
Covered groups	Workers and cadres	Workers and cadres	Managerial and non-managerial
Frequency	Yearly	Yearly or semi-yearly	Monthly Quarterly Yearly
Criteria	Heavily reliant on political loyalty and seniority	Good morals, adequate competence, positive working attitude and strong performance rewarded	Attitude, competence, leadership and productivity according to individual KPIs.
Methods	Superior-rating-subordinate	Management by objectives Internal subcontracting	Results and behavioural based measurements
Process	Self-evaluation - peer group opinions – department assessment	Self-evaluation - peer group opinions – department assessment	Self-evaluations and supervisor assessment
Emphasis	Driven by political ideology.	Evaluation rather than developmental or communication purposes	Linking appraisal to pay and development and achievement was given priority in appraisal.

Source: Developed for the thesis.

Challenges to PA implementation

The challenges to PA implementation were also obvious in the case firms as discussed below:

Performance objectives

Performance objectives were solely set by the board of directors in POEs. Managers had no input in setting the objectives. Staff like the deputy managing director in POE1 and the general manager in POE4 believed that there could be unexpected events that were beyond management control and could affect the attainment of rigid performance objectives.

Performance measures and MSFS

Since performance was mainly evaluated on ‘hard’ figures, especially in POEs, the ‘soft’ aspects (such as leadership, teamwork, customer relationship) were largely ignored. The general manager in POE5 felt that a new PA system could not give a fair and comprehensive evaluation of employees.

There has been very little literature on the use of MSFS or 360 degree appraisal in China. Zhang (2001) provides, to the best of the author’s knowledge, the only study looking at the rating tendencies of Chinese evaluators participating in 360 degree appraisal. In this research, no adoption of MSFS was found in the case firms. The findings also showed that the main challenges to adopting MSFS by the case firms were managerial support and the politics of evaluation. For instance, organizations like POE1 were characterized by a strict hierarchy and, as commented on by one participant, the ‘absolute power’ of the leader would mean that his own acceptance and support of certain HR practices would determine the adoption of MSFS. Moreover, another reason that no MSFS was taken was because the politics of evaluation could be intense. Three interviewees mentioned the impact of ‘Guanxi’, or the emphasis put on preserving social harmony in Chinese culture, on rating inflation. Along similar lines, two interviewees discussed the ‘Golden mean’ (Zhong Yong in Chinese) which leads to a lack of differentiation between rates. For these reasons, the outcomes of MSFS may not be very reliable.

HR's strategic role

HR departments can play a critical role during the change process, affecting the pace of development and institutionalising change at a deeper level (Chang and Chi, 2007). During the PA process, the HR can work to create a culture for development, bridge the gap between different levels, and add value to a business by building organisational capability (Poon and Others, 2009). Whether HRM performs a strategic role in providing guidance to the line managers and communicating the PA system can affect the effectiveness of change.

The idea of the knowledge economy places great importance on HRM. Nevertheless, HR departments have generally been underdeveloped and most HR personnel emphasised the specialised functional aspects of their work – compensation, benefits, recruitment, training, etc. HRM practices have exhibited reactive and highly operationally oriented characteristics. However, the level of HRM sophistication varies across POEs, JVs and MNCs. When the company does not have a proper HR department (as in POE1 and POE4), the relationship between the line managers and HR can be problematic. The implementation of PA can be hampered. There are examples of this below.

“There was no formal HR department in our firm. The administration department performed HRM functions. However, the administration department was fully occupied in dealing with public affairs, recruitment, organisation structure and corporate culture. The administration department has hardly had time to properly roll out the new PA system or seriously considered career development of employees” (Deputy managing director in POE1).

The implementation of the PA system was not successful because the HR department was not properly functioning in MNC2. There was a lack of strategic role for the HR department. HR only performed a supportive role, and did not act as the agent between top management and employees or the bridge between the head office and its China subsidiary. The training manager attributed the reasons for this isolation to the fact that HR staff were not exposed to change in the PA system. This can be found in the following:

“The average age of our HR staff is about 27 years old. They are too young and not experienced enough to implement firm policies. They cannot perform the change agent role in the PA system. They have not

even held any single meeting with me to explain the change in the PA system. Generally, I feel there is a lack of communication between the line managers and HR department.” (Training manager in MNC2)

Firm Ownerships

Different types of firms used PA differently. Although PA practices in POEs and JVs have become more formalized than before, their practices are still primitive ones compared to those used in MNCs. The case firms show that firm ownership can be an institutional factor affecting PA implementation. For example, the pluralistic management style in POEs, owners’ interests of objectives and their beliefs in PA can also influence process, measurements and rewards. On the other hand, country-of-origin, dominance effects, and pressures on international integration (Edwards and Ferner, 2002), can affect MNC’s ethnocentric strategy in the adaptation of PA to local situations (as in MNC1, MNC2 and MNC3).

Inertia and Resistance

It was found that organisational inertia, deeply rooted in the institutional heritages of companies, can act as a brake on the full absorption of HRM changes (Ding et al., 2000). Rules, standard operating procedures and patterns of decision making were emphasised and inhibited divergent changes. Organisations remained committed to retaining past proven competencies because doing so was more efficient than trying to develop new ones (as in POE2). In the knowledge-intensive industries, being innovative to create and promote a learning environment and motivate and maintain knowledge workers are keys to success. Organisational inertia and resistance to change in turn stifled companies’ ability to alter knowledge companies’ current strategies.

Manager ownership of PA

Resistance of line managers to the change process could hinder change in PA content. For example, line managers resisted change because they thought that the new PA system required them to do more work in discussing objectives with employees and filling more evaluation forms than before. As a result, the new PA schemes never got popular and were not internalised.

Furthermore, the involvement of management in the implementation of PA could affect the internalisation process. In POE1, POE3, POE4 and JV2, line managers had little participation in goal setting and performance evaluation, except passively allocating

pre-determined objectives. Since line managers did not bear the responsibility in the process, they had little incentive to implement PA. As line managers were not required either to be accountable for the attainment of objectives or to monitor the progress, they did not have dedication to the new PA system, but rather held a partial, pragmatic commitment to the change.

8.3 Findings for RQ3b: What functions does PA serve in PFP?

This section analyses findings for research question 3b, which explores the functions of PA in the case firms. During the interviews, managers were asked to fill in a form to indicate the functions of PA in their company in terms of the 19 items developed by Cleveland et al. (1989a). A five-point scale rating, from (1) No impact to (5) Primary determinant was applied to each item. The meaning of each item was explained by the researcher in the interviews in order to control misunderstanding by the managers and improve the quality of the response. Table 8.3 presents the information of managers' ratings and the average of each item in the case firms. However, we must bear in mind when we read those ratings that to some extent ratings could be managers' thoughts rather than the reality.

8.3.1 Functions of PA

It is clear from Table 8.4 that the functions of PA related to salary administration, recognition of individual performance (between individuals), evaluating goal achievement (system maintenance) and documenting personnel decisions (documentation) were rated highest in the case firms, while functions of PA related to evaluating personnel system, reinforcing authority structure and identifying organisational development needs (system maintenance) were rated the lowest in the case firms.

It is also clear from Table 8.4 that the functions PA served in PFP seemed to be different among POEs, JVs and MNCs. For POEs, PA results had very little impact on within-individuals factors, such as performance feedback and identifying individual training needs, and also very little or no impact on documentation and system maintenance use. Salary determination and goal achievement were the main functions of their PA systems. This is to say that PA outcomes in POEs were used mainly as a salary administration option. PA outcomes were not closely related to other key HR decisions, such as training and development and personnel planning. This can be found in the

following. For instance, PA results were mainly used for the recognition of individual performance in POE1 as pointed out by its HR manager:

“PA is mainly focused on team and general managers in terms of sales, profit, stock and cash flow. Staffs below deputy general manager level are assessed within the department or JVs according to their job descriptions. PA for junior staff is somehow paper work only, which is not closely linked to individual pay and recruitment and selection.” (HR manager in POE1)

PA results were mainly used for salary administration in POE2 as the HR manager mentioned:

“PA has a high impact on salary administration as it directly affects individual’s bonus. For instance, in sales and R&D departments, the manager would have a formal meeting with staff in the beginning of the month to set up their target and review at the end of the month too. Thus, PA strongly affects salary administration and recognition of individual performance (goal achievement basically).” (HR manager in POE2)

PA results were mainly used to recognise individual performance in POE3 as the HR manager stated:

“Our sales and marketing people are measured by targets, and senior managers are appraised by our boss, the owner, and I don’t even know the result beforehand.” (HR manager in POE3)

For JVs, PA outcomes were highly related to salary administration and goal achieving. PA seemed to have moderate impact on identifying poor performance (between individuals), personnel planning (system maintenance) and determining transfers and assignments (within individuals). PA had very little or no impact on meeting legal requirements, criteria of validation research, reinforcing authority structure. This is to say that PA served mainly for pay administration and personnel planning. However, their parent company had a strong influence on the functions of PA just as the HR manager in JV1 stated below:

“PA is conducted differently in our firm because there are two systems. People from the Chinese partner such as the financial controller, secretary of board of directors are appraised by their managers in our Chinese parent company. Staff from the foreign partner are appraised by the foreign parent company. However, the appraisal in the foreign parent company has a training and development part, but the form in our

Chinese parent company hasn't got an evaluation of employees' future needs. Therefore, the PA systems in the parent companies could be quite different." (HR manager in JV1)

For MNCs, the average ratings of functions of PA seemed to be higher than POEs and JVs. Obviously, PA results had a very high impact on salary administration and evaluating goal achievement, and over-moderate impact on promotion, recognition of individual performance and identifying poor performance (between individuals), performance feedback (within individuals), identifying organisational needs (system maintenance) and documenting personnel decisions (documentation). This is to say that PA outcomes were used not only for managing pay, but also for key HR decision making, such as training and development. Moreover, PA results were seen as a virtual necessity in maintaining HR systems and documentation.

Table 8.4: Summary of functions of PA in the case firms

	Use of PA factor	POE1	POE2	POE3	POE4	POE5	AVERAGE	JV1	JV2	AVERAGE	MNC1	MNC2	MNC3	MNC4	MNC5	AVERAGE
	Between-individuals															
1	Salary administration	4	4	4	4	4	4	5	4	4.5	4	3	5	4	4	4
2	Promotion	3	3	3	3	3	3	3	3	3	5	4	3	4	4	4
3	Retention or termination	1	1	2	1	1	1.2	1	1	1	3	4	4	4	3	4
4	Recognition of individual performance	3	4	5	4	3	3.8	4	4	4	4	4	5	5	4	4
5	Lay-offs	3	2	3	2	3	2.6	2	2	2	4	4	3	2	4	3
6	Identifying poor performance	1	3	4	3	1	2.4	4	3	3.5	3	4	2	5	4	4
	Within-individuals															
7	Identifying individual training needs	1	1	2	1	1	1.2	1	2	1.5	3	2	3	3	3	3
8	Performance feedback	2	2	2	2	2	2	1	2	1.5	4	4	5	4	4	4
9	Determining transfers and assignments	2	1	1	1	2	1.4	3	2	2.5	3	2	4	2	3	3
10	Identifying individuals' strengths and weaknesses	1	2	1	2	1	1.4	2	1	1.5	3	3	5	4	4	4
	System maintenance															
11	Personnel planning	1	2	3	2	1	1.8	3	2	2.5	3	2	3	2	3	3
12	Determining organizational training needs	1	1	1	1	1	1	1	2	1.5	3	2	4	3	3	3
13	Evaluating goal achievement	2	4	4	4	2	3.2	4	4	4	4	4	5	5	5	5
14	Evaluating personnel systems	1	1	1	1	1	1	1	2	1.5	2	2	2	2	2	2
15	Reinforcing authority structure	1	1	1	1	1	1	1	1	1	2	1	2	2	2	2
16	Identifying organisational development needs	2	3	1	3	2	2.2	1	2	1.5	2	1	3	2	2	2
	Documentation															
17	Criteria for validation research	1	1	1	1	1	1	3	3	3	3	3	3	2	3	3
18	Documenting personnel decisions	1	2	3	2	1	1.8	3	3	3	4	4	5	5	3	4
19	Meeting legal requirements	1	2	2	2	1	1.6	4	2	3	4	3	2	3	2	3

Source: From questionnaire results conducted during the interviews.

8.3.2 Development and challenges for functions of PA

Development of PA functions

In the literature, Ding et al. (1997) note that PA in the 158 FIEs in southern China is mainly used to determine pay. Chou (2005) addresses the finding that PA is often seen as a waste of time and not taken seriously by either the appraisers or appraisees. The lack of utility of PA as perceived by appraisers and appraisees remains a severe barrier to the effective implementation of PA. In the case firms, the results of PA were mainly used for determining promotability, identifying strengths and weakness, setting appropriate pay level and evaluating subordinates' goal achievement, which corresponded to the PA system prevalent in the West. In MNCs, PA also functioned as a salary administration tool and feedback source (or between-individuals and within-individuals functions in Cleveland et al. 1989 terms). Documenting performance and developing a plan were viewed as the least important in POEs. Performance in MNCs has high impact on promotion (between individuals), performance feedback (within individuals), and identifying organisational and individual needs (system maintenance), and legal compliance (documentation). It seemed that POEs, JVs and MNCs somehow used PA outcomes differently.

Challenges to PA functions

It was observed that some PA systems focused more on results and short term achievement than long-term learning and development. The connection between PA outcomes and cognitive learning / career development plan was somewhat missing, especially in POEs. The case firms were knowledge-intensive organisations, who required a large human capital investment. It is, therefore, essential for knowledge-intensive companies and their top management to induce change in utilising the PA results. For instance, PA in the case firms need to better serve functions in PFP, including addressing development needs and career aspirations of employees to encourage knowledge workers to update product knowledge, improve long-term skills and enhance competencies. Furthermore, system maintenance and documentation are functions that need special attention to be integrated with PA outcomes.

8.5 Conclusion

This chapter analysed empirical findings about PA issues in terms of its implementation and functions. Key elements of PA including aspects of performance measured, criteria,

conductors and appraisal instruments applied, and functions in terms of between-individuals, within-individuals, system maintenance and documentation in PA were examined.

Previous literature showed that performance practices in China have been changing since the economic reform and open door policy in 1978. The findings supported that there has been sweeping development in both the element and functions of PA in the case firms. However, PA was implemented differently in POEs, JVs and MNCs. Major challenges to implementation and functions of PA came from the issues of managers' input and ownership of PA, HR's strategic role as well as the firm ownership influences. The functions PA served in PFP systems also seemed to be different among POEs, JVs and MNCs. It is evident that the use of PA results needs to be more closely related to training and development rather than pay administration in the case firms.

The next chapter will present empirical findings for research question 4 regarding line managers' involvement in PFP design and implementation.

CHAPTER NINE

LINE MANAGEMENT IN PAY FOR PERFORMANCE

9.1 Introduction

Chapters six, seven and eight provided empirical findings for research question 1-3, regarding the importance, the design issues and the implementation of PFP in China's non-public sector knowledge-intensive industries. This chapter presents empirical findings for research question 4 concerning the line managers' involvement in PFP design and implementation. Findings are discussed in two aspects, line managers' understanding of their role in PFP and the key supports they received and barriers they had in PFP.

The existing literature (see Chapter 4 section 4.6 for details) shows that the devolution of HR policies to line managers has become one of the key characteristics of HRM since the 1990s. However, there has been a lack of empirical material on the role of line managers within HRM in comparison with other HR areas, such as the link with business strategies. Nevertheless, the crucially important issue of line managers' approach to implementation of PFP has not received much attention in the Western, Asian and Chinese contexts. Research question 4 explores the line managers' involvement in PFP in China's non-public sector knowledge-intensive firms. This examines line managers' views on PFP, their participation in the different stages of PFP design and implementation. In order to explore this, a group of line managers in the case firms who participated in PFP programme were interviewed.

This chapter first provides a profile of the HR and line managers involved in the interviews. The chapter is then followed by the examination of line managers' understanding and views on PFP. Last, the participation of line managers in different stages of PFP design and implementation is examined, and the key supports and barriers to their involvement in PFP are demonstrated.

9.2 Profile of HR and line managers interviewed

18 HR directors and managers and 23 line managers in sales and marketing, project development, customer service and finance departments etc. in the case firms were interviewed (see Table 9.1). Each interview lasted from 40 minutes to 1 hour. The

interview questions included line managers' description of their tasks and responsibilities, their view of the PFP system and their activities in PFP plans determination and PA practices.

Table 9.1 Profile of HR and line managers interviewed in the case firms

Firms	HR managers	Line managers
POE1	HR manager	Finance manager Administration manager
POE2	HR manager	Sales manager Marketing manager
POE3	HR manager	R&D manager Sales manager Customer service manager
POE4	HR manager	Sales manager Product manager
POE5	HR manager	Project manager
JV1	HR manager	Manager of president's office Financial manager
JV2	HR manager	Regional medical & public affairs manager
MNC1	HR director, China HR manager HR specialist	Training manager Marketing manager Sales manager
MNC2	HR senior manager, Shanghai	Senior brand manager Senior manager
MNC3	HR director, China, HR manager, Shanghai	Policy & government affairs manager
MNC4	HR director, China, HR manager, Shanghai	Project manager
MNC5	HR senior manager, China HR shared service lead HR manager, Shanghai	Project development manager Sales manager Client solutions manager

Source: From interviews.

9.3. Findings for RQ4a: How do line managers understand their role in PFP?

This section examines how line managers understood PFP and their responsibilities in the system.

9.3.1 Conceptualisation of PFP by line managers

To understand the role of line management in PFP design and implementation in China's non-public sector knowledge-intensive companies the researcher first examined how managers understand their work responsibilities with PFP. It was observed that in general

there was no significant difference between HR and line managers' beliefs on the importance and necessity of PFP in the case firms. HR and line managers both viewed the issue of developing and maintaining good performers via PFP as a critical issue for their daily operations and long-term strategic plans of the organisation, although the line complained about HR's support and guidance on PFP, and HR had some dissatisfaction with the line's commitment and efficiency in PFP. These complaints are discussed in later sections of the chapter.

It was also highly obvious that the managerial thinking of the line managers was driven foremost by a pragmatic commitment to finding ways of improving productivity. Line managers viewed PFP as a useful tool that they either hoped or believed would motivate employees, and although the current PFP could be problematic to some degree, it was better than nothing. Line managers were not driven primarily by a deep philosophical commitment to PFP. In other words, line managers were more committed to the objectives they intended to achieve rather than to PFP systems. However, the researcher does not conclude that PFP plans did not have the effect of motivation. Indeed, the initial performance improvements observed by line managers suggested that PFP did to some extent motivate those behaviours desired by the management.

In general, line managers were either directly or indirectly involved in PFP plan design, appraisal and the development of their subordinates in the case firms. These areas were clearly viewed as being the responsibility of the line in MNCs and JV2, in which the general view from both line managers and HR specialists was that line managers should 'own' these activities because it was they who worked directly with their staff on a daily basis and who were ultimately responsible for the performance of staff in their departments/areas. However, most of the line managers in POEs did not have the same awareness as those in MNCs. Line managers in POEs more heavily focused on productivity than on their responsibility of people management.

During the interviews, line managers were asked to raise the top three positive and negative views about PFP in their minds (see the summary in Table 9.2). Most of the points were negative; few line managers in POE1 and POE5 could give any positive points about PFP plans. A lack of initiative and certain awareness of responsibilities were also noted among

line managers in POEs. However, every line manager was still willing to implement and support their PFP systems, and they somehow believed that it was certainly better than nothing because employees needed to be measured, otherwise employees probably would not want to do anything.

As shown in Table 9.2, the most common positive view on PFP by the line was that PFP systems worked or would work in the short term, and PFP did encourage line managers to effectively focus on goal achievement and pay more attention to communicating with their people. The most frequent negative views raised by the line were that PFP plans were too results orientated, some plans were too complicated to be calculated and the system gave them to some extent too much paper work. It was evident that even though line managers had lots of negative views on PFP, they were still not against the PFP system itself.

Table 9.2: Summary of line managers' view on PFP in the case firms

	POEs	JVs	MNCs
Positive views	<ul style="list-style-type: none"> - Results orientated - Encourages line managers to focus on targets - Very formal and complete appraisal and pay system for manual workers rather than others. 	<ul style="list-style-type: none"> - Well written documents. - System works for the short term, but we are not quite sure about the long term issue. 	<ul style="list-style-type: none"> - Well designed system by the head office. - Individual targets are easy to measure as they are linked to results. - Reinforcing line managers' focus on team and firm goals. - Encouraging line managers to communicate with their people. - System works for the short term.
Negative views	<ul style="list-style-type: none"> - System is led or heavily relies on owners' view or preferences. - Boss' impression of individuals means a lot in pay for performance. - Not very well designed, e.g. training and development is not included. - Not a good system, but better than nothing and it works at the moment at least or for the short run. - Good incentives schemes for senior managers and sales, but not for everyone. 	<ul style="list-style-type: none"> - Nothing special, it all depends on results. - Bonuses promised by the general manager did not materialise. - Unfair measurement - The strong influence from the parent company makes the pay for performance plans not very practical in JVs. 	<ul style="list-style-type: none"> - System is too results orientated. - It definitely works at the moment but may not be for the long term. - Grading system is too complicated. - Too much paper work for line managers. - HR organises training for line managers but does not support the line in practice very much. - HR staff is far too young to guide and support us in doing pay for performance. - Some incentive schemes are too complicated to understand such as the team based sales commission scheme.

Source: From interviews.

9.3.2 Line managers' understanding of their responsibility in PFP

Line managers were asked to describe in their own words the job tasks or activities in which they were regularly engaged. Line managers were then asked to describe how their performance was evaluated and whether their PFP plans were associated with the evaluations. Here the researcher sought to learn 1) whether the description of tasks and activities were more specific in companies with well-developed and mandated PFP plans and PA schemes, and 2) whether an acknowledged, well-understood PFP system focused managers' attention on their work activities.

No manager described fewer than two tasks and activities and non more than five. PFP plans and PA were always elicited after the tasks and activities had been described in detail. No attempt was made to determine if they were effective managers, though some of them had been promoted to current responsibilities after several years of experience in their company. Task and activity descriptions were scored by the researcher using a naive scoring system: 1 = very specific description of task, activity, and supporting information; 2 = less specific description of activity; 3 = vague description of task or activity or general activity with no focus.

An example can clarify how the researcher scored descriptions of tasks and activities. The product manager in POE4 described three activities: daily team monitoring, tracking projects, and corporate management responsibilities. The first task was scored 1 because the manager specifically described the sources of data and the procedures used to monitor team activities. The second activity was scored 2 because it was non-routine and relied on occasional memoranda and informal communications. The third activity was scored 3 because no specific activities were described and information was sought as received or as needed. For this manager, the average score for specificity of tasks and activities was 2, and scores were averaged with those of others at the firm to obtain a measure of a corporate score. The results of the case firms are as shown in Table 9.3.

Table 9.3 Specificity of task scores of case firms

With well-defined PA scheme		With more ambiguous PA scheme	
JV1	1.80	POE1	1.68
JV2	1.77	POE2	1.92
MNC1	1.89	POE3	1.88
MNC2	1.83	POE4	1.81
MNC3	1.80	POE5	1.60
MNC5	1.82	MNC4	1.81

Source: From interviews.

The data collected in the interviews offered limited support to an argument that a well-developed performance evaluation scheme understood by managers helped them to describe their tasks and activities more specifically. Data also showed no apparent differences in hard task/objectives description between companies in which PA were well defined (such as JV2, MNC1, MNC2, MNC3, and MNC5) or more ambiguous (such as POE1, POE3, POE5). However, line managers in those companies with clear PA schemes were more specific or aware in describing their task in managing their people through leadership and coaching than those in the companies with ambiguous appraisals. Furthermore, sales, product and finance managers in the case firms seemed to be more specific about the goals than did professionals from marketing and investment and development. This result could be because of the nature of the job and also the companies' focus of PFP. But the data was not enough to draw a conclusion about the manner in which a PFP plan was best used in conjunction with a PA scheme.

9.4 Findings for RQ4b: what are the key supports and barriers to line managers' involvement in PFP design and implementation?

This section presents how line managers participated in different stages of PFP and further illustrates the supports and barriers to their involvement. Table 9.4 indicates line managers' specific activities in PFP design and implementation, including; organisational pay strategies design, performance goal setting, performance review, pay adjustment, future development plan and follow up activities. The discussion of each stage of line managers' involvement is as below.

9.4.1 Line managers' participation in PFP

Organisational pay strategies design

It was observed that line managers in all cases had very limited involvement in PFP design. In POEs, the owners and partners were the decision makers in pay strategies and plans, in JVs and MNCs the head office were the final decision makers in pay plans design. The local CEOs and HR departments provided salary market survey and other related information to assist the pay decision. Even the PA forms were transferred from their head office to host countries with sophisticated implementing and training guidelines. Line managers did not have a voice in pay plans decision making but in providing feedbacks in PFP plans evaluation. PFP design in POEs was highly controlled by their owners or top management. Line managers had no involvement in decision making. The sales manager in POE3 recalled that line managers sometimes did not even know how their employees were rewarded eventually because of the intervention of top management and the lack of transparency in pay decision making.

Performance goal setting

In the case firms, team goals were set according to firms' annual business objectives. Line managers had very little participation in goal setting, but allocated the tasks and conveyed information to individuals in the department. There was not much negotiation between the department and the firm about the goals, unless the line managers felt it was absolutely unachievable. MNCs did require and reinforce a joint effort and accountability between manager and employee to establish and update goals and to give and ask for feedback in a written document, but the communication channel in reality to some extent did not fully satisfy their line managers as the marketing manager in MNC1 pointed out below:

“I think the target for my team last year was too high because we had to consider some unexpected possibilities. But my boss did not listen to me. Therefore, I'm not happy with my performance rating by him.” (Marketing manager in MNC1)

Another role of line managers in goal setting was to reinforce the importance of the goal to the organisation and help develop necessary proficiencies for goal accomplishment. Most of the line managers were aware of this responsibility, and had regular or instant meetings with their team member to discuss how to fulfil their objectives. In companies like MNC4,

MNC5, line managers spent lots of time on deciding staff KPI (key performance indicators). The finance department in POE1 followed PDCA (Planning, Do, Check and Action) as the process of performance management, and their line managers were involved in each step.

Performance review

Evaluating employees' performance was the major responsibility for line managers in PFP systems. Line managers were involved to a great extent in communicating with their team members at work, and managing their performance through goals and task tracking, as commented on by the sales manager in MNC1:

“The most useful thing about PA is that it pushes me to have regular meetings with my team members, and monitor their activities and discuss future plans with them.” (Sales manager in MNC1)

However, not every line manager liked their job of reviewing the performance of their team members due to the heavy paper work caused by PA and other difficulties as stated below.

“Too much paper work for us because our HR wanted us to review sales' performance each month or each quarter. Although the PA in our company is well written, still checking or evaluating goal achievement does not necessarily encourage better performance because there are unexpected reasons and things that are out of our control.” (Sales manager in POE2)

Impression management in measuring performance was one of the difficulties as stated by the project development manager in POE5: “Being seen to be working and developing a high profile might, therefore, contribute towards a higher performance rating, but it does not necessarily lead to a higher level of individual performance.” In addition, the relatively high degree of autonomy in some forms of work made it more difficult for managers to judge the performance of professionals. A degree of self-reporting was required and the different personalities of employees could distort the result.

Subjectivity was another difficulty in measuring the competencies, skills and contribution by research professionals, whose work was not easily measurable. This can be seen in the views of one manager below.

“Things like the commitment and skills in communication were hard to rate. You can have someone who’s incredibly bright and able, but sits in the corner all day with no progress. To measure research professionals’ contribution to a certain project is even harder. Someone might provide a very smart idea to the project team. However, we don’t keep the written records on ideas. He/she might be forgotten by the performance reviewer unless that person makes him/herself very visible or apparently active all the time at work.” (Project development manager in POE5)

In addition, line managers were reluctant to use the full range of performance rating categories when the outcome of the rating may mean more than just a smaller than average increase in pay, or when the ratings might be used to make decisions about who might or might not be retained in the event of redundancies.

Pay adjustment

Line managers had very little involvement in pay adjustment but made suggestions to the annual pay review. The major problem in determining the appropriate outcome of any pay review by the line can be illustrated via the situation in case MNC3. Like other pharmaceutical firms, MNC3 adopted a matrix management system. This meant that individuals were situated in a discipline-based department – chemistry or virology for instance, but worked in one or more multidisciplinary project groups. However, their pay was probably reviewed by department managers who might not exactly know the person’s performance who was not on the spot.

Future development plans

Linking performance to personal development plans was observed in JV2 and MNCs, but in POEs there was no written document concerning employee development by the HR department, line managers had no involvement in making future development plans for their team members after the performance review. By contrast, line managers in MNCs were encouraged to discover future development areas for their people during performance review. Yet, the training and development programmes provided by the company did not exactly meet the specific individuals’ future needs. It was observed in MNC2, MNC3 and MNC5 that training courses for sales people were too basic and more entry level, which did not suit the experienced sales staff. For professionals, there was a lack of tailor made courses provided to update their knowledge and motivate their cognitive learning. For line

managers, there were more courses available on management skills such as leadership than their own professional areas. Attending international conferences and management training at head office was also regarded as one of the rewards for line managers' development.

Table 9.4 Line managers' participation in PFP in the case firms

Firms	Organisational pay strategies designer	Performance targets setting	Performance review	Award / pay adjustment	Future development plan	Follow up activities
POE1	Owners	No participation.	Rating	No	No	No
POE2	Partners	Setting individual targets	Rating	No	No	No
POE3	Owner + four key senior managers	Allocating targets	Rating	Suggestions.	No	No
POE4	Owner + unit general managers	Allocating targets	Rating	No	No	No
POE5	Partners	Allocating tasks	Rating	No	No	No
JV1	Parent company	Allocating tasks	Rating	No	No	No
JV2	Parent company	Allocating tasks	Rating	Suggestions	Future goals setting	Following arrangements by HR
MNC1	Head-office	Allocating tasks and making action plan with employees	Rating	Suggestions	Identifying Training & development and training needs	Following arrangements by HR
MNC2	Head-office	Allocating tasks and providing feedbacks for future targets setting	Rating	Suggestions	Identifying Training & development and training needs	Following arrangements by HR
MNC3	Head-office	Allocating tasks and providing feedbacks for future targets setting	Rating	Suggestions	Identifying Training & development and training needs	Following arrangements by HR
MNC4	Head-office	Allocating tasks and providing feedbacks for future targets setting	Rating	Suggestions	Identifying Training & development and training needs	Following arrangements by HR
MNC5	Head-office	Allocating tasks and providing feedbacks for future targets setting	Rating	Suggestions	Future goal setting	Following arrangements by HR

Source: From interviews.

9.4.2 Key supports and barriers to line managers' involvement

Looking at the case firms, one thing should be commented on first before any further discussion. Projects had become increasingly important in the case firms; especially in the IT and pharmaceutical industries, many business activities were project and/or product based. The researcher observed that the projects and heavy workload could influence the line managers' HR input and the function of the HR department.

9.4.2.1 Key supports in line managers' involvement in PFP

HR support for projects in business units

In pharmaceutical MNCs, such as MNC1, MNC3 and MNC4, the top management and HR functions made great efforts to restructure their HR departments and support project operations. For instance, in MNC1 the HR department was divided into different HRM competence areas, which worked on a consultancy basis for the line units. In order to support the project operations, a separate unit consisting of HR specialists was created to specialise on project management support issues, such as recruiting project professionals, project management development, PA, learning and development, and knowledge management.

In MNC3 and MNC4, no specific unit was set up, but the HR department was changed from centralised to de-centralised in order to effectively support the line units. HR people were trained to have more product and project knowledge, and work more closely with project-based units. For instance, some HR specialists were sent to the business units to help line managers deal with HR activities, such as recruitment and appraisal, they were also the coordinators between the HR and the line unit, who were responsible for aligning HR functions and line management.

Leadership trainings for line managers

The development of line managers' leadership competencies was emphasised in MNCs and JV2. For instance, MNC1, MNC2 and MNC5 stated that leadership on all levels was a core competence that needed to be developed. Short-term training courses or seminars on leadership were provided to the line to improve their competencies in managing people. The purpose of this type of training was to refine line managers' understanding and

awareness of the formally assigned HRM responsibilities to them, so that they would take more HR orientation in their daily work at the project-based units.

Career paths

Developing career paths for line managers was stressed in those project intensive case firms. Internal transfer and job enlargement and enrichment were applied to line managers. Sales and project managers in the IT, pharmaceutical and investment industries usually worked on short term based products or projects. Therefore, these managers were those who had to further plan their career development for the long term. Certain encouragement and development opportunities were delivered to line managers by top management and HR. For example, the marketing manager in MNC1 was transferred from the sales department; the marketing manager in MNC2 was transferred to be the training manager. The job of project manager in POE5 was enlarged to be in charge of projects in Shanghai and other regions. However, some of the line managers complained about the timing of this type of internal transfer because some of them had to wait for 5 – 6 years to get transferred, as the marketing manager in MNC1 pointed out.

Collaborative efforts evaluation

The development of line managers' competencies was highly emphasised. For instance, MNC3 and JV2 put greater pressure on collaborative efforts between managers in the project-based units, and between managers in supporting departments and projects and/or product departments, as the manager in the public affairs department of MNC3 stated:

“Collaborative effort is one of the major performance measurements for me because my responsibility is to maintain the good relationship with the government and update the company with new policies of medical device production and sales in Shanghai, therefore, the company wants us to work really closely with the line.” (Public affairs department manager in MNC3)

9.4.2.2 Barriers to line managers' involvement in PFP

Conflicts between HR and the line

That HR people did not speak the same language as the line was a big impression obtained by the research in the interviews and during observations. These were conflicts between the HR based and task based way of thinking. HR wanted to promote their activities, while

line managers could not buy in. Another problem seemed to be the HR department's lack of competence when it came to project-related activities and co-worker problems that arose in a project-based environment. A HR manager in MNC3 pointed out: "we can not be involved in measuring some professional managers' performance, because we do not understand the technical criteria."

Problems with project based work nature

Knowledge-intensive companies, such as IT, often involved projects. For instance, MNC4, POE3, POE4 and POE5 experienced that well-functioning project activities had become increasingly important, especially in their IT R&D unit, where projects predominated. However, the powerful projects created a project based nature of work, which caused a series of problems in PFP.

The project based nature of work made it necessary for the line managers to assume a greater responsibility for HRM, specifically in PFP. Such a work nature made it impossible for the HR department to keep full track of employee performance and development. For instance, R&D people in POE2 were only in the Shanghai office once in 3 months because of their IT projects. Therefore, HR had almost no idea about these R&D staff's work and performance except from the line managers. Thus, HR based logic for the line was expected by the HR department. However, line managers were supposed to be promoted based on their professional excellence, but they now needed to improve their so-called 'soft skill' and HRM competences. Line managers were not always happy about assuming these HRM responsibilities. Their main interest and main skills lay within specific IT or investment areas, not within HRM. For instance, line managers in POE2 were specialised in IT for bank networking design, line managers in POE5 were specialised in IT for insurance software. Therefore, line managers followed a task or project based logic in their daily work, which was oriented differently from HR type work. There were very rare examples of line managers and HR managers who had a balance between the HR and task logic.

Problematic relationships between line managers and project leaders

In cases like POE2, POE5 and MNC4, IT engineers, specialists and after sales service professionals worked together to design the specific IT software for banking and insurance firms. Due to the fact that the people involved were across departments, the relationship

between line managers and project leaders became problematic. For instance, the project team members were supposed to have meetings with their line managers as well as their project leaders to set goals. It was the line managers' responsibility to get all the information and undertake employees' performance reviews, but they also had to get input from the project leaders. However, based on this type of work situation, employees became confused sometimes about who to turn to when they could not work very well with the project leader, and when they were not satisfied with the performance review feedback etc. Nevertheless, conflicts between the line and the project leaders were observed when they needed the same company resource and/or the same person to work for their tasks.

Issues of top management input

Lack of top management's input in PFP was mainly found in POEs. For instance, a paternalistic management style was observed in POEs, where the owners believed in their personal charisma more than the management, as stated by the owners of POEs below.

“The key line managers have been working hard because of me since the firm was established, and I'm here everyday to know what they are doing and how happy they are with me. I'm the best motivation for them.” (Owner of POE2)

“There are two types of people in the firm, technical and managerial. We can train technical staff to know more about management, but leadership skill cannot really be taught, it's something you are born with. I believe that in the company my charisma has been the key to hold line managers together, which is better than any type of PFP plans.” (Owner of POE1)

Problems in goal setting

As discussed in section 9.4.1, line managers' participation in goal setting was to allocate the tasks set by the companies. However, task allocation was less than enough. As the goal allocation must be accompanied by a deep understanding of organisational objectives, information about translating them into action, and support for meeting goals. Line managers' further participation in goal setting was needed in the case firms, not only because participation by itself is inherently motivating, but also because it provides them with an increased understanding of expectations and strategies for goal accomplishment.

9.5 Conclusion

This chapter explored how line managers were involved in PFP design and implementation thus answering RQ4a: How do line managers understand their role in PFP? and RQ4b: What are the key supports and barriers to line managers' involvement in PFP? The first step of the analysis was line managers' views on PFP and their understanding of their own responsibilities within this framework. The findings supported a general observation in the literature about the transfer of HRM responsibilities to line managers (Larsen and Brewster, 2003), who acknowledged that PFP was a useful tool, although a large amount of negative views were also observed. The ownership of PFP by the line was limited because they still reported an ongoing gap between the espoused theory of PFP and what was delivered in their eyes. The research here argued that project intensification could be an important factor that impacted on line managers' understanding and responsibility in PFP. In some cases, line managers were identified as 'the critical communicators' and the 'enactors of strategy set by the top management'. However, the empirical findings show us that line managers were much more committed to their project or team goal achievement than to PFP itself.

The second step of the analysis in this chapter concerned the supports and barriers to the involvement of line managers in PFP. Line managers in POEs, JVs and MNCs were involved in three stages of PFP (Kessler and Purcell, 1992). The first stage was the determination of individual performance criteria, the second stage was the individual performance assessment and the third stage was when the pay adjustment was linked to the result of the first two stages. In the cases where line managers were highly involved in the first two stages, actually pay distribution was decided by the top management team.

Goal setting and reviewing, monitoring in achieving objectives and appraising employees' performances were line managers' main responsibilities under PFP systems. Line managers had little ownership of PFP systems, but they were incredibly positive about the clarification of their work objectives during implementing PFP. Performance measurement and evaluation were taking up a growing amount of managerial time. Firms encouraged their line managers' earlier attention to potential problems than offered by a more traditional annual appraisal process. Line managers reported that setting goals which encouraged team working and co-operation had been a general trend, but still many of them felt that their PFP systems encouraged too great a focus on personal targets, which in turn

resulted in inflexibility. This outcome was also seen as reducing innovation when individuals perceived they were more likely to be rewarded for conformity than risk taking, especially where results could be less easily measurable and more unpredictable for professionals in pharmaceutical and IT firms.

HR support for the business units, leadership training, career development and collaboration were identified as the key supports for line managers in PFP. Misunderstandings between HR staff and line managers, the lack of top management's input, and the lack of congruence between line managers and the project leader in PFP were the key barriers to line managers' involvement in PFP design and implementation. These supports and barriers were closely related to the project-based nature of work in the case firms. Line managers who mainly focused on the technological and scientific development in the line unit followed a task based logic, while HR followed a management based logic. A greater balance between a HRM and task focus is needed for both the line and the HR in PFP systems.

CHAPTER TEN

DISCUSSION AND CONCLUSION

10.1 Introduction

The Economic reforms and the opening up to the outside world have made profound changes to the economic and social development of China. The most dramatic changes have been in three areas. One is the rapid development of the Chinese economy. The other change has been in the ownership structure of enterprises, which caused the flourishing of the non-public sector including POEs, JVs and MNCs. Another major change has been in pay systems. The 'Iron-wage' system based on seniority and job rank has been gradually phased out (Zhu and Warner, 2000, Zhao and Nichols, 1996) and reformed to a non-egalitarian system which linked employee earnings to their performance both at individual and organisational levels. More recently, trends towards a more knowledge-based economy has brought the fast growth of knowledge-intensive industries in China. Also, increased competition under globalisation led to greater challenges in attracting and retaining good performers through competitive employee rewards, which has become critical in high-value-added and knowledge-intensive industries.

The existing literature on rewards in China is heavily focused on the evolution of the traditional pay system, with little attention paid to PFP. Therefore, the aim of this thesis was to explore PFP design and implementation in the context of China, principally in non-public sector knowledge-intensive companies. In order to do so a review of the literature was carried out, on the basis of which were developed research objectives and four key areas identified, namely: the importance of PFP, PFP plans and design, PFP implementation, and line managers' involvement in PFP.

This research primarily used data obtained from case studies of 12 knowledge-intensive firms of investment/marketing research, IT and pharmaceutical industries in Shanghai. In-depth interviews were conducted with 52 top management, HR and line managers as well as 10 specialists in local and leading international HR consultancy firms. The empirical findings were analysed in chapter 6 – 9.

The aim of this chapter is to outline the main conclusions of the research. For this purpose, this chapter is structured as follows: Section 10.2 discusses the key findings and arguments in relation to the research questions. Section 10.3 involves a demonstration of empirical, theoretical contributions and managerial implications of the thesis. Section 10.4 and 10.5 summarise some limitations of the study and provide possible suggestions for further research in the future.

10.2 Discussion of empirical findings

This section gives an overview of the empirical findings in the study. It draws only the core findings, remarks that are more detailed are in the data display and analysis of Chapter 6-9. Table 10.1 presents a brief summary of empirical findings in relation to research questions of the thesis as below.

Table 10.1: Summary of findings in empirical analysis

Research question	How and where addressed	Findings
<i>Research question 1: How important is PFP in the current pay system?</i>		
RQ1a: To what extent is PFP adopted?	The proportion of PFP in pay mix and the extent to which pay depends on performance in pay structures were examined (see relevant literature in Section 4.3).	Chapter 6 PFP was an important component in pay mix and performance was one of the key factors in determining pay range and progression.
RQ1b: Why do firms use PFP?	The reasons for using PFP were examined by theoretical explanations (Agency theory, Expectancy and Equity theory, and legitimacy and institutional factors. See relevant literature in Section 4.3).	Chapter 6 Two major sets of reasons emerged: HR/motivational purpose and responding to institutional factors or legitimacy.
<i>Research question 2: How is PFP designed?</i>		
RQ2a: What types of PFP plans are adopted?	Types, coverage, and focuses of PFP plans were identified (see relevant literature in Section 4.4).	Chapter 7 Payment-by-results, performance schemes and financial schemes were found. PFP system was results-oriented, short term based and cash driven.
RQ2b: What are the contextual factors that impact on the adoption?	Factors that influenced the management to adopt certain PFP plans were examined (see relevant literature in Section 4.4).	Chapter 7 Factors in terms of organisational environment, organisational characteristics and pay strategies were found.
<i>Research question 3: How is PFP implemented?</i>		
RQ3a: In what ways is performance measured?	Types of performance measures and instruments adopted were identified (see relevant literature in Section 4.5).	Chapter 8 Changes and challenges of PA implementation were identified.
RQ3b: What functions does PA serve in PFP?	Four types of functions of PA were examined (see relevant literature in Section 4.5).	Chapter 8 Salary administration, recognition of individual performance and evaluating goal achievement were identified as the major functions of PA.
<i>Research question 4: How are line managers involved in PFP?</i>		
RQ4a: How do line managers understand their role in PFP?	Line managers' conceptualisation of PFP and their responsibilities in PFP were examined (see relevant literature in Section 4.6)	Chapter 9 Line managers were much more committed to project and team goal achievement than to PFP.
RQ4b: What are the key supports and barriers to line managers' involvement in PFP?	Supports and barriers to line management in pay design, implementation and follow up activities were examined (see relevant literature in Section 4.6)	Chapter 9 Supports: HR supports, leadership training, career development and collaboration; Barriers: Misunderstanding between HR and line managers, lack of top management input, and the congruence between line managers and the project leaders.

Source: Developed for the thesis.

10.2.1 RQ1: How important is PFP in the current pay system?

Research question 1 explored the importance of PFP in the current pay system of China's non-public sector knowledge-intensive firms. This question was answered by examining the importance of PFP in employee pay mix and pay structures (RQ1a), and identifying the reasons for using PFP by the management of the case firms (RQ1b) (see Chapter 6 for details).

RQ1a: To what extent is PFP adopted?

The proportion of PFP in the pay mix and the extent to which performance was important in determining pay within the pay structures of the case firms were examined. In order to effectively compare and contrast PFP among the case firms, employees were categorised into four groups based on the common and critical posts, namely: top management, sales and marketing, professionals and junior staff. It was found that employee pay mix consisted of base pay, PFP and benefits and allowances. PFP was a highly important component in the pay mix for the four employee groups. In particular, PFP accounted for 30 to 40 per cent of total cash income (base pay plus PFP) for top management, 40 to 60 per cent for the sales and marketing group, around 20 per cent for professionals and 10 per cent for junior staff.

Furthermore, graded and broad-banded pay structures were found in the case firms. Pay levels were closely attached to currently assigned jobs. The pay range was attached to each grade or band with a minimum and maximum amount which indicated the scope provided for job holders to progress through the range. The top three items for determining pay range identified by managers were: market rate (information from HR consultancies, such as Mercer and/or the competitors), individual working experiences (previous performance) and qualifications. The top three factors for determining pay progression identified by managers were: individual performance, firm performance and cost for PFP. Therefore, individual performance was one of the key factors in determining employee pay range and pay progression within the graded and broad-banded pay structures.

Figure 10.1 further illustrates the changes of pay determinants from the traditional 'Iron Wage' system before the economic reform to the current pay system in China's non-public sector. The 'Iron Wages' system was state-administrated, guided by a low wage policy,

involving flat wage structures and complicated and inflexible wage schemes (see Chapter 3, Section 3.4 for details). Key determinants of pay in the ‘Iron Wage’ system were morally and spiritually based, and pay progression was seniority-based (Cieri et al., 1998, Cooke, 2004b, Warner, 2003a). In contrast to this, the current pay structures in the non-public sector were identified as a job and market based structures which were much less complicated, highly decentralised and performance orientated (see the discussion in section 6.3.3). The ideology of pay was changed from ‘to each according to their need’ to ‘to each according to their performance and contribution’.

Moreover, PFP practice in China used to be under strong state control (see Chapter 3, Section 3.5 for details). Under the post-reformed pay model in the 1980s, enterprises were allowed to distribute bonuses from their retained profits, with the total amount not exceeding two-months of wages. Under the post-reformed pay model in the 1990s, enterprises had to follow the official wage guideline of the government which influenced their pay level, structure and growth (Zhu, 2005, Ding et al., 2001). However, enterprises in the current non-public sector have full autonomy to set PFP levels in the pay mix. Pure ability/performance was highly valued instead of seniority in the pay structure. Nevertheless, financial flexibility in the current pay structure was higher than any previous pay models. Except on the national minimum wage, there was no other guideline from the government to impact on pay decisions of the non-public sector enterprises. Therefore, it is concluded that PFP was widely adopted in non-public sector knowledge-intensive firms as an important component of the employee pay mix. PFP also played a role as a key norm in employee pay determinants.

Figure 10.1: Changes of pay determinants

Pay basis	Financial Flexibility		
	Low	Medium	High
Pure job and seniority based	Iron wage system	Post-reformed pay model in 1980s	
Seniority and ability/performance mixed		Post-reformed pay model in 1990s	
Pure ability/performance based		Current POEs, JVs and MNCs	

Source: Developed for this thesis.

RQ1b: Why do firms use pay for performance?

Although studies on PFP in China covered PFP practice in SOEs, the sports industry and MNCs, there has been extremely little literature on the reasons for adopting PFP by management. Four possible theoretical explanations for companies' using PFP schemes were discussed: agency theory (Prendergast, 1999), motivation theories (expectancy, equity) (Vroom, 1964, Adams, 1963, Bonner and Sprinkle, 2002), institutional (DiMaggio and Powell, 1983, Scott, 1995) and legitimacy theories (Harrison, 1987, Suchman, 1995) (see Section 4.3). Main reasons which emerged for using PFP by the management were: HR/motivational purpose and responding to institutional factors or legitimacy (see Chapter 6 for details).

Agency theory forms the basis for most of the academic literature on rewards. A standard explanation for using PFP by agency theory is to align the agent's goals with shareholders. Certain aspects of this were seen in the way in which executives' contracts were constructed to link PFP to shareholders' interests in the case firms. The findings also suggested that agency theory was relevant in relation to the multi-tasking issues, where performance measures and targets were designed to focus managers' efforts in the direction desired by the Board of Directors. Of the motivational theories considered, there was little evidence of equity theory as a driver for using PFP by management, but considerable evidence for expectancy theory. This was shown in the need for retaining and motivating good performers. The final theoretical lens was that of institutional theory and legitimacy. Implementing PFP to follow market practices and/or best practices by the case firms could be explained by institutional theory. However, there was almost no empirical evidence to support the legitimacy reason because there was no government policy or guidance for implementing PFP plans. The companies had full autonomy to decide on pay systems.

In summary, three main reasons for adopting PFP schemes by management were found in the data analysis. The first concerned external factors - market practices/best practices; while the other two factors were internal reasons – the need to attract and retain good performers as well as the need to improve employee performance. PFP plans were used to set certain targets for employees and adopted as an effective communication tool for managers to monitor their people. Moreover, the PFP awards were not only regarded as

monetary rewards, but also the recognition of individual success, the promotion of firms' missions and business objectives.

Whilst this small sample of case studies and interviews may not be generalisable, the findings informed theories. It demonstrated how agency theory, motivation theories and institutional theory and legitimacy had a role to play in explaining what was happening. Each of these theories on its own was an incomplete explanation of why companies used pay for performance, but together they explained the behaviours by management in the case firms more fully.

10.2.2 RQ2: How is PFP designed?

Research question 1 identified the importance of PFP in the case firms. However, the previous studies on PFP in China focused on employees' preferences and acceptance (Chiu and Luk, 2002, Baruch et al., 2004). The exact way PFP plans were adopted and how they are applied to certain employee groups have been left unexplored in the context of China. Research question 2 focuses on the design issues of PFP in China's non-public sector knowledge-intensive industries. This question was answered by identifying the types of PFP plans applied to each critical employee group (RQ2a), and examining the contextual factors that impact on management's adoption of PFP plans (RQ2b) (see Chapter 7 for details).

RQ2a: What types of PFP plans are adopted?

PFP plans, including payment-by-results schemes, performance schemes, and financial schemes (Reilly, 2005), were applied to the critical employee groups, with different methods and emphasis on linking pay to performance for each group. The summary for the PFP plans are shown in Table 10.2. In particular, PFP plans for senior management were highly focused on rewarding their short term (1-2 years) achievement. Performance schemes (e.g. cash profit sharing) were the main type for senior management, financial participation schemes (e.g. stock option plans) were not widely used and favoured by the case companies because of tax and practical issues. The method of linking pay to performance for senior management was aligning their interests with the performance of the organisation by sharing in some portion of the profits made, or in the reduction of costs. This method emphasises employee commitment rather than employer control. Moreover,

the PFP plans were integrated with other arrangements, such as special benefits & allowances, long term assignment, and other localisation considerations to attract and retain more Chinese returnees in senior management.

PFP plans for sales and marketing people were highly focused on rewarding their volumes sold. Payment-by-result schemes (e.g. commission) were the main type, and aligned with specific allowances, and non-financial rewards to make the PFP plans more effective. This method of linking pay to performance was providing a very direct message to sales and marketing staff: ‘if you achieve this level of performance, you will receive this amount of reward.’ The PFP plans relied on some formal means of measuring and rewarding performance to target. Performance measures at the supervisor level and below were related to the specific job or work role. Sales people typically had a significant portion of their pay set against such criteria as personal sales volume and revenue, sales growth and new business.

PFP plans for professionals were highly focused on rewarding existing skills and competencies. Like the sales, payment-by-result schemes (e.g. project based bonus) were the main type for professionals in those knowledge-intensive companies, which was often based on the projects they completed and occurred simply according to the specific schedule of their projects. There was almost no sophisticated performance scheme available for the professionals. Year-end bonus was one of the most popular bonus schemes that was used in every case firm for junior employees. Every employee was entitled to it when the firm achieved certain business objectives at the end of the year or financial year, which was how it was named.

Table 10.2 Summary of PFP plans in case firms

	Year-end Bonus	Individual performance based pay	Commission	Project based commission	Cash profit sharing	Stock options
Type	Performance schemes		Payment-by-result schemes		Performance schemes	Financial participation schemes
Coverage	Junior staff	Individuals	Sales and marketing	Professionals	Senior management	
Payment methods	Bonus	Bonus	Bonus	Bonus	Bonus	Equity changes
Payout frequency	Annually	Semi-annually or annually	Monthly, quarterly or yearly	Monthly or quarterly	Semi-annually or annually	When stock sold
Performance measurement	Firm profit	Individual performance rating	Individual performance rating	Team performance	Firm performance	Stock value

Source: Developed for the thesis.

The characteristics of PFP adopted in the case firms can be summarised as below. *First*, PFP plans in the case firms were results-orientated. For instance, financial and operational goals of the organisation, such as market share, cash flow, return ratios, profit in excess of cost of capital, and quality, efficiency and delivery cost etc, were strongly emphasised in linking pay to performance for senior management. Other categories of performance measurement in addition to financial measures, particularly future-focused strategic directions, people, values and performance initiatives, such as workforce satisfaction, retention, re-skilling, and product and service innovation etc., were not highly emphasised. Moreover, the current PFP plans for senior management needed to be paid not merely for taking risks but also for stabilising company performance over time. For example, if company performance improves moderately (say from the 50th to the 70th percentile of performance as compared to peers), the PFP for CEOs escalates significantly. However, if the company performance drops from the 50th percentile to the 30th percentile, there was no penalty for this.

Second, a short term oriented and cash driven PFP philosophy dominated in the non-public sector. For instance, PFP plans for sales and marketing people in the case firms strongly relied on commission schemes. The sales staff in pharmaceuticals (POE4, MNC1, MNC2 and MNC3) were of two types, OTC (over the counter) and prescription. While OTC sales workers were volume selling ‘consumer products’, prescription sales demanded a detailed

product knowledge and ongoing customer service. However, the pay mix was the same (50/50 – base pay/PFP) for both OTC and prescription groups in those firms. Placing both pay mixes under a high PFP of pushing volume and cash driven was a long term disincentive for the prescription-sales forces.

Third, the poor connection between PFP and learning and career development was most visible in the case firms. For instance, projected based incentives were the main type of PFP plans for professionals. However, this type of PFP rewarded professionals' existing skills and competencies rather than long term learning and development. In the long run, this type of PFP does not fully develop an organisation's core human capital. PFP plans for professionals in knowledge-intensive firms, such as IT engineers, compliance and quality control specialists in pharmaceuticals, must foster organisational learning and career development for succession. Then the professionals will concentrate on developing more intensive product knowledge and customer service relationship, as opposed to strictly pushing project achievement for short term profitability or start-up. Moreover, most of the managers regarded company paid training and development courses as part of their PFP. However, the training provided to sales and marketing staff and professionals were mostly regarding technical aspects and job-related skills only (e.g. POE1, POE2).

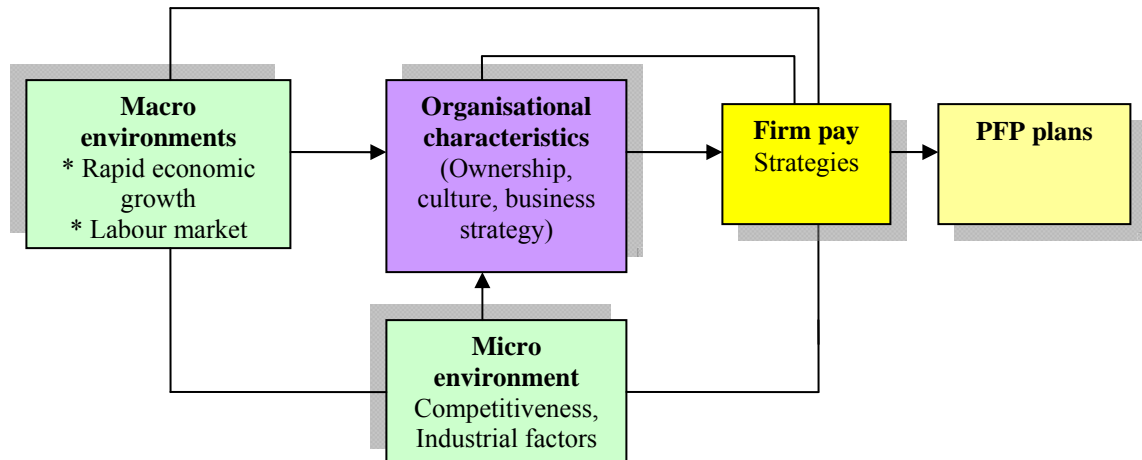
RQ2b: What are the contextual factors that impact on the adoption?

Organisational factors, such as ownership, firm size, location and industry type, may affect the level of rewards (Cole and Healy, 2000, Tang et al., 2000, Chiu and Luk, 2002). The literature identified factors that affected managerial rewards in the context of China (Ding et al., 2006). This question examined internal and external contextual factors that impacted on the case firms' adoption of PFP. Figure 10.2 illustrates the relationship among the main factors. It is evident that organisational factors and organisational characteristics were associated with organisational pay strategy, which directly impacted on firms' PFP plans. In particular, labour market, competitiveness and industry were the major macro and micro environmental factors.

Organisational characteristics, such as culture, ownership, and size were the major factors affecting PFP plans indirectly through its impact on the organisation's pay strategies. The environment also affected other organisational characteristics, which in turn affected pay

strategies, and ultimately, PFP characteristics. It is interesting to note that the findings show that organisational culture or management style played a more important role than national culture in adopting PFP. The findings also support the contingency theory of rewards strategy, which holds that the characteristics and effectiveness of a reward strategy depends on the fit among environment, organisation and strategy.

Figure 10.2: Main factors that affect PFP adoption in the case firms



Source: Developed for the thesis.

10.2.3 RQ3: How is PFP implemented?

Research question 3 moved on to the implementation issues regarding PFP in non-public sector knowledge-intensive industries. This question was answered by the examination of the ways that performance is measured (RQ3a) and the functions PA served in PFP programmes (RQ3b) (see Chapter 8 for details).

RQ3a: In what ways is performance measured?

Elements of PA adopted were examined. In comparison with the historical view of PA in China (see Section 4.5.1), there were a lot of changes in the ways that PA was implemented in the firms. For example, the evaluation criteria changed from political loyalty and work attitude to performance results, skills and competencies. Ratees were expanded to include people from different feedback sources (e.g. peer group, subordinates and external clients). Both hard quantitative financial objectives, as well as soft qualitative competence and skills, were considered. The results of evaluation were, to various degrees, linked to rewards and

personal development. It was evident that managers in both POEs and MNCs became more receptive towards performance-oriented rewards through PA, and welcomed career development opportunities through the implementation of PA.

However, the implementation of PA in the case firms was challenged by a number of factors, mainly in the design of the performance indicators and the process of conducting PA. While some of these factors were generic to PA in many parts of the world, others were specific to the context of China. In particular, poor performance objective and measurement setting was obvious in most of the POEs, whereas JVs and MNCs often adopted well designed PA systems transferred from their head offices. Lack of HR's strategic role and line managers' ownership of PA also challenged the implementation of PA systems. Interestingly, it was observed that Chinese traditional cultural values seemed to have much less profound and enduring influence than did firm ownership throughout the various stages of PA systems, which was more or less the opposite to other studies conducted in SOEs (Cooke, 2007). It was perhaps because a more reward-driven PA system was adopted in such non-public sector enterprises, where PA was seen less as a formality and punctuated with a greater level of subjectivity.

RQ3b: What functions does PA serve in PFP?

The functions of PA in terms of between-individuals, within-individuals, system maintenance, and documentation (as proposed by Cleveland et al., (1989a), which was already tested in other Asian contexts), were examined in the case firms. The most common strongest functions of PA in POEs, JVs and MNCs were salary administration and recognition of individual performance (between individuals comparisons), evaluating goal achievement (system maintenance) and documenting personnel decisions (documentation). The most common weakest functions of PA in POEs, JV and MNCs were identifying poor performance (between-individuals comparisons), identifying individual training needs (within-individuals comparisons), evaluating personnel systems (system maintenance), and criteria for validation research (documentation).

In general, PA as a modern Western HRM concept and technique was being embraced unquestioningly by the case firms, and it was also evident that the PA systems adopted in the case firms were reward driven and tended to focus on the person and goal achievement.

However, the type of PA promoted in the Western HRM literature more often takes a development approach and focuses on the alignment between individual performance and organisational goals. More attention needs to be paid to functions of PA in terms of system maintenance, such as personnel planning, identifying training and development needs, in China's non-public sector. Furthermore, firm ownership was still a factor that highly impacted on the functions served in PFP systems. For instance, PA in MNCs had formally designed training needs analysis procedures, whereas PA in POEs did not.

10.2.4 RQ4: How are line managers involved in PFP?

Research questions 1-3 basically discussed the importance of PFP, the plans adopted and performance measurement. Research question 4 further explored the key deliverer - line managers' involvement in PFP, which was answered by the understanding of PFP by line managers (RQ4a) and the key supports and barriers to line managers' involvement in PFP (RQ4b) (see Chapter 9 for details).

RQ4a: How do line managers understand their role in PFP?

The findings supported the general observation about the transfer of HRM responsibilities to line managers. Both line managers' conceptualisation, their views of PFP and understanding of their responsibilities in PFP were examined. First, it was observed that there was no significant difference between HR and line managers' belief on the importance and necessity of PFP in the case firms. However, line managers' understanding and ownership of PFP were generally less close to the company's position than the HR. Second, line managers were much more committed to their project or team goal achievement than to PFP itself. The HR department's perceptions of line managers' responsibility in PFP were apparently greater than the line managers' perception. Third, the line managers viewed PFP systems negatively while they continued to support the principle of a PFP system which recognised individual contributions. In addition, line managers in the companies with clear PA schemes were more specific or aware of describing their tasks in managing people through leadership and coaching than those in the companies with ambiguous appraisals.

RQ4b: What are the key supports and barriers in line managers' involvement in PFP?

Line managers' participation in different stages of PFP was examined and the supports that line managers received in PFP and barriers they had in the involvement in PFP were identified. In general, line managers in POEs, JVs and MNCs were involved in three stages of PFP (Kessler and Purcell, 1992). The first stage was the determination of individual performance criteria, the second stage was the individual performance assessment and the third stage was when the pay adjustment was linked to the result of the first two stages. In the case firms, line managers were highly involved in the first two stages, but the actual pay distribution was decided by top management.

It was evident that project or product based nature of work in the knowledge-intensive industries such as IT and pharmaceuticals highly influenced line managers' HR input and the function of HR department. Line managers were quite technically orientated under this type of work, whereas HR managers were management orientated in daily work. The case firms provided some support to line managers in PFP, such as sending HR specialists to business units, offering leadership training courses, encouraging the collaboration between technical and supporting departments, and developing career paths for line managers. However, there were still many difficulties that line managers had to deal with in PFP. For instance, the misunderstanding between HR and the line managers, the lack of top management's input in PFP especially in POEs, and the problematic relationships between the professionals and line managers. These supports and barriers were closely related to the project-based work nature in the case firms. Line managers who mainly focused on the technological and scientific development in the line unit followed a task based logic, whilst HR managers followed a management based logic. The researcher argues that a balance between the HRM and task focus is needed for both line managers and the HR in PFP of the case firms.

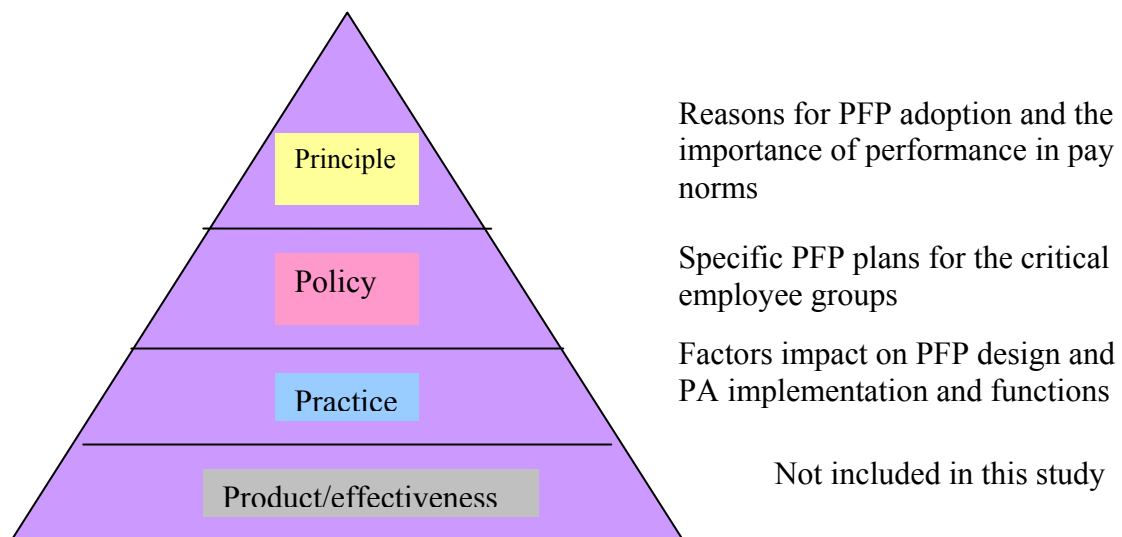
10.3 Contributions of the thesis

This section summarises the empirical, theoretical and methodological contributions of the thesis as well as the managerial implications.

10.3.1 Empirical contributions

The thesis makes two major empirical contributions to the existing research on PFP and reward management (see the relevant literature in Chapter 3). *First*, this thesis helps to fill some of the empirical research gap in the area of PFP. Most of the research and discussion on PFP in the literature has involved studies performed in Western nations such as USA, the UK and Australia (Heneman, 1992, Bartol and Locke, 2000). Wei and Rowley (2009) also note that although PFP in Asia has been one of the major areas covered by researchers, it still far from being well studied. The existing studies on rewards in China have concentrated on the evolution of reward systems and the public sector (see Chapter 3, Section 3.6 for details). This thesis helps to fill the empirical gap by exploring the nature of PFP practices in non-public sector knowledge-intensive firms. Moreover, this research examines PFP at different levels (see Figure 10.3). In particular, at principle level the research examined the reasons for the management's adoption of PFP and the importance of performance as a norm in determining employee pay in the current pay system; at policy level, this research illustrated the proportion of PFP in the pay mix and specific PFP plans and the characteristics for the critical employee groups; at practice level, this research discussed the factors that impacted on the PFP adoption, the PA implementation and functions served in PFP, and line managers' participation. Therefore, this study not only fills the gap of research about PFP, but also provides a picture of PFP in the non-public sector knowledge-intensive firms of China at different levels.

Figure 10.3: Levels of PFP studied in the thesis



Source: Developed for the thesis.

Second, this thesis contributes to the empirical research on HRM devolvement to the line. Involving and inviting line management to actively participate in designing and implementing HR activities is seen by some as a key to success in HRM. However, there is still a remarkable lack of empirical material on the role of line management within HRM (see discussion in Section 4.6). Similarly in reward management, whilst there has been an increasing amount of studies on rewards in the Western and Asian contexts, there has been a lack of research on the vital role that line managers play in designing and implementing reward strategies and policies. The existing research in the field of rewards in the context of China has left unexplored questions regarding the extent to which line managers respond to rewards policies and their impact on rewards practices (Wei and Rowley, 2009). Therefore, to the researcher's best knowledge, this thesis is one of the first studies that explore the critical role of line management in PFP in China's knowledge-intensive industries. The relationship among PFP plans and the HR and line managers' critical roles was illustrated. Lessons and tips can be drawn out from the case studies on line managers' understanding of PFP, and the key support and barriers to their involvement in PFP.

This thesis supports the restructuring of HR functions and devolvement of people management responsibilities to the line. This research may have resonance for organisations seeking to devolve their HRM or reward management to the line, notwithstanding the inherent limitations of case study work. The results reported in this thesis can also serve as important steps towards a theoretical framework for the analysis of reward management and HRM in project-intensive organisations in the future.

10.3.2 Theoretical contributions

The thesis makes three major contributions to the existing literature on PFP, reward management and HRM (see the relevant literature in Chapter 3). *First*, this research explored the content and context changes of PFP practices in China after the economic reforms in 1978 to present, regarding the importance of PFP in the current pay system, PFP design and performance measurement (see Table 10.3). The findings support and further extend academic understanding of relevant theories in each area. Specifically, research question 1 explored the content changes of PFP in the pay system regarding proportions, pay norms and pay structures and enterprises' autonomy, and the context changes regarding factors that influence the enterprises' adoption of their PFP. Research

question 2 identified content changes of PFP plans regarding the diversification of PFP forms adopted by the firms, and the contextual factors other than the state (which was critical) which influenced PFP adoption. Research question 3 discussed the content changes of PA elements and functions, and demonstrated the context factors that affected PA implementation and functions in the case firms.

In general, PFP in China has undergone significant changes. In particular, it is now evident that Chinese firms are becoming much more receptive to performance-oriented rewards and welcome performance measurement and learning and development opportunities. Internal and external forces (e.g. managerial, institutional and cultural variables) have led to changes in PFP design and implementation, but challenges in PFP practices come also from contextual variables, such as ownership, nature of work – project intensification, organisational culture and management style, etc. In addition, though with limited generalisability due to the sample size, the cases suggest that when we discuss PFP we cannot simplistically categorise PFP practices by ownership forms and assume that Western MNCs are more progressive than domestic Chinese firms, although this study does indicate that ownership does make difference in PFP practices. Instead, it is rather visible that the emergence of a diverse range of management practices in which ownership forms, nature of work, regional variations, industrial sectors, product market, and relatedly, the type of employees they seek to employ, all play an important role in PFP. Management outlook and leadership style are also important determinants.

More broadly, in recent years, enthusiasm in promoting what are perceived to be advanced Western HR techniques has run high in China. HR initiatives are embraced by some firms without questioning the suitability for their firm. For instance, the balanced score card was adopted by POE3 and JV2 where there was a lack of systems and procedures in PFP because of the poor state of HRM in the firms. Managers reported that their balanced score card was in name only. Therefore, the researcher argues that adopting Western HR techniques to make HRM more systematic and procedural is necessary, but implementing them in a feasible way that is embedded with the characteristics of the firm is also essential.

Table 10.3: Content and context changes in PFP practices in China

What's measured and analysed?		What has been changed in PFP since the economic reforms?	Change level	Theories
<i>Importance of PFP in the pay system</i>				
A	Proportion of PFP; Pay determinants; pay structures.	<p>PFP proportion:</p> <ul style="list-style-type: none"> - bonuses and piece rate were 3.1% of total wage for all industries in 1978; - bonuses and piece rate were 24% for all industries in 1984; - Currently PFP was 10-60% of total cash income for employee groups. <p>Pay structure:</p> <ul style="list-style-type: none"> - Unified 8 rigid graded structure in 1978; - Firms encouraged to design their pay structures under state guide in 1980s; - Graded and broad-banded pay structures which were closely related to jobs and organisational structures, were adopted in the case firms. <p>Enterprise autonomy of pay: from less to full Pay norm: from seniority and moral based to performance based.</p>	Institutional Managerial	Pay mix and pay structure (Armstrong, M & Murlis, 2004)
B	Reasons for PFP adoption	<ul style="list-style-type: none"> - No enterprises' input in PFP before 1978; - Firms followed the state guide for PFP in 1980s; - Institutional and motivational reasons were for adopting PFP in the case firms. 	Institutional Managerial	Agency, equity & expectancy, institutional theories
<i>PFP plans design</i>				
A	PFP plans adopted for the four critical employee groups	<ul style="list-style-type: none"> - Bonuses and piece rate for all industries in 1980s; - Payment-by-results, performance schemes and financial schemes found in the case firms for each employee group. 	Managerial	Reilly (2005)
B	Contextual factors that impact on PFP	<ul style="list-style-type: none"> - State influenced pay in 1980s; - Environmental and organisational factors influenced PFP in the case firms. 	Institutional Managerial	Ding 2006
<i>PFP implementation</i>				
A	PA elements and functions	<ul style="list-style-type: none"> - PA practices changed in all elements of measurement - PA functions extended from determining pay to determining promotability, identifying strengths and weakness, goal achievement etc. 	Managerial	Cooke (2007) Cleveland (1989)
B	Challenges in PA implementation and functions.	Factors that influenced PA practice changes were ownership types, managers' input, HR's role, cultural issues etc.	Cultural Managerial Institutional	

Note: A: Content; B: Context. Source: Developed for the thesis.

Second, this research contributes to the theoretical application of reward management models in the context of China, specifically the resource based view and institutional theory within the contingent perspective, which were used as two theoretical lenses for this study (see Chapter 3, Section 3.4.3). Resource-based view approaches to rewards aim for sustained competitive advantage by adding value in a way that is rare and difficult to imitate, whereas institutional approaches strive for parity with other organisations in the business environment (Gerhart et al., 1996).

The researcher argues that institutional theory might better explain the situation of PFP practice in the context of China because the case firms respond to institutional pressures in their environments to conform to accepted ways of designing and implementing PFP. For instance, it was common for the case firms to determine employee pay ranges within their pay structures from market-wide pay surveys done by Mercer or Watson Wyatt – the international HR consultancy firms. Case firms (POE1, MNC3, MNC4) mimicked and benchmarked with other organisations, particularly those that appeared to be more successful in the industry. In PFP design, all case firms were subject to institutional pressures. It was also evident that the main drivers for management to adopt PFP were following the desire for market practice and imitating the practices of others firms, especially practices that were normatively acceptable to respond to institutional pressures in the business environment. Moreover, which PFP plans were adopted in the case firms also depended on the organisations' particular institutional environment (see Figure 10.2).

A similar situation was found in PFP implementation practices. Some POEs imitated policies and PA practice tools from MNCs. All these activities by management indicated that firms employed a lower-risk approach for choosing and implementing their PFP to respond to pressures from their business environment. Seeking synergetic benefits as the resource-based view claims was not their initial motivation. However, the data was not enough to make conclusions about the mechanisms by which organisational practices such as PFP practice come to be institutionalised. In summary, external fit (i.e., the fit between HR and elements outside of HR, such as business strategy and environmental conditions) were emphasised more than internal fit (i.e., the synergy among HR features such as practices, HR strategy, or company culture) in PFP practices in the case firms. This specific

situation regarding PFP in the case firms supports institutional theory more than the resource-based view approach, which frequently involves internal fit.

Third, this study contributes to the convergence and divergence debate in HRM (see Chapter 3 for details). The results provided evidence for a move away from traditional reward practices – strong state led in PFP and a move towards more Western-style, more performance-related rewards. A sign of some convergence in PFP practices was the recognition of PFP as a strategic management tool, the predominance of performance norm in pay structures, types of PFP plans adopted, PA techniques, risk sharing between organisations. The reasons for the convergence were globalisation and some trend towards universalistic management because investment, IT and pharmaceuticals were extremely internationalised industries.

Nevertheless, there were also some divergence signs in the plans of PFP, the PA system, and line managers' understanding of pay for performance. Factors that determined the divergence were ownership forms, firm size and organisational culture (see Chapter 7 and 8). For example, compared with larger IT firm (MNC4), smaller firms (POE2, POE 3 and POE5) tended to pay more attention to the utilisation of employees' competence, had lower demands for, and expectation from, the PA system. In addition, appraisal outcomes in POEs were more heavily influenced by the subjective impression of the superior, whereas the intervention of subjectivity was better avoided in MNCs.

It is interesting to note that Chinese traditional cultural values did not seem to have a profound and enduring influence throughout PFP design and implementation practices, nor in line managers' understanding and perception of their PFP system in the case firms. This can be explained by the fact that the sample firms were non-public sector, no single SOE was involved. MNCs and JVs are not so deeply embedded in Chinese cultural traditions, and POEs are likely to promote more commitment focused organisational cultures, which is identified by Tsui et al., (Tsui et al., 2006). Therefore, the case firms were more sensitive to the institutional environments than to Chinese traditional cultural values.

10.3.4 Methodological contributions

The majority of PFP studies have taken predominantly quantitative approaches, such as quantitative hypothesis testing (see the discussion in Chapter 3, section 3.7). Wei and Rowley (2009) also note that in the existing research on rewards in Asia, there is a need for more exploratory and theory building research. This study provides a multiple case study approach to fill this methodological gap by exploring PFP practices in the context of China, in order to examine issues that might be special in China but which may not exist in other contexts. Two methodological considerations were adopted: (1) Data triangulation. Data from the following sources were used: documents such as brochures, open letters, internal newsletters, books or papers; field notes (minutes from observations with assumptions and ideas written directly after the field work); transcripts of interviews, media release etc.; (2) The triangulation among the researcher, interviewees and HR consultancies and local practitioners. Apart from managers interviewed in the case firms, other HR experts from top HR consultancies, such as Mercer, Watson Wyatt and Shanghai local HR practitioners were all involved in the pilot, and first and second runs of field work. The feedback from them made valuable contributions both to the research and also to evaluations by the researcher.

10.3.3 Managerial implications

This study not only contributes to the development of PFP, reward management and HRM theory, but also has a number of practical implications for Chinese managers, HR practitioners and policy makers, as well as for foreign managers and companies who are doing, or are intending to do, business in the Chinese market.

This research studied PFP in knowledge-intensive industries, including investment/marketing research, IT and pharmaceuticals, where employees are some of the best-trained and best educated and where a large human capital investment in research, development and sales is required. This thesis provides insights about PFP plans adopted for the critical employee groups – top management, sales and marketing, professionals and junior staff, and how the performance of those employee groups were measured. Therefore, the findings of the study could be a predictor of current PFP programmes and further reward trends for knowledge-intensive work in China, and offer implications about how

management could retain good performers and enhance individual and organisational performance via PFP in a global context.

The research contributes further consideration of the definition of PFP for academics and practitioners. According to the common themes in the existing definitions of PFP (Armstrong and Murlis, 2004, Wiseman and Gomez-Mejia, 1998, Belcher, 1996), this thesis defined PFP as the payment that is in addition to base pay and the payment that is tied to performance measure at individual, group and firm level (see Chapter 3 for details). However, this definition excludes skill-based/development based pay which provides incentives for learning rather than for performance, which is the key for human capital in knowledge-intensive firms.

This research explored the issue that cognitive learning and further development was critical in knowledge-intensive industries, especially for professionals. However, the main type of PFP plans for professionals had almost no significant difference for those for sales and marketing people, which also would not induce further learning for professionals. Therefore, the researcher argues that the definition of PFP in knowledge-intensive firms should include the dimension of linking pay to learning and potential skill development. Instead of pay for performance, management should probably be thinking more about rewards for performance.

Moreover, Gerhart and Rynes (2003) and Pfeffer and Sutton (2001) note that two significant barriers must be overcome in order to effectively design and implement PFP programmes: barriers to linking pay to performance, and barriers to linking performance to effort (see Section 3.6.1). This research discovered characteristics in PFP design and implementation in the case firms which improves our understanding of some ways to overcome the barriers above. Four types of important conditions for PFP practices that were somehow missing in the case firms were observed by the researcher. It is argued that these conditions could make PFP especially managerially desirable or feasible, which may also apply far beyond the selected industries in the research.

First, managerial discretion in strategic design of PFP plans for different employee groups is critical. Current PFP plans were rather result and short term orientated. However,

environmental uncertainty can make this type of PFP hard to implement because of the difficulty for management in determining how much measured results reflect employees' efforts versus factors outside their control. Therefore, PFP plans require pay systems and managers to encourage certain selected behaviours and reward differentially the resulting outcomes. The intelligent design of PFP is highly contingent on the ability to measure these differences and the willingness of managers to apply rewards differentially.

Second, PFP must have effective, credible and validated PA systems that are capable of supporting pay and other personnel decisions. Attempts to facilitate design and implementation with the use of other mechanisms that typically accompany the introduction of PFP plans are needed, particularly formal communication and training and development programmes.

Third, a strategic role for HR departments is important in PFP design and implementation. Most of the HR departments in the case firms emphasised the specialised functional aspects of their work, such as pay, benefits, recruitment, training, etc. Nevertheless, the level of HRM sophistication varies across POEs, JVs and MNCs.

Fourth, the strong influence of project intensification was identified as the major factor to impact on the relationship between HR and the line, as well as the involvement of the line in PFP. Also, line managers mostly follow project logic rather than the management logic of HR. A lack of specific managerial knowledge and skills regarding PFP plans among line managers in the case firms was observed. Therefore, types of line managers' buy-in are central to their active involvement in PFP, such as conceptual understanding of the rationale for their involvement; commitment in believing in the value of their involvement in PFP, and HRM; and implementation effectiveness through their HR role clarity and capability.

Finally, this study provides useful insights for companies in designing their reward strategy past the 2008 global financial crisis. A very recent survey by Mercer (2009) indicates that the majority of respondents (73 percent) are now likely to reduce salary increases from those originally budgeted. Some 60 percent expect to reduce bonus payouts based on 2008 performance, and make changes to PFP programmes. Some 28 percent of respondents

representing investment/banking companies said their company plans to change or develop new PFP programmes, which is almost twice as high as the level overall (15 percent). Therefore, the findings and discussions of this research may offer helpful information for management to review and re-design their PFP programmes in practice.

10.4 Limitations of the thesis

Like any other research, this thesis is also subject to certain limitations that may suggest a number of avenues for future research. *First*, this research focused on the characteristics of design and implementation practices in PFP. The consequence of PFP plans, successes or failures, including the plan's impact on individual and/or organisational performance and functioning, were not included. At the same time, this research was from a management perspective only. The interviewees were senior managers, HR managers, and line managers, employees were not covered. Therefore, employees' views on PFP and the effectiveness of PFP to employees were not considered.

Second, the limitation of the focus on a narrow research scope does restrict the generalisation of the findings. As an exploratory study and in order to maintain focus, the researcher concentrated on a single HRM practice, the PFP system, and the characteristics of PFP design and implementation issues. Given the complexity of the process of design and implementation, the thesis did not examine the process of PFP design, such as who designed PFP plans, how these were introduced, and how feedback was provided etc. Nevertheless, the researcher dealt with the key part – PA only in PFP implementation. Therefore, PFP was treated in isolation, rather than as a part of the HRM system. Other HRM practice bundles were not included in the thesis, which might restrict the understanding and application of the findings.

Third, the sample of the thesis was mainly from companies in investment/marketing research, IT and pharmaceuticals; other knowledge-intensive industries, such as law firms, consultancy firms, etc. were not included. The research site was only in Shanghai – the country's financial centre only. As China is such a big country, the location does impact on rewards systems (Ding et al., 2006). Therefore, research on PFP practices of knowledge-intensive firms in other cities in China might discover some differences from the findings here. In addition, the relatively small sample of firms could be another restriction. This

thesis selected 12 firms and three ownership types - POEs, JVs and MNCs, a sample suitable for a case approach. Interviewees in the thesis covered top management, HR and line managers. However, most of the interviewees were not selected randomly by the researcher, but by the case companies. With possible limitations noted earlier, further research can expand both the sample size and ownership types and/or industries.

While making the above statement, it is acknowledged that: (1) the thesis can not be expected to include everything; and (2) the limitations listed above were recognised before and during the study. Indeed, methods were applied to overcome and limit those disadvantages as discussed in Chapter 5 – Methodology.

10.5 Future research directions

Directions for future research that emerge from this study are summarised below. *First*, employees' views need to be considered in further studies of PFP design and implementation issues. Future studies could examine how far employee preferences and orientations figure in the development of PFP strategies that are designed to support business strategies, explore the inconsistency between the adoption and implementation of PFP strategies and further examine whether this disparity impacts on employee HR satisfaction, such as trust, commitment and involvement.

Second, this research explored the characteristics of PFP plans adopted and the performance measurement. Future studies can focus on the effectiveness and / or success of PFP plans implemented, and the extent to which those PFP plans influence individual and organisational performance. For instance, PFP for directors and CEOs has been paid much attention in the context of China (Wei and Rowley, 2009). Future studies may identify the relationship between top management's PFP and organisational performance. The reasons for unsuccessful PFP plans can also be studied. PFP advocates argue that the value of a PFP system lies in the clear differentiation in rewards obtained by high performers compared to low performers. Even if low performers are unhappy with the PFP, high performers are not, the argument goes, and they are the ones who contribute most to organisational performance. Could it be that the PFP plans introduced did not differentiate sufficiently enough between high and low performers and/or managers listened to the wrong voices? Those types of issues can be examined in the future.

Third, this research can be replicated in other contexts, such as other sectors, Asian countries or elsewhere. Furthermore, other ownership types such as SOEs can be included. For instance, a comparative study of PFP among SOEs, POEs and FIEs could be an interesting topic. Moreover, some replication of fieldwork at a later date can also be done in more firms to provide a longitudinal picture of PFP design and implementation.

Fourth, the link between PFP and culture was not fully considered in this research and can be another direction for the future. For instance, the transferability of PFP plans and PA in MNCs was discussed in the study, but the cultural applicability was not. While research question 4 explored line managers' understanding of PFP, the cultural issues were not well discussed. One can argue that the culture in people's minds certainly affects their understanding of PFP. Therefore, future studies could further discover how national culture influences PFP design and implementation.

In addition, the existing comparative studies on rewards between Asia and the West have widely applied Hofstede's theories (1980, 1984) on culture (Wei and Rowley, 2009). Hofstede's empirical study of national culture identified differences between Eastern and Western cultures and provides strong support for the notion that management theories and practices are culturally bound (Hofstede, 1980a, Hofstede, 1980b, Hofstede, 1984, Hofstede, 1991, Hofstede, 1993). However, such theories about culture can be misleading. Culture can be something that 'is' and something that an organisation 'has'. The researcher argues that theories other than Hofstede, such as theories on organisational culture by Huczynski and Buchanan (2001) and Martin (1992), can be applied to this type of study, which pays more attention to cultural value measures and diversity at regional, organisational and individual levels of reward management.

10.6 Conclusion

This chapter concluded the whole thesis by outlining its theoretical contributions, methodological contribution, managerial implications, limitations and future research suggestions. This thesis attempted to provide a new possible explanation of the underlying dynamics of PFP design and implementation issues from the management perspective in the non-public sector knowledge-intensive industries of China.

It can be concluded that the thesis explored PFP practices in four major areas, namely the importance of PFP in the pay system, PFP design issues, performance measurement and the line managers' role in PFP. Empirically, the thesis contributes to the research gap in PFP and the devolvement of HRM in the context of China. Theoretically, the thesis contributes to extending certain academic understanding of content and context changes of PFP in China, the application of reward management models – institutional theory, and the HRM debate – convergence/divergence issues of PFP to the context of China.

Scholars, practitioners and policy makers may learn from this study and consider whether the insight provided here is useful to them in pursuit of their own specific academic or national interests. It may also be used in aiding the setting up of an organisational agenda in relation to designing and implementing effective PFP or other reward strategies to motivate and retain best performers, which are highly engaged in the strategic positioning of reward management in knowledge-intensive and any other types of industries.

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Useful Websites

- <http://www.aphr.org>
<http://www.chainHR.com>
<http://www.chinaHRD.net>
<http://www.china-hr.org>
<http://www.china-training.com>
<http://www.51e-training.com>
<http://www.800hr.com>

APPENDICES

Appendix 5.1: Background and market context of the case firms

POE1 (Shanshan enterprise)

A great figure (No. 297) on the list of China's 520 enterprises of key projects, POE1 has the Number One Brand in domestic clothing line, five parts of its business including clothing, High Technology, trading and biochemistry which is forming a flourishing tribe of multifaceted and specialised industries. For instance, its Shanshan group co., Ltd, is one of its fashion industrial group establishing on the base of the manufacturers of clothing, adornment, textile, etc. It now has grown into the most remarkable leading group in Chinese clothing line with largest scale and highest standard.

POE2 (W-Ibeda high Tech. Develop Co., Ltd)

Specialises in the research development of software, its business has now covered with fields such as information security products, engineering software, system integrating, software outsourcing and so on. It has also set up 10 branches in different cities and provinces of mainland China, including Beijing, Zhejiang province, JiangSu province, GuangZhou, ChengDu, Xinjiang province, AnHui province, Fuzhou, Jinan and JiangXi province. The "R&D centre" was awarded by Shanghai government as "Top Enterprise Technology R&D Organisation" in 2003.

POE3 (Amarsoft Shanghai)

Amarsoft is a leading provider of banking information systems and services in China. Amarsoft works with commercial banks, trust companies and other financial institutions to accelerate their informationalization to optimize risk management, lending practice and relationship management. Amarsoft is the leader in its field. The expertise made Amarsoft the thought leader and the most prominent among our peers. The company shares over 60% national market in credit risk management solutions and 70% in trust fund management solutions. The cutting-edge technology and industry knowledge let Amarsoft develop the most flexible and adaptable products, and the high quality team and unique project management methodology guaranty Amarsoft's fast implementation capability and high quality service.

Amarsoft's focus and dedication has secured its close and long-term relationships with many of China's largest commercial banks and trust companies. Near 2/3 of the top 30 largest banks are now Amarsoft's long-term clients, while it constantly provides high

quality services to financial institutions in more than 40 cities around China. Amarsoft's excellent outlook and amicable corporate culture has attracted near 200 talents to join them, among who are distinguished consultants, technology experts and renowned scholars. Together, Amarsoft has the ambition to challenge the future.

POE4 (Shanghai World-East Commercial and Industrial Co., Ltd.)

Founded in 1994, and mainly focused on medical device sales and manufacturing as well as international trading with its head office in Shanghai and sales network all over main land China.

JV1 (Shanghai Yueda Investment Co., Ltd)

It's founded by Jiangsu Yueda group (55% share) and Newzland Real Estate developer. Jiangsu Yueda group has been one of the top 520 SOEs in China since 1996, and it was awarded as no. 118 on the top 520 SOEs list in 2003, 2004 and 2005. Yueda Investment has been the second top qualified real estate developer in Shanghai, which focuses on residential, official and commercial building investment and development.

JV2 (Roche China)

For more than 110 years Roche has played a pioneering role in healthcare. Today, as world leader in in-vitro diagnostics, Roche supply a wide range of diagnostic instruments and tests for rapid and reliable disease detection and monitoring by doctors, laboratories or patients themselves. In the therapeutic field, Roche has brought many highly effective drugs onto the market in the last few years. Its daily work focuses on disease areas where medical needs are great. These include cancers, viral infections, metabolic and central nervous system disorders and inflammatory diseases. Roche is the world's leading supplier of prescription drugs for cancer treatment. Roche invests heavily in the research and development of new drugs and diagnostic products and complements its own worldwide research activities with a wealth of cooperation agreements with universities, research institutes and biotech companies.

MNC1 (AstraZeneca China)

AstraZeneca International, one of the world's leading pharmaceutical companies, with a broad range of medicines designed to fight disease in important areas of healthcare, founded AstraZeneca China in 1993 when China became its top priority among all emerging markets. AstraZeneca China was one of the first multination companies to

conduct large-scale international multi-centre trials and establish a clinical research unit in China. It has conducted 37 clinical research projects with over 600 local institutions and around 15,000 patients enrolled since 1996. And it was awarded as the fastest growing MNC in 2003 and No.1 Rx company in 2004 in China. AstraZeneca China has its own world class manufacturing plant in Wuxi, which is the largest manufacturing investment of AstraZeneca in Asia with both the China and EU GMP certification, authorised to export products to EU and other countries adopting EU standards.

MNC2 (Sanofi-aventis, Shanghai China)

Sanofi-aventis, a leading global pharmaceutical company, contributes to improving life by providing a broad offering of medicines, vaccines, and integrated healthcare solutions adapted to local needs and means. With the goal of offering new therapeutic strategies that improve the life of every patient, Research and Development teams at sanofi -aventis take a global approach to diseases. The Group **invested** 4.6 billion **euros** in R&D in 2008, The R&D structure at sanofi-aventis promotes a culture of sharing expertise and experience among multicultural teams.

MNC3 (Gambro, Shanghai China)

Gambro is a global medical technology company and a leader in developing, manufacturing and supplying products, therapies and services for In-centre Care and Self Care Hemodialysis, Peritoneal Dialysis, Renal Intensive Care and Hepatic Care. For decades, Gambro has led the market in renal care development and has been first to market with many groundbreaking innovations. Gambro is the only clinic-independent company and by designing and delivering complete solutions to dialysis clinics and intensive care units, Gambro offers not just improved treatment quality, but also improved efficiency. Gambro was founded in 1964 and has more than 8 000 employees, production facilities in 11 countries, sales subsidiaries in more than 40 and sales in more than 100 countries.

MNC4 www.infosys.com

Infosys Technologies Ltd. (NASDAQ: INFY) was started in 1981 by seven people with US\$ 250. Today, we are a global leader in the "next generation" of IT and consulting with revenues of over US\$ 4 billion. Infosys defines, designs and delivers technology-enabled business solutions that help Global 2000 companies win in a Flat World.

Infosys also provides a complete range of services by leveraging our domain and business expertise and strategic alliances with leading technology providers. Infosys' offerings span business and technology consulting, application services, systems integration, product engineering, custom software development, maintenance, re-engineering, independent testing and validation services, IT infrastructure services and business process outsourcing. Infosys pioneered the Global Delivery Model (GDM), which emerged as a disruptive force in the industry leading to the rise of offshore outsourcing. The GDM is based on the principle of taking work to the location where the best talent is available, where it makes the best economic sense, with the least amount of acceptable risk. Infosys has a global footprint with over 50 offices and development centres in India, China, Australia, the Czech Republic, Poland, the UK, Canada and Japan. Infosys has over 103,000 employees. Infosys takes pride in building strategic long-term client relationships. Over 97% of our revenues come from existing customers.

MNC5 www.nielsen.com

Founded in 1923 by Arthur Charles Nielsen, Sr., ACNielsen introduced consumer marketers to many innovative research methods and techniques that today are standard industry practice, including the first objective and reliable methodology for measuring retail sales and competitive market shares. Mr. Nielsen also founded our sister company, Nielsen Media Research, the global leader in television audience measurement and other media research services.

ACNielsen tailors research solutions to individual client needs. For common research needs ACNielsen has a suite of internationally recognised proprietary research products and methodologies providing powerful comparative and normative data. Other research requirements are idiosyncratic and depend on a particular organisation's prerogatives and strategic goals. In this case specific, ad hoc research may be necessary, designed to address a particular market issue or set of issues. Often a combination of the two is necessary.

All ACNielsen research is conducted and delivered by a team of research and client service professionals with specialised industry, business issue or methodological expertise. Aside from providing market data, ACNielsen endeavours to add value to client's business by translating the data into actionable market and business insights.

Appendix 5.2: Case study protocol

1. Research questions and issues

The purpose of the research is to explore how PFP is designed and implemented in the non-public sector knowledge-intensive industries of China. The research will be undertaken at 12 case firms in investment/marketing research, IT and pharmaceuticals.

Research questions identified are:

Research Aim	
To explore PFP design and implementation practices in China's non-public sector knowledge-intensive industries	
Research focus	Research questions
Q1: Significance of PFP in the present pay system	1a: To what extent is PFP adopted? 1b: Why do firms use PFP?
Q2: PFP plans and design	2a: What types of PFP plans are adopted? 2b: What are the contextual factors that impact on the adoption?
Q3: PFP implementation	3a: How is performance measured? 3b: What functions does PA serve?
Q4: Line management in PFP	4a: How do line managers understand their PFP? 4b: What are the key supports and barriers to line Managers' involvement in PFP?

2. Statement of purpose

Level of analysis

This research is a multi-case approach from the management perspective. Level of analysis includes: (1) Organisational level: Case firms in Shanghai, units in other cities of China are not included: (2) Management level: Interviews of top managers, HR and line managers.

Methodology and case study design

1. Multiple-case design

- Altogether 12 cases, each case follows a standard protocol
- Each case is to be summarised individually;
- A standard format for pattern mating, themes and implications are to be established.

2. Interviews

- Site visiting, interviewing top managers, HR and line managers;
- Visiting and interviewing HR and reward management specialist of HR consultancies;

3. Pilot case studies

- Undertake with close, accessible managers from the pilot case firms.
- Use the result of pilot to refine data collection and analysis plan.

4. Collecting evidence

- Interview data – main source
- Documentation: firms' brochures, financial reports, employee handbook, HR records and relevant books published by the firms and media press.
- Establishing data base including interview note, documentation, relevant HR reports, magazines of HRM (published in China), consultancy reports etc.

Data analysis

- Pattern matching
- Thematic analysis
- Data contradiction
- Data validity
- Data reliability

Theory building:

Case study report favourite

Time table

Appendix 5.3a: Interview Guide and Record Form

1. Company:
2. Department:
3. Interviewee Name:
4. Position:
5. Date:
6. Time Start: Time Finish:
7. Location

CHECKLIST

1. Research overview.....
2. Thanks for participating.....
3. Confidentiality.....
4. Contact details.....
5. Permission to tape.....YES NO

PERSONAL BACKGROUND

1. What is your current position with the firm?
2. Briefly outline your current responsibilities.
3. How long have you done this job?
4. How long have you been at this company?
5. What positions have you held at the firm?
6. What is your overall general experience in this industry?

Appendix 5.3b: Interview questions

Sections	Questions
Section A – Importance of PFP in the pay system	<ol style="list-style-type: none"> 1. Please introduce your current pay package and explain each component you have. 2. Is PFP included in your pay package? If so, is it an important income to you? Please describe. 3. Please introduce your pay structures. How does your company provide pay to different employees? 4. How does the company decide employee pay levels? Please indicate the important factors that determine your pay? 5. Why does your firm use PFP? Or why do you think PFP should be or shouldn't be used in your company? 6. As a manager, do you concern PFP as necessary or important at work? If not, what do you think of it?
Section B – PFP design	<ol style="list-style-type: none"> 7. Please check the definitions of PFP plans provided here and indicate if the PFP plans in your company have different meanings. 8. Please describe the PFP plans in your company if know. 9. What PFP plans are offered to you and why? E.g. what performance measurement level is it for your PFP plans? How long have you had this? 10. How would you describe the advantages and disadvantages of your current PFP plan? 11. Do you get involved in PFP plans design? If so, how, please give examples. 12. What are the major determinants of those PFP plans?
Section C – PFP implementation	<ol style="list-style-type: none"> 13. Is there a formal PA system in your company? If yes, describe the process please. 14. Does your firm use 360 degree appraisal? If not, why or why do you think it works or it does not? 15. How does your company appraise your performance? 16. How do you evaluate the performance of your staff? 17. Do you get involved in PA? If so, how? 18. Please give the rank for functions of PA. Let me know if any item seems unclear to you.
Section D – Line management in PFP	<ol style="list-style-type: none"> 19. How many staff do you have in your department or team? 20. How would you describe the relationship between HR and you as a line manager? 21. Please use your own words to describe the job tasks or activities in which you are regularly engaged? 22. What do you think your responsibilities are in PFP? 23. Please give three positive and negative points on your PFP system as a whole. 24. How the top management and HR provide supports to you in PFP? Please give examples. 25. What kind of difficulties have you had in PFP? Please give examples.
Others	Any additional comments do you have on your rewards system, PFP, and performance appraisal, line managers' role etc.?

Source: Developed for this thesis.

Appendix 5.3c: Functions of performance appraisal

Use of performance appraisal factor 绩效考核使用	5 Very high impact 影响极大	4 High impact 影响大	3 Medium impact 中等影响	2 Little impact 较少影响	1 No impact 没有影响
<i>Between individuals</i> (针对不同雇员)					
1. Salary administration 工资管理					
2. Promotion 升职					
3. Retention or termination 继续或终止雇佣					
4. Recognition of individual performance 认可个人业绩					
5. Lay-offs 解除雇佣					
6. Identifying poor performance 确认不良业绩					
<i>Within-individuals</i> (针对单个雇员)					
7. Identifying individual training needs 确认个人培训需求					
8. Performance feedback 表现反馈					
9. Determining transfers and assignments 决定内部调整和升迁					
10. Identifying individual strengths & weaknesses 确定个人的优势和缺点					
<i>System maintenance</i> (系统维护)					
11. Personnel planning 人事计划					
12. Determining organisational training needs 决定公司培训需求					
13. Evaluating goal achievement 目标达成评估					
14. Evaluating personnel systems 人力资源系统评估					
15. Reinforcing authority structure 增强权力结构					
16. Identifying organisational development needs 确定公司发展需求					
<i>Documentation</i> (文档功能)					
17. Criteria for validation research 作为有效研究的依据					
18. Documenting personnel decisions 人事决定存档					
19. Meeting legal requirements 核定法规要求					

Source: Adopted from Cleveland et al. (1989b)

Appendix 5.3d: Interview questions – Research Issue Matrix

No.	Interview questions	RQ1a	RQ1b	RQ2a	RQ2b	RQ3a	RQ3b	RQ4a	RQ4b
1	Please introduce your current pay package and explain each component you have.	X	X						
2	Is PFP included in your pay package? If so, is it an important income to you? Please describe.	X	X						
3	Please introduce your pay structures. How does your company provide pay to different employees?	X	X	X					
4	How does the company decide employee pay levels? Please indicate the important factors that determine your pay?	X	X		X				
5	Why does your firm use PFP? Or why do you think PFP should be or shouldn't be used in your company?	X	X		X			X	X
6	As a manager, do you concern PFP as necessary or important at work? If not, what do you think of it?	X		X	X			X	
7	Please check the definitions of PFP plans provided here and indicate if the PFP plans in your company have different meanings.			X					
8	Please describe the PFP plans in your company if know.			X					
9	What PFP plans are offered to you and why? E.g. what performance measurement level is it for your PFP plans? How long have you had this?			X	X				
10	How would you describe the advantages and disadvantages of your current PFP plan?			X	X	X			
11	Do you get involved in PFP plans design? If so, how, please give examples.				X		X		
12	What are the major determinants of those PFP plans?	X			X	X			
13	Is there a formal PA system in your company? If yes, describe the process please.					X	X		

No.	Interview questions	RQ1a	RQ1b	RQ2a	RQ2b	RQ3a	RQ3b	RQ4a	RQ4b
14	Does your firm use 360 degree appraisal? If not, why or why do you think it works or it does not?					X	X		X
15	How does your company appraise your performance?					X	X		
16	How do you evaluate the performance of your staff?					X	X		
17	Do you get involved in PA? If so, how?							X	X
18	Please give the rank for functions of PA. Let me know if any item seems unclear to you.						X	X	
19	How many staff do you have in your department or team?							X	X
20	How would you describe the relationship between HR and you as a line manager?							X	X
21	Please use your own words to describe the job tasks or activities in which you are regularly engaged?							X	
22	What do you think your responsibilities are in PFP?							X	
23	Please give three positive and negative points on your PFP system as a whole.							X	X
24	How the top management and HR provide supports to you in PFP? Please give examples.								X
25	What kind of difficulties have you had in PFP? Please give examples.								X
26	Additional comments	X	X	X	X	X	X	X	X

Source: Developed for the thesis.

Appendix 5.4 Interview cover letters



Cass Business School
City of London

Sir John Cass
Business School

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A School of City University London
Formerly City University Business School

Dear Sir/Madam,

I am a PhD candidate in the Faculty of Management at Cass Business School, City University, London. I am currently undertaking an important research project on human resource management regarding reward management. This project is associated with our Centre for Research in Asian Management and supervised by Professor Chris Rowley, who is a very well known figure in the area and the founding director of the Centre (<http://www.cass.city.ac.uk/faculty/c.rowley/>).

In particular, this project is on performance management systems in China and how good performers are retained and rewarded. It involves an exploration and analysis of the issues involved in such systems in term of the current schemes of employee rewards, the implementation of employee pay-for-performance policies and the role of the management.

As a case study method is used in this research it would be of great assistance if your company could cooperate in this research by providing access for myself. This will need you to share the background of your company with me, and let me interview HR and some other managers. All information will be treated in the highest confidence and can be presented anonymously if needed. At the end of case investigation we would offer your company an executive summary of our finding and recommendations, and we would do hope that by reviewing you current practices and sharing your experiences with us you will obtain some valuable information that benefits your human resource management practices and inspiration on how to reward employees more effectively.

Thank you very much for your co-operation.

Yours faithfully,

Qi Wei



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尊敬的女士 / 先生，

我是伦敦城市大学商学院管理专业的博士研究生，目前正在做关于中国人力资源管理中奖励机制的研究。该项目是本学院亚洲管理研究中心组织的，并由该中心创始人在亚洲人力资源管理研究方面颇有知名度的 Chris Rowley 教授亲自指导。
(<http://www.cass.city.ac.uk/faculty/c.rowley/>).

本项目从员工表现管理研究入手，讨论企业如何有效地奖励和保留表现出色的员工。主要涉及员工奖惩机制，绩效管理策略和管理层从中所起的作用各方面的调查和分析。

由于本项目使用案例分析的研究方法，所以需要贵公司尽可能给本人提供学习和研究的方便。例如提供一些公司的背景资料，并允许我采访一些管理层工作人员等。所有相关的信息将以高级机密处理，如果需要可以在未来的研究报告中以匿名的方式出现。调研结束后，我们将提供一份总结和建议报告给贵司，衷心希望通过回顾和检验贵公司在奖励机制方面的政策和实践，能够有效地为你们提供目前运作的成绩和不足，并对未来贵司的人力资源管理给予一些参考和启发，从而进一步完善奖励和绩效管理机制，有效地控制人力资源成本，保留出色的员工。

非常感谢您的大力合作。

项目研究人，

韦琪

Appendix 5.5: Secondary Data Documentation List

Secondary data from the case firms

Firm	Documents
POE1	Brochure, media press, two books about the owner, salary policies and performance appraisal forms, annual reports.
POE2	Brochure, employee handbook, salary and bonus documents and performance appraisal forms, annual reports.
POE3	Salary policies and performance appraisal forms, annual reports
POE4	Brochure, information on website, salary and performance appraisal policies, annual reports
POE5	Brochure, information on website, HR documents, annual reports.
JV1	Brochure, information on website, salary and bonus documents, performance appraisal forms, annual reports
JV2	Brochure, HR documents, employee handbook, annual reports
MNC1	Brochure, training materials, performance appraisal forms, annual reports.
MNC2	Brochure, performance appraisal forms, training documents, annual reports
MNC3	Brochure, performance appraisal forms, annual reports.
MNC4	Brochure, HR documents, annual reports.
MNC5	Brochure, HR documents, annual reports.

Source: From the field work.

Secondary data from other resources

1. 2005 salary survey annual – accounting
2. 2006 salary survey annual – IT industry
3. Reward system design and management by Beijing Xinhuaixin management consultancy 2007
4. Reward management consultancy report by H&J vanguard research and consulting LTD.
5. Linking pay to performance 2007 by Zuoyue management consultancy
6. 20 reward elements in China 2007
7. Shanghai salary survey report 2000-2004 by Sunshine consultancy
8. Spot check paper of Shanghai salary 2006
9. Spot check paper of Shanghai salary 2008
10. 2007-08 reward management conference in Beijing
11. Shanghai IT and pharmaceutical salary survey report 2008
12. China annual salary report 2007 and 2008
13. Pay and performance discussion by reward management specialists
14. Salary survey annual – manufacturing industry

Appendix 5.6: Themes/patterns and codes list

<i>Themes/patterns and codes list for RQ1a</i>			
Themes/Patterns	Codes	Themes/Patterns	Codes
<i>Pay Mix</i>		<i>Pay range determinants</i>	
Base pay	PM1	Market rates	PRD1
PFP	PM2	Competitor	PRD2
Allowances	PM3	Job evaluation	PRD3
Benefits	PM4	Qualification	PRD4
Compulsory benefits	PM4C	Experience	PRD5
Additional benefits	PM4A	Pay consultant	PRD6
Total cash income	PM5	Firm revenue	PRD7
<i>Pay structure</i>		<i>Pay progression determinants</i>	
Graded structure	PS1	Firm revenue	PPD1
Broad-banded structure	PS2	Individual performance	PPD2
Informal graded	PS3	Cost	PPD3
		Inflation rate	PPD4
		Skill/competence	PPD5
		Service length	PPD6

<i>Themes/patterns and codes list for RQ1b</i>			
Themes/patterns	Codes	Themes/patterns	Codes
PFP as a motivator	MO	Best practice	BP
Retaining staff	RS	Competitive advantage	CA
Promoting business strategy	PBS	Following competitors	FC
Effective management tool	EMT	Recruiting good performer	RGP
Good communication tool	GCT	Encourage certain behaviour	ECB
Market practice	MP	Distinguishing performances	DP

<i>Themes/patterns and codes list for RQ2a</i>			
Themes/patterns	Codes	Themes/patterns	Codes
Commission plans	CP	Performance schemes	PS
Year-end bonus	YEB	Stock options	SO
Cash profit sharing	CPS	Discretionary bonuses	DB
Project based bonus	PBB	Chinese returnees	CR
Group based bonus	GBB	Additional allowances	AA
Stock options	SO	Non-financial rewards	NFR
Payment-by-result schemes	PBR		

Themes and codes list for other research questions are available upon request.

Appendix 6.1a: Graded pay structures in the case firms**Graded pay structure in POE2**

RMB1,000

Grade	Group	Basic annual salary
1	Top management	100-250 K
2	Masters plus	72-80K
3	Undergraduates	42-60K
4	Colleges students	18-30K
5	Others	12-15K

*Source: From interviews.***Graded structure in POE3**

RMB 1,000

Grade	Group	Basic annual salary
1	Top management	100-250 K
2	Undergraduates	18-22K
3	Colleges students	16-17K
4	Others	14.5-15.5K

*Source: From interviews.***Graded pay structure in POE4**

RMB 1,000

Grade	Group	Basic annual salary
1	CEO	600-750 K
2	General managers	240-360k
3	Middle managers	120-150k
4	Undergraduates	18-22K
5	Colleges students	16-17K
6	Others	14.5-15.5K

*Source: From interviews.***Graded pay structure in POE5**

RMB 1,000

Grade	Group	Basic annual salary
1	CEO	620-750 K
2	General managers	280-400k
3	Middle managers	150-250k
4	Undergraduates	22-30K
5	Colleges students	16-20K
6	Others	14.5-15.5K

Source: From interviews.

Graded pay structure in JV1

RMB1,000

Grade	Position	Basic annual salary
A - Directors	Deputy directors	250-300
	VP	300-400
	Deputy VP	200-300
	Chairman of board of directors	200-300
	Secretary of board of directors	200-300
B - Senior management	Controllers	150-250
	VP assistant	140-200
C - Department managers	Project development	120-180
	Project management	120-180
	Sales management	100-140
	Administration management	100-150
D	Supervisors	80-120
E	Line manager assistants	60-120
F	Project development officers	60-120
G	Project engineers	36-108
H - Marketing & sales	Marketing officers	48-80
	Sales	(24-54) + commissions
I	Junior officers	36-60
J	Others	20-48

Source: From HR documents of JV1 (12/2005)

Graded pay structure in MNC1

RMB 1,000

Grades	Jobs	Pay range
Grade 1 to 3	Junior staff	25 - 40
Grade 4	Assistant	36-60
Grade 5 and 6	Professionals	50 - 120
Grade 7 and 8	Senior professionals/team leaders	150- 350
Grade 8	Entry level managers, line managers	120 - 280
Grade 9	Function manager, senior managers	200 - 380
Grade 10 and 11	Top managers	600 and above

Source: From interviews.

Graded pay structure in MNC4

RMB 1,000

Grades	Jobs	Pay range
Grade A	Junior staff	
Grade B1-B2	IT software engineer	
Grade C1-C2	Senior software engineer	
Grade D1-D2	Line managers	
Grade E1-E2	Senior managers	
Grade F1-F2	Top managers	

Source: From interviews.

Appendix 6.1b: Broad-banded pay structures in the case firms**Broad-banded pay structure in POE1**

RMB1,000

Band	Position	Annual base pay
A Senior management	A1 VP	100-110
	A2 Managing director	80-110
	A3 Deputy VP	80-110
	A4 Financial controller	60-90
	A5 VP assistant	60-90
B Management	B1 Director	80-120k
	B2 Deputy director	60-80K
	B3 Senior supervisor	48-60K
	B4 Supervisor	15-50K
	B5 Financial controller (expatriating to subsidiaries)	30-96K
C Junior staff	C1	33.6K
	C2	31.2K
	C3	30.0K
	C4	27.6K
	C5	21.6K
D Others	D1	12K
	D2	36K

Source: From HR documents of POE1 (2006).

Broad-banded pay structure in JV2

RMB 1,000

Band	Position	Salary
G1-G4	General staff	50-140K
P1-P4	Professional	122-200K
M1-M4	Management	166-600K

Source: From interviews.

Broad-banded pay structure in MNC5

RMB 1,000

Band	Position	Basic annual salary
Band 1	Level 2	
	Level 1 – entry level	
Band 2 – professionals	P3 – secretary, receptionist	
	P2 - officer	
	P1 – Supervisor	
Band 3 - Management	M4 – Assistant managers (management entry level)	
	M3 – Middle manager	
	M2 – Senior manager	
	M1 – Directors, VP, CEO.	

Source: From interviews and HR documents.

Appendix 6.2a: Pay ranges for HR in case firms

Role	Experiences	Qualifications	Scope of role	Pay range/RMB
HR supervisor	2-4 yrs	Bachelor degree in HR management	Deal with recruitment, C&B, training etc. Strong communication skill.	62,000-99,840
HR specialist (Trainer)	3+ yrs	Associate degree +	Liaising with Dept. managers. Rate training needs, choose training source internal or external. Analyse training course. Good presentation skill.	66,114-99,840
HR specialist (Recruiter)	3+ yrs	Major in HR/Psychology	Responsible for job designing, search, screening, interview, recruitment etc. Good command of English. Strong communication skills.	66,144-110,500
HR specialist (C&B)	4+yrs	Associate degree + major in accounting	C & B management, including survey, updating salary structure, benefits scheme and etc; Leaving Statistics. Good command of English. Accounting background.	65,000-119,340
Training/supervisor/manager	5+yrs	Major in HR/Psychology	Education background. In charge of planning, implementation, evaluation of project management. Group training needs assessment, course design, implementation & evaluation for onsite employee training. Proficient English & presentation skills	87,620-170,625
HR manager	6+yrs	Bachelor degree – HR	Establish policy and procedure of termination, discipline and labour contract. Plan and organise the “Performance Appraisal”. Interface with local government. Lead the HR team to implement the entire HR infrastructure, supervision of HR department. Proficient English & communication skills.	163,410-200,800
HR manager/Director	8+yrs	MBA HR direction advantageous	Overall responsible for HR system and benefits administration; Initiate HR policy and procedure design, improvement and implementation. Provide HR consultancy services to functional managers at all level; Work with management, conduct training needs, assessment and propose the training plan; Enhance management and employee communication, build well company culture. Excel in HRM, strategic management. Proficient English & communication skills.	245,700-420,000

Source: From HR documents.

Appendix 6.2b: Pay ranges for sales and marketing in case firms

Role	Experiences	Qualifications	Scope of role	Pay range/RMB
Sales representatives	1-3 yrs +	Associate degree +	Outgoing personality. Capable travel. Able to develop new markets and distributor supervision.	42,000 - 84,500
Marketing executive	1-3 yrs +	Associate degree +	Customer budgeting and sales forecasting, controlling of investments and ROI by category using customer contribution statements. Manage marketing spending flawlessly. Familiar with media, promotional activities, in-store promotion and seminars. Excellent presentation skills.	32,500 - 65,000
Sales supervisor	3 yrs +	Associate degree +	Sales channel management. Supervise sales representatives. Key account management. Excellent presentation skills.	52,000 - 84,500
Senior sales coordinator	5 yrs +	Bachelor degree +	Ensure that all merchandising and marketing setup is consistent with company's image. Ensure proper procedures are followed for all pre-sales and post-sales serving by the front-line sales team. Oversee subordinates.	91,000 - 156,100
Promotion supervisor	5 yrs +	Bachelor degree +	Implement programmes. Consolidate evaluation reports for promotion activities. Business planning and planning of promotions with the customer and reviews to achieve the targets. Negotiation of Trading Terms, promotion and listings.	76,700 - 100,100
Senior marketing manager	7 yrs +	Bachelor degree +	Manage business of the region. Develop business and marketing plans with the marketing members of the company. Regular discussion on reviewing business, highlighting issues, introducing new products and proposing marketing plans and other major duties. Managing customer account & sales channel and looking for business opportunities. Good command of English.	100,100 – 163,800

Source: From HR documents

Appendix 6.2c: Pay ranges for professionals in the case firms

Role	Experiences	Qualifications	Responsibilities	Pay range/RMB
Project engineer	2-4 yrs	University graduates engineering qualified	Research and develops new projects and improvement designs for assigned projects.	78,000-104,000
Project manager	2-5 yrs	Bachelor degree/Ms MBA advantageous	Supervise assistant engineers. Deliver the project as a turnkey solution.	156,000-234,000
Senior project manager	2-8yrs	Bachelor degree /MBA advantageous	Detail oriented with strong business writing skills. Overall control of cost and budget. Negotiate with sub-contractors.	218,400-300,000
Assi. Engineer (hardware and software)	0-2 yrs	Degree in computing science	LAN set up and software installation. Hardware, software and network troubleshooting.	27,550-54,660
Web designer	1-2 yrs	Associated degree	Graphic, flash designing, creation.	31,200-65,000
IT engineer	2-5 yrs	Bachelor degree in computing science	Provide IT operation services and initiate the right solutions to technical problems, positively and professionally.	61,000-101,400
IT supervisor	2-4 yrs	Bachelor degree in computing science	Experiencing in handing and maintaining systems. Responsible for administrative functions related to operations and budgeting of local area network and wide area network.	62,400-110,500
IT manager	8 yrs +	Bachelor degree/ MSc in computing science	IT management, project and service management. Proficiency English.	175,500-325,000
IT director	10 yrs +	Bachelor degree/ MSc in computing science	Manage IT budget and expenditure. Initiate IT projects and oversees project execution with methodology.	286,000-520,000

Source: From HR documents.

Appendix 6.2d: Pay rages for administration in the case firms

Role	Experiences	Qualifications	Pay range/RMB
Junior receptionist	0-2 yrs	Associate degree	19,550-39,000
Clerk	0-2 yrs	Bachelor degree	26,000-45,500
Junior Secretary	0-1 yr	Associate degree +	17,550-26,520
Secretary	1-2 yrs	Associate degree/secretarial major	26,000-45,500
Senior receptionist	2-4 yrs	Associate degree +	32,500-45,500
Senior clerk	3 yrs	Associate degree	49,400-71,500
Secretary	3-5 yrs	Bachelor degree/secretarial major	59,800-91,000
Driver	5-20 yrs	High school +	30,000-45,500
Translator Interpreter	1-4 yrs	TEM 8	45,500-110,500+
Senior translator/ Interpreter	5 + yrs	Bachelor degree or master degree	104,000-260,000
Senior secretary	5-8 yrs	Bachelor degree/ secretarial major	89,700-156,000
Executive secretary/ Personal assistant	8+ yrs	Bachelor degree	120,000-162,500
Administration manager	5+ yrs	Bachelor degree in Business Administration	106,600-169,000
Administration director	10 + yrs	Bachelor MBA preferred	130,000-260,000

Source: From HR documents