



**MARKETING RESEARCH: A STUDY ON COMPENSATION  
MANAGEMENT OF XCL**

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## Abstract

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For enterprise, human resources(HR), as a type of driving force, have been regarded as the most important resource. Because HR is not only a key part in modern business management, but also directly decide a company's core competence. HR management means the application of modern scientific methods with proper training, organization, and arrangement to achieve best ratio in human resources and materials. At the same time, it also focuses on the proper inducement, control and adjustment for people psychologically and mentally in order to make use of their subjectivity. Moreover, it desires to build a harmonious interaction in talents and materials.

With the economic restructuring and industrial adjustment, increasing new and high-tech companies, no matter the Chinese ones and foreign ones, will run their business in China. In such situation, such companies have to answer how to make their talents stay and boost their subjectivity, creativity and potentials. The dissertation argues a workable compensation mechanism can give a hand to deal this issue.

The dissertation takes XCL as its study object. XCL is a new and high-tech company with “three intensives” of capital, talent and technology. For this part, the author describes study method and salary status in similar companies, analyzes the questionnaire for employees in departments to find out problems in compensation mechanism and then provides his solutions to the issue. At the same time, the author also hopes that the paper’s result can give a hand to the companies facing similar situation.

**Key Words: High-tech Company, Salary, Reform**

## 摘要

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作为企业发展的动力,人力资源可称之为企业的最为重要的资源。作为现代企业管理中的一项重要内容,特别是在高新技术企业,人力资源直接决定着一个公司在市场上的核心竞争力。人力资源管理就是指运用现代化的科学方法,对与一定物力相结合的人力进行合理的培训、组织和调配,使人力、物力经常保持最佳比例,同时对人的思想、心理和行为进行恰当的诱导、控制和协调,充分发挥人的主观能动性,使人尽其才,事得其人,人事相宜,以实现组织目标。

伴随着我国的经济转型和产业调整,高新技术企业将会越来越多,更多的国际高新技术企业将落户于中国。在此种情况下,如何留住人才、如何调动员工的积极性、如何开发员工的潜力和创造力就成了高新技术企业面临的最为重要课题,而这一系列课题,绝大部分需要固化、落实于企业薪酬制度中才能有效达到留人善用的目的。

本文以一家“人才密集型、技术密集型、资金密集型”的典型高新技术企业为研究对象,首先介绍研究思路以及目前高新技术企业薪酬的现状,并通过对XCL 公司对公司岗位的调查研究结合各岗位员工的问卷调查,找到目前企业存在的薪酬问题,从而为企业提出合理化建议,以期对该公司薪酬管理制度的改善有所启示,同时也对同类型高新技术企业有一定的借鉴作用。

关键词: 高新技术企业 薪酬 改革

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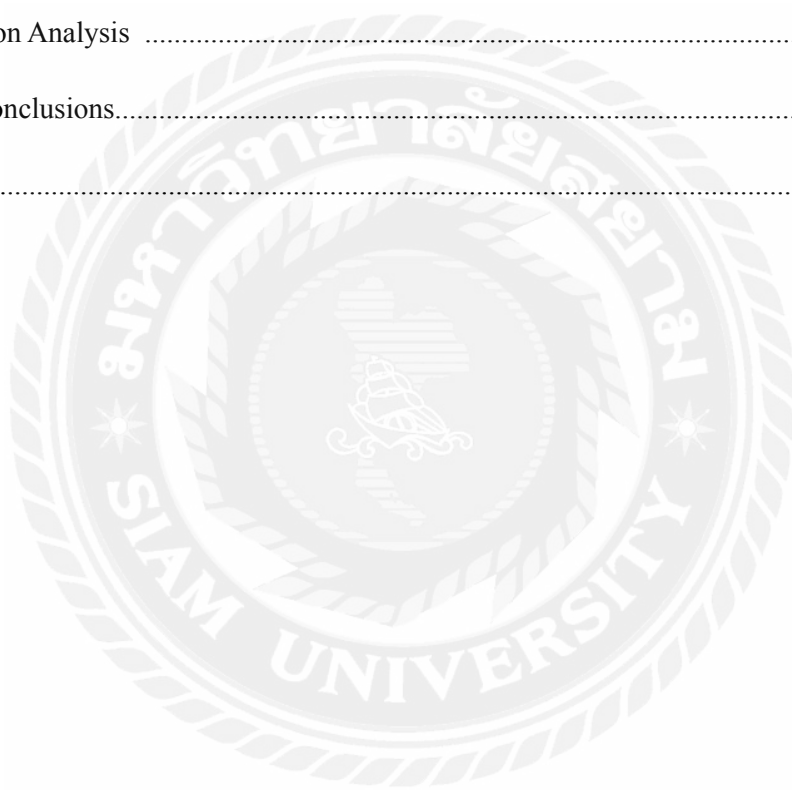
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# CHAPTER 1

## INTRODUCTION

### 1.1 Background

In the first decade of 21st century, new and high-tech industry in China develops fast with larger dimension, quicker upgrading, and improving self-innovation capacity. With the upgrading of Chinese economic structure, increasing new industries are established in China. New and high-tech companies which attract high-performance knowledge staff, have become new economic growth because their high quality products, well-educated employees and high profits. As a result, technology and knowledge are key factors for those companies.

In recent years, Chinese new and high-tech industry develops fast with the emergence of upgrading technology, expanding scale, and improving capacity for innovation. Under the support of new and high technology and knowledge employees, new and high-tech companies always upgrade faster with large profits. Their products own high quality; their employees are well-performed. All those factors contribute to the fact that the companies give strong hands to boost China's economy. On the other hand, the traits of such kind of companies decide that knowledge gradually plays a key role for the companies' competitive advantages; knowledge capital has become the first important factor for the companies to create values. What is more, knowledge employees, as carriers of knowledge, are in the core position that decides new and high-tech companies' core competitive competence. As a result, the management for the knowledge employees becomes a matter of urgency. The core issues for such management fall on how to establish efficient development patterns of new and high technology and knowledge employee's compensation management, how to make them more likely to work hard and stay in their jobs and how to make them more creative.

Companies, who wins talents, will win in this globalized age, especially for new and high-tech companies. However, globalization and technology make competition in companies fiercer. It leads to the lack of talents and high-frequent

talent flow. In the view of The Economist, the outflow of talent reaches 350%. Many of them, with management experience and professional skills and knowledge, play important role in their companies. As a survey from Zhongguancun shows, the rate of local talent outflow is around 15%, some even above 30%, and many of employees choose to work in foreign companies. After joining in WTO, more foreign companies and products entered into China. The situation intensifies China's talent outflow and compensation motivation is one of the most important incentives, particularly in new and high-tech companies of China.

So Chinese companies should attract talents and make them stay in order to compete with foreign ones based on their own advantages and achieve their development strategy. And the paper argues that efforts should be made in compensation motivation mechanism. It is an issue for scholars and the field to study current salary management status, whether the management can effectively motivate employees and improve business performance. New and high-tech companies can also choose, design and establish proper compensation management model to motivate their own employees.

## **1.2 Statement of Problem**

In a century, compensation management is one of the most popular issue in management and economy fields. Based on management practice, compensation theories advance continuously and foreign ones develops in a gradual and dynamic process.

Adam Smith, the forerunner of compensation theories, argues that salary is the compensation for workers' labor which separated from non-property owners. He asserts that employers have to pay more salary because of the increasing of jobs and the lack of employees. Furtherly, Smith analyzes that labor force decides the remaining assets or national wealth of a country which decide the level of compensation the other way round.

Later further study on business management finds compensation has motivation function to improve working enthusiasm, efficiency, and quality. The

function can also satisfy members' safety, respect and self-development. In this period, compensation study combines employees' reality and business management, which brings a serious compensation serious such as Human Capital Theory and Profit-sharing Theory.

Chinese scholars, absorbing foreign theories, explore the issue. Xi Yuqin argues in her publication that in HR management, short-term compensation quickens talent outflow. The leaving of and important managers would lead to short-sighted company targets not long term development strategy and targets [8]. Zhu Kejiang writes in "The Research on Executive Compensation Incentive System" that managers with traditional mind regard salary as material compensation. With the upgrading of compensation management mechanism, the concept of compensation is also extended [28]. It is widely recognized that compensation is not only salary or currency, but also including mental motivation, such as working atmosphere and environment, training promotion, rewards and so on. The further recognition shows that the point of HR management falls in material and mental benefits.

Above all, compensation theories enlighten the author a lot. The lack of the compensation study on new and high-tech companies indicates the significance of the issue and the paper explores the project through selecting a real company as study object. To deal this issue, HR department should pay attention to compensation's long-term motivation function and guide employees to focus on long-term company target.

XCL, reconstructed from Kunming Research Institute of Metallurgy, is established in October 2000. The new and high-tech company involves in production, management, sales, technology research and development, and polysilicon industry, such as Silicon materials and silicon derived materials and is committed to be an international silicon material industry base.

However, the point of the company's reform does not fall on management model, and there are also problems in its management, so it still has many faults:

1. Improper Compensation Structure. Compensation is not paid according to employees' actual performance, with unclear reward system, lack of

competitiveness and fairness. XCL has established relatively completed compensation mechanism including starting salary, bonus, welfare and other benefits, but the ratio between fixed income and flexible income is improper. In some area, the fix salary is too high, which means compensation is not close to individual performance while in some area, flexible salary occupies too high, which does not reflect basic guarantee and the lack of competition competence. Working life and the position employees were in are the main factors to pay. Such mechanism reflects the incompetence of basic welfare and the competition competence.

2. Sole Motivation Pattern. Instead of mental motivation, material motivation, such money, bonus based on proportional commissions, is the main method the company is using. It leads to a fact that the company forces employees to work through economic benefits and personal performance, not transmit a sense of belonging and accomplishment to induce employees. It also indicates that such fact will make the company be less interested in inter-department cooperation and inter-department cooperation. The company, on the other hand, does not improve consolidation and efficiency through informal organizations, and the situation makes the relations in informal organizations intensified and efficiency low.

Employees has various demands in reality, so they have to adjust and choose the most urgent, significant ones to match. In China, most of companies seldom investigate on compensation motivation, nor analyzing employees' general and specific statuses. They still use traditional pattern, applying same measures to all of employees, without careful analysis, making unexpected results. Because of the lack of communication and timely feedback, the company separates employees from itself. It shows that it more stress on work not interpersonal relationship. Moreover, without effective communication channel between managers and employees and among employees, employees is unable to receive feedback on their behaviors, with little realization about motivation mechanism.

3. Insufficient Incentives. Further economic opening up brings foreign models and motivation measures, effecting the outdated compensation mechanism. Foreign wealthy lifestyle forces Chinese to rethink and to pursue material benefits. Although companies have begun to improve employees' salary and other remuneration, their pay mechanisms have problems such as improper motivation measures and mechanisms. All of these are not strong to stir employees' activity and even waste human, material and financial resources.
4. Neglect of Enterprise Development Culture. No matter in theory or in practice, it is easy to see the significance of enterprise culture for excellent companies. Enterprise culture is not only a type of spirit but also an activator to motivate and unite employees. Outstanding enterprise culture can save training fees, reduce management costs and improve employees' efficiency, self-awareness, production safety. All these will bring a number of profits and invisible wealth and provide motive forces of sustainable development.

With the integration of market economy and globalization, competition among companies are fiercer and business environment is more complex. Companies must choose and decide their long-term target and direction and overall strategy and operate various management actives, especially designing business-strategy-driven compensation mechanism, if they want to have a better development. But in current status, XCL neglects those, which means that they treat compensation mechanism as an independent part, and mainly pay attention to short-term strategy and cost effectiveness. Managers ignore role that compensation mechanism in the contribution to their business strategy and HR strategy. Moreover, it leads to the fact that although companies cost materials, human resources, and financial resources, the investment brings little effect on the achievement of business strategy.

For example, XCL should adjust pay point to narrow compensation gap, link bonus with employees' performance, reflecting distribution according to work in order to make performance associate with salary increase and position promotion. For XCL, its compensation mechanism should optimize the improper parts that hinder its development and make the changes reflect the company's value. What is more, XCL

should renew their understanding about compensation mechanism in terms of enterprise culture. To perfect its compensation system and deal with bottleneck problems such as low efficiency and staff treatment, the company should use non-economic factors to build scientific pay mechanism suitable for its development. Here are the XCL's problems of compensation system.

1. Lack of fairness. Adams, an American psychologist, argues that absolute and relative compensations impact job attitude and job activity. When the ratio of the two is not reasonable, employees would feel unfair and unsatisfied, vice versa. It indicates that physiological tension and discomfort occur if the compensation is too high or too low <sup>[14]</sup>. Undetailed investigation and analysis lead to unreasonable and unfair compensation system, causing many problems such as chaos in compensation mechanism and inharmonious relationship among employees and among departments. This indicates that it is hard for companies to unite employees as one interest community. Ladder salary difference, based on job quality, highlights the unfairness. The system runs according to simple job types and departments, not job importance and labor intensity. It forces employees to keep such an idea in their mind, that is working hard means nothing, and which department you are in means everything. It will reduce employees' senses of identity, belonging and cohesion. On the other hand, huge salary gap between top management departments and basic departments such as R&D, sale and production reduces internal salary satisfaction and working activity of employees. It also brings outflow of talents, low management efficiency and high resource costs. To deal with this issue, companies must get rid of original limit and human-driven management plan with high individuation and employees' involvement and potential development.
2. Lack of Motivation. Porter and Lawler asserts that the degree of motivation is the equal to the production of expectation of performance, personal targets and efforts. It means that the key to motivate is to master three relations: efforts and performance, performance and compensation, compensation and

efforts <sup>[15]</sup>. Currently, Chinese companies use highly fixed compensation mechanism. In the system, high proportion fixes salary, mainly including position salary and title salary, has little relation with performance with emerging sluggishness. Low flexible salary based on operating conditions brings security and belonging, in a way, but at last will lead to excessive increase in HR costs, little motivation and low business performance.

3. Low Difference in Education and Age. How to make proper talents stay will be a common issue for companies and unscientific compensation structure is a key one. Position promotion, which is full of limits, is employees' main way to improve salary, causing long term unchanging salary. So the compensation of the employees who are in key positions is low and will keep employees away from company's long term benefits. Sole compensation distribution, bonus and welfare become an attachment of fixed salary  
In new and high-tech companies, knowledge employees are one of the core competition competences. They are not only support company's development but also save training costs and pre-investigation of training. When designing their compensation mechanism, technology, education and knowledge should be put into consideration, not what they are doing. However, XCL measures employees' compensation by positions. It makes little difference between bachelors and masters, causing imbalance in high-quality talents and making them leave.
4. Lack of Strategy Design. Compensation strategy is the general guidance of compensation mechanism, making the system suitable for company development. Compensation mechanism should closely relate to company reality and employee demand. Only in this way, the system can achieve motivation purpose and make employees stay. However, XCL has not organized a clear understanding about this and its top managers has provided a constructive guidance. XCL's current mechanism still is still position-driven and lack of position assessment. As a result, in new time, it leads to years of outflow of talents.

5. Lack of Scientific Assessment. Salary Difference Theory by Smith argues that different positions require different employees with different quality and labor input, and will lead to different salary. So scientific position evaluation should be done after position analysis and classification based on job characters and its relative value to confirm the importance of each positions. This will provide a standard to ensure fairness<sup>[18]</sup>. The absence of clear salary standard and ranks in compensation mechanism of XCL costs their time and energy building good relation with their managers to improve salary.
6. Lack of Scientific Performance Management System. Now, companies must reach in a new level and excel others in cost, production quality and innovation for existence. As a result, better overall performance mechanism management will motivate employees' performance and their company's profits. The Inadequacy of performance evaluation index and formalism of evaluation system (employee's performance target, department performance target and company performance target) in XCL's mechanism lack of scientific supports.

Here Are the Difficulties in XCL's Mechanism Reform:

1. Policy-makers' Insufficient Understanding on the Concept and Role of Compensation Management. Usually, policy makers take business management, especially external marketing, seriously, because they think marketing means everything. But they neglect the internal management can also boost company's performance and compensation mechanism is the most significant factor in the internal management, because it not only refers to the position of a company in market but also to the control of the cost of HR [19]. In 2003, the American Compensation Association introduces the term "strategy" into compensation mechanism design, and it has been well acknowledged that HR strategy supports a company's strategy, and compensation mechanism not only supports a company's strategy but also attracts talents and improve their activity.
2. Unscientific Compensation Design. Compensation mechanism is both a



popular topic and a difficulty and especially important for labor intensive companies. The mechanism not only refers to employees' interests but also is significant for a company's development. What is more, compensation design is one of the main tasks for HR department. It is well acknowledged that the success of a company's development strategy depends on whether compensation mechanism is object and fair, whether it is able to reward employees, and whether it can make employees satisfied mentally and economically, except the positive circle between employee quality and the level of salary. Compensation design would bring cancel and combination of positions, in a way, making employees difficult to reemployment. Such change can also reduce costs and processes and improve employee quality. In a way, it is sure that position design may decide the success of compensation design. According to statistics, no matter a mechanism is good or not, there are always 30% people voting approval, 30% people vetoing and 40% selecting neutrality <sup>[20]</sup>. As a result, reformers should persuade dissenters and make supporters see their interests.

### 3. Incompetence to Reflect the Value of a Position and Working Performance

Compensation of employees should depend on the position responsibility and working competence and the target depends on position and performance evaluations. Position evaluation consists of the nature, content, functions, expected objectives and knowledge and competences to fulfill the tasks. Different value of a position has earns different salary, which is called compensation based on position. XCL widens the salary gap between middle and top managers and ordinary workers, because of high difference in the values of positions. What is more, compensation mechanism of XCL has little relationship with performance, but status hierarchy, although it has taken education, position, working life in account as possible. The employees with strong competence and high contribution in XCL earn similar salary compared with others, so at last, they choose to fire the company.

All in all, XCL's compensation mechanism is not suitable for the company's long term development, causing impotent implementation of the company's competition strategy and ineffective application of HR. The lack of continuous motivation in XCL's compensation mechanism also limits the company's development and makes it in a bad position in competition. So powerful reform and innovation are highly needed.

### **1.3 Significance of the Study**

The paper summarizes the characters of salary management and problems in new and high-tech companies and among similar ones. Under the investigation through questionnaire, the paper analyzes the current status and problems in XCL, design proper and advanced salary mechanism plan and suggestions to their improvement.

Compensation management, the most important step in HR management, play a key role for new and high-tech companies. As time changes, the demands of employees vary and are personalized. But now, many of such companies in China follow traditional mechanisms. The system follows the principle that salary is paid based on positions and qualifications, causing drains of employees' activity because it does not pay attention to technology and competence an employee has and job characters. These lead to fixed salary occupies more than the part that employees earn by their performance and competence. It is easy to find that the compensation mechanism new and high-tech companies take has many problems. First of all, it does only pay attention to results not process, which stirs the sense of inequity. So it cannot motivate employees. Second, the mechanism does not reach a balance between long-term and short-term goals. Currently, many companies do not sense the inner-driving role that compensation mechanism plays in their business strategies and pursue temporary benefits. As a result, employees fire their employers. Third, companies argue that high salary is enough to make employees stay. However, they do not realize that the intrinsic salary and flexible benefits can also motivate employees. The excessive stress on external salary is unable to provide senses of

security and success and it even intensifies employees' sense of confusion for the future. The problems in new and high-tech companies fundamentally is attributed to the managers' unclearness for the traits of the industry they work in and people they employ. As a result, such Chinese companies should study the specificity they have and give proper compensation mechanism to attract, motivate knowledge employees and make them stay for the companies' development and competition competence.

#### **1.4 Conceptual Framework of the Study**

The study mainly takes literature study and questionnaire investigation as its mainly study method. Through literature review, the paper studies and takes salary management study findings and current new and high-tech company salary mechanism model as foundation and theoretical base framework. Then, the paper introduces the salary mechanism status and problems post-reform in current new and high-tech companies. Combining questionnaire investigation on the salary rationality's influence on employees' enthusiasm and business performance, the paper analyzes the problems in the company's salary mechanism and tries to give solutions to them to improve XCL's abilities to attract talents and make them stay and strengthen its core competition competence.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.1 Related Theories

Compensation theories and management practice matter in the relationship between companies and their employees, and have a serious impact on employees' work satisfaction and their companies' overall performance. Since 18th century, the two are important issues in management and economy fields and continuous studies has brought out some representative salaries.

Here are some modern compensation theories:

1. Salary Theory. Economically, salary theory is compensation theory. In the early of market economy, salary is the main income which depends on workers' quality and production ability. So economist pay much attention to study salary and 1984, George Malkovich proposed his theory which focuses on the prescriptivity quality and quantity of wages in labor market mechanism<sup>[6]</sup>.
  - i. Basic Factors that form Salary. In the early of 20th century, more than half of capitalist countries were in the beginning stage of market economy. Adam Smith and D.Ricardo proposed subsistence theory wage , one of the first Wage Determinism theories. They argue that wage depends on the basic cost of subsistence of a worker and his family. In 2003, William Pettry and A.Turgot argued that in an industry society, competition among employees leads to a situation that employees' salary can only maintain basic life[4]. In 1830s, J.Mill proposed Wage-Fund Theory and argued that salary is difficult to be replaced. In 2003, Wang Qingzai argued that the level of salary is decided by the number of employees<sup>[7]</sup>.
  - ii. Decision Mechanism of Salary. In the end of 19<sup>th</sup> century, Clark proposed his theory and it is seen as the base of modern salary theory.

His theory argues that salary is decided by marginal productivity of labor. Theory of balance of supply and demand by A.Marshall establishes market - determined wage mechanism. De Sijin and Zeng Xiangquan, in 2007, argued that salary is the balance price of demand price and labor supply price. Economy strengthens labor unions. Weber, Pigou and Hicks proposed bargaining theory of wages, which argues that bargaining skills and ability decides the level of salary. Then various theories explained the reasons of salary differences. As economic development pattern changes, Weitzman in 1970s proposed the Sharing Theory of Wages; in 1980s, Neo-keynesian proposed Efficiency wage theory; in 2004 Xi Yuqin analyzed decision mechanism of wages in new aspects.

2. Motivation Theory. Motivation means to induce, motivate, maintain and organize employees' behaviors through standards, punishment measures and proper design of external reward and work environment. In 2008, Malkovich proposed a series of effective and systematic measures to achieve the targets of organizations' and their members' [6].

i. Hierarchy of Needs Theory. Maslow, in 1943, used the terms "physiological", "safety", "belongingness" and "love", "esteem", "self-actualization", and "self-transcendence" to describe the pattern that human motivations generally move through in "A Theory of Human Motivation" [6].

Maslow argues that human demands are up-gradual, various and complex structurally. Different levels of motivation could occur at any time in the human mind, but in specific period, one demand is a main one, which decides current behaviors. Human's need will move up when a lower layer of need is met. As a result, motivation measures should be upgraded and the satisfaction degree of dominant need decides human's behavior, emotions and motivations [6].

ii. Two Factor Theory. Two Factor Theory states that there are certain

factors in the workplace that cause job satisfaction, while a separate set of factors cause dissatisfaction. It was developed by psychologist Frederick Herzberg, who theorized that job satisfaction and job dissatisfaction act independently of each other.

Hygiene factors <sup>[6]</sup> (e.g. status, job security, salary, fringe benefits, work conditions, good pay, paid insurance, vacations) that do not give positive satisfaction or lead to higher motivation, though dissatisfaction results from their absence. The term "hygiene" is used in the sense that these are maintenance factors. These are extrinsic to the work itself, and include aspects such as company policies, supervisory practices, or wages/salary.

Motivators <sup>[6]</sup> (e.g. challenging work, recognition for one's achievement, responsibility, opportunity to do something meaningful, involvement in decision making, sense of importance to an organization) that give positive satisfaction, arising from intrinsic conditions of the job itself, such as recognition, achievement, or personal growth.

- iii. Porter and Lawler Model of Motivation. Lyman Porter and Edward Lawler came up with a comprehensive theory of motivation, asserting that job performance is the main factor for employees' satisfaction in "Job Attitudes and Job Performance" in 1968. Porter and Lawler categorized the reward as intrinsic and extrinsic.

Intrinsic rewards are the positive feelings that the individual experiences from completing the task e.g. satisfaction, sense of achievement.

Extrinsic rewards are rewards emanating from outside the individual such as bonus, commission and pay increases. Peng Zhiyuan, in 2004, added increase of salary and position promotion. If the two factors in quality and quantity satisfy employees, they feel satisfied, vice versa.

Equity Theory. Equity theory, first developed in the 1960s by J. Stacy Adams, focuses on how an employee's understanding about fairness of compensation influences their degree of hardworking, i.e. the balance of effort and income. The balance state is not absolute, but relative. The

state occurs only through comparison. Fan Jia argued in 2005 that there are two results: excessively high and low bonus <sup>[11]</sup>. Either result can make employee feel intensified. And here are solutions to ease the tension.

When compensation is excessively low, an employee will:

- a. Complain to organization and colleague
- b. Less hardworking than before
- c. Re-estimate original compensation and expand what he or she receive
- d. Find and compare with less good colleague
- e. Resign, if he or she cannot stand the unfair state

When compensation is excessively high, an employee will:

- a. Work harder and try to get proper compensation
- b. Suggest others to win higher compensation
- c. Re-estimate what he gets and reduce the value of what he gets
- d. Compare with another employee who get more paid

As a result, Managers should design the standards of compensation, because fair standards can directly influence employees' hardworking.

3. Compensation management theory. Taylor, the father of scientific management, proposed Differential Piece-rate System which is studies for times. Gunter proposed Task Completion Bonus. The system successfully motivates employees to cooperate, which Taylor fails. In 1938, Scallion designed a special compensation plan for group incentive, rewarding those who make reasonable proposals and stressing cooperation not competition.

As society develops and employees' demands vary, compensation has been beyond money and materials and indirect compensation is becoming more and more significant. As a result, compensation mechanism changes a lot except various types of benefits sharing plans.

After 1990s, old compensation mechanism got a series of reforms. Scholars in management field began to combine current compensation mechanism

with new management mechanisms. At the same time, in this period emerges new type of compensation mechanisms such as 3P, broad banding salary and overall remuneration mechanism.

4. Salary Function Theory. Wang Shengding advances a new theory on salary function and argues that salary has four functions:
  - i. Compensation. Salary is a way to compensate employees' physical and mental efforts and also a guarantee for reproduction. Moreover, education investment paid by employees for self-improvement is also needed to be compensated for company's development<sup>[18]</sup>.
  - ii. Motivation. As an important HR management tool, compensation is also a tool to evaluate employees' performance, motivate their working enthusiasm and promote work quantity and quality<sup>[18]</sup>.
  - iii. Coordination and Configuration. The two functions reflect company's management direction through scientific use for compensation. They can strengthen reasonable flow of employees among different positions and improve HR management structure<sup>[18]</sup>.
  - iv. Value-added Function. Companies use compensation to exchange employees' labor through compensation management. The materialized labor will be translated as production, which will add values and create profits for companies.

## **2.2 Reform of XCL's Compensation Management**

### **2.2.1 Purpose of Compensation Management Reform**

With the advance of management theory, the corporation can solve practical problems in labor, personnel and distribution, making a great leap in optimizing and integrating human resources. The reform plan covers the basic content of human resources management with systematic and complementary features, and its organization settings and staffing are more in line with practical demands of the corporate production and operation. Compensation management mechanism fully reflects the occupation value and the contribution made by the following employees



including the managers, engineers and employees in technical, marketing, producing positions.

Translating the title management into occupation management is to eliminate the traditional official standard concept, further broaden room for the employees' career development, and guide employees to plan career development. The application of comprehensive assessment form as corporate assessment methods makes it possible for company to qualify the individuals' works. XCL's platform on human resources management is a profound basis for enhancing the standard of the company's human resources management, which fully improves the corporate management standard and its core competitiveness in implementing the international management strategy. With reasonable, accurate and comprehensive analysis on positions, the occupation evaluation and compensation reform determine the relative value of each position and its importance and make basis for company to boast a motivation compensation distribution system in long term. Meanwhile, on the basis of job evaluation and analysis, the company redesigns the compensation distribution mechanism, reflecting different compensation for distinctive contributors, improves the incentive system for key positions such as managers, R & D and high-skilled employees on front lines and further defines increasing process for compensation.

### **2.2.2 Establishing Compensation System with Internal Fairness and External Competition**

The internal fairness of compensation system refers to that the compensation for different position should be in line with their respective contribution to companies. The compensation standard in distinctive departments or employees in same department should reflect difference on occupation responsibility and their ability. If there are unreasonable internal compensation, it will lead to unfairness between authority and responsibility in different departments and employees in same department. Therefore, some employees will feel unfair. To make internal compensation fair, a company needs to evaluate the position value in accordance to these aspects including the complexity of position, responsibility, required ability and knowledge. As a result, the internal unfairness of compensation will be addressed.

Meanwhile, a company should realize that if it only focuses on competitiveness without considering financial tolerance, cost will increase and its operation will be in trouble. Concentrating on financial tolerance and ignoring external competitiveness will shade the advantages of the latter. Keeping balance between competitiveness of compensation and its finance tolerance will determine its external competitiveness of compensation mechanism.

### **2.2.3 Integrating Compensation into Company Strategies**

Only when the goals of individuals and organizations are agreed upon can the utility be maximized. Combining company strategies with employees' demands through the compensation reform and welfare motivation is to better avoid the outflow of talents. Therefore, during the process of compensation reform, the enterprise focuses on the support of compensation reform for the corporate strategic objectives and considers how to support its competitive strategies through this reform to gain its advance. After the establishment of the compensation strategy, the corporation should turn compensation strategy into a specific compensation system and compensation management process to perfect the design of the strategic compensation system. Improving compensation design is to effectively guide the attitude and behaviors of employees<sup>[25]</sup>.

### **2.2.4 Establishing People-oriented Compensation Management Mechanism**

Talent is the core for corporate development. Establishing people-oriented compensation management mechanism is significant for a company to retain talents. The key of people-oriented compensation management is to meet the different demands of employees. For example, some employees pay much attention on bonuses while others, like managers and knowledge-based talents, focus on promotion and the corporate growth. To achieve the profound management effect and maximize the incentives of employees, it is necessary to establish a people-oriented compensation management system in which with employee-oriented concept, company should response to their various demands positively and establish people-oriented compensation management.

## 2.3 Reform Content

A reasonable compensation mechanism, combining corporate benefits with individual ones, not only reflects that much attention is paid to human resources and corporate competitions, but controls the increasing cost of compensation. It will be more motivating than the traditional compensation system. As corporation relies much on technicians especially the core employees, it is important for compensation reform to maximize the employees' contribution and strengthen the relationship between company and employees. The content of compensation reform is as follows:

### 2.3.1 Changing Concept of Compensation Reform

Some traditional concepts should be changed before a company implements compensation reform:

- (1) The purpose of compensation reform is only to design a compensation management system.

The main purpose of compensation reform is to improve efficiency and motivate employees. In terms of motivation method, the content of Fig. 4 should be taken into consideration.



**Fig. 4 Motivation Pattern**

According to Fig.4, motivation contains compensation and other five factors in which compensation and welfare are attributed to the content of compensation reform. However, company should not only reform

compensation system, but provide motivation measures for employees. Efforts should be made by all managers especially the top and the middle to establish incentive environment helpful for offering opportunities to employees.

(2) Managers process everything.

Managers think that they should be in charge of everything, which is even addressed by themselves. In fact, managers should empower talents to finish tasks instead of processing everything by themselves. Therefore, they can focus on strategic consideration and employee review, as a result, which will enhance their power.

### **2.3.2 Compensation Reform Should Be Based on Fairness.**

I.S. Adams, a famous scholar, argues that equal compensation does not necessarily achieve the same incentive effect and individuals can only be motivated by a sense of equity through a comparison of salary in horizontal society and longitudinal histories [26]. Fairness of compensation management should include four components including fair results, procedure, communication and information. The compensation fairness, as for companies, is mainly reflected on the external justice and internal justice. External justice is that, by comparing to other companies in the same industry, the enterprise can attract more job seekers with satisfied compensation. Internal justice stresses the employees' inner feelings. It refers to what employees feel by comparing their compensations with that of employees at same position in other industry and on the compensation system of enterprises and the value orientation of enterprise talent. In addition, it refers to the feeling when the employees compare their compensation with that of other employees in similar position and the feeling about the fairness, transparency of compensation management system.

### **2.3.3 Compensation Structural Reform**

As XCL's compensation system mainly lacks of fairness and motivation, fair and motivation compensation mechanism should be designed with consideration of competition and transparency. The priority of this reform is to achieve its motivation function. The compensation should reflect fair, simulative, competitive, legal and

beneficial efficiency. Only employees feel satisfied with compensation system, the efficiency of human resources will be maximized.

1) Changing Compensation Structure of Senior Management

XCL combines the annual compensation system with long-term incentives towards managers, vice managers, engineers, accountants, economists, marketing directors as well as office directors. Long-term incentive system and welfare will encourage employees to lay individual career on corporate development. Therefore, the annual compensation system and long-term incentives drastically increase venture benefits to make compensation system be more motivated which achieves the phenomenon of equal pay for equal work among family members and employees. Total compensation includes annual basic salary, risk revenue, welfare and bonus <sup>[33]</sup>.

2) Variable compensation to production employees

XCL conducts performance-based compensation system targeting at production operators and employees serving for production directly. This practice aims to differ from position compensation and performance-based compensation and the salary of production employees is mainly based on position salary and partially based on performance-based compensation.

Total compensation of line employees consists of basic salary, working age, performance-based salary and special adjustment allowance <sup>[34]</sup>.

Special adjustment allowance targets at employees who perform better in a long-term period with potentials. This monthly distributed allowance regards 50 RMB as a level with limit of 300 RMB.

3) Variable Compensation to Technicians

XCL implements performance-based compensation mechanism. To make company benefit from technology, it conducts compensation system in which basic salary and allowance account for a main part, with performance-based bonus. And individual performance is related to allowance. For technology innovation is regarded as one of the important factors for performance assessment, improving bonus projects should be established to encourage

technicians to participate in project improvement and technical innovation. This system aims at technicians who not only are with professional knowledge and technical title, but who are engaged in products' development, technical support, and after-sales service of products. Though the post of technicians has low-level management position, the characteristics of these position is knowledge-incentive, highly independent with expensive market price. In addition, the compensation scheme of technicians is suitable for that of employees in functional department such as assistants, personnel, financial employees and purchasing employees. This is because that in small-scaled XCL, the position's feature of functional department is similar to that of technical position.

Total compensation contains basic salary, working age, allowance from technical contribution, special adjustment allowance, and performance-based bonus.

#### 4) Variable Compensation System to Marketing Employees

Total compensation equals to the sum of basic salary and performance-based salary.

The reason why to reform compensation system is that marketing employees' work play a significant role for company development. Therefore, it is necessary to establish specific compensation system. According to practical compensation mechanism in company, the average salary of marketing personnel should be 1.5 times more than that of employees in functional departments. Basic salary and performance-based salary consist of the total compensation of marketing personnel and the former accounts for 80% salary of employees at the same level. Performance-based salary is based on the achievement of team objectives. When the assigned tasks are finished, their compensation increases in terms of individual performance. At the beginning of each year, company defines team index which extracts from the excess part of 5%-10% proportion. And then bonus will be determined in term of employees' performance. Monthly compensation of employees

contains 70% of their performance salary and the rest 30% will be paid at the end of the year.

5) Bonus

XCL pays bonus to marketing employees and technicians participating in research and development. The specific amount of bonus will be calculated in accordance with received compensation and other factors. Reforming compensation mechanism bases on its designing blueprint which cannot indicate the success of this reform. The company should supervise the whole reforming process strictly and make dynamic adjustment in accordance with situation to ensure its successful implementation.

6) Welfare

The survey conducted in XCL shows that the company will adapt flexible benefits for employees' demands for benefits differ from each other. Flexible benefits are also named as self-service benefits which mean that according to their requirements employees can chose from the variable benefits plan offered by company. Flexible benefits are more elastic than traditional one. In generally, flexible benefits contain house allowance, training, medical insurance for serious disease, education allowance and medical insurance for employees' children, paid vocation, travel. All these welfare aims to attract talent and decrease demission rate.

### **2.3.4 Compensation Reform Should Combine Salary with Education Background and Working Age.**

Education refers to people's learning experience of acquiring knowledge in educational institutions. The level of education institutions and training standard will determine educational background <sup>[27]</sup>. Academic wage is paid on the basis of the education obtained by the employees at the educational institution. Academic wage belongs to company welfare. The implementation of academic wage not only encourages employees to actively participate in learning and training to acquire new knowledge, but also avoid brain drain. As education is not equal to the ability, the growth rate, in general, of education background should be limited at 15% to 20%.

Company will pay different academic wage being included in employees' salary in terms of the different levels of their educational background which can be divided into secondary education, college degree, bachelor degree and master degree or higher. Academic wage accounts for about 5% of their total salary.

To enhance employees' sense of belonging and responsibility, one company introduced rewards based on working age. The first year's reward is 300 yuan with 150 yuan increased year by year. After 10 years, the total reward will be 1650 yuan, which fully reflects the combination of working age with salary <sup>[27]</sup>. At present, many private enterprises have introduced seniority compensation system to keep employees, especially those skilled veteran employees. It shows company respects old employees to protect their benefits and stabilize employees' team. Designing reward for working age should be practical. Neither high reward nor low one will be counterproductive. Nowadays, companies face the challenges of the shortage of labor especially skilled employees mastering operation with high turnover rate. Under the background of unstable production and fierce competition, the purpose for promoting seniority compensation is that companies hope to avoid brain drain and show their respect to employees as one of the welfare. It will be conducive to build harmonious employment situation and some people-oriented measures will be established, which will achieve win-win situation.

### **2.3.5 Reform on Compensation Design**

#### **1) Department Compensation Design Based on Performance**

##### **a. Department Assessment**

The elements of assessment in each branch are divided into five dimensions. Each of them sets corresponding sub-factors which is described with the appropriate instruction with grades. According to the company's value, the five dimensions were given relevant weight value to calculate the final score.

##### **b. Performance Appraisal**

As a manufacturing company, XCL draws up production management plan issued to all branches at the beginning of each year. This plan



contains annual output, product quality, safe management, and cost. Therefore, the key factor for performance assessment in each branch is whether the objectives are achieved. If objectives are completed, salary will be paid according to related regulations. The company started trials of internal simulated system. When using others products or services, a branch factory should periodically issue an internal transfer checks or internal voucher both of which are in triplicate. The compensation department, the collection department, the company accounting department or the office of examination and evaluation will keep a copy. Based on these evidences, the two sides register respective income and cost. At the end of the final assessment, these expense will be summarized in cost assessment system.

## 2) Compensation Mechanism Design for Position Performance

The baseline value of position salary depends on the importance of the job which guarantees the internal fairness. With certain fluctuations, baseline value should Consider employees' performance, ability and other factors and the company determines the final position compensation. Due to different individual qualifications like experience, knowledge, and skills, employees' salary will differ from each other at the same position. Position-based compensation system, combining with employees' qualification and performance factors, not only considers the importance of the position, but reflects the differences in ability of individuals to motivate employees to achieve strategic objectives.

### **2.3.6 Establishing a Scientific and Effective Performance Management System**

There are four processes in an effective performance management system: Formulating performance plan(P), defining key performance index(KPI), as well as performance communication and assistance(D) to ensure effective process of performance management. Besides, it also includes performance assessment and feedback(C) checking the performance in previous period and performance check and

improving(D) performance in which some summary is made to move into next process [28].

To conduct the whole procedure effectively, human resources department should make a simple and practical form as a control tool to supervise performance management process [28]. Generally, a comprehensive performance management system contains “KPI Management”, “Performance Record”, “Performance Feedback”, “Improving Planning of Performance”, “Performance Complaint Table”, and “Research Table for Satisfaction on Performance Management”. The first table is used by managers to define key performance index of employees and the second one helps line managers record employees’ performance and build their profiles. Line managers use” Performance Feedback” to check employees’ performance and” Improving Planning of Performance” to plan performance improvement for employees. The fifth is to help employees complain unfairness in performance assessment. Finally, the last one aims to tract corporate implementation process of performance management system and line managers’ performance in conducting this system so that appropriate adjustment can be made by company and line managers and this system can be improved [32].

## **2.4 Reform Model**

### **2.4.1 Compensation Mechanism Based on Competence**

The compensation Mechanism Based on Competence originates from manufacture industry. Because of the further development of environment and the integration of world economy, top managers in a company have realized that the role of technology and competence an employee has played for efficiency and business targets especially in such days with fiercer competition and serious demand for high quality employees. Meanwhile, managers should not limit their employees within their position but encourage them to participate into various types of works to bring new ideas and ability improvement. Under such background, many companies have changed original compensation mechanism based on position and begun to apply a new mechanism driven by competence and technology.

### **2.4.2 Compensation Mechanism Based on Performance**

As economy grow fast and analysis tools vary, the topic of compensation issues falls on salary with incentive compensation from basic salary. At first, salary is regarded as a right, and such change definitely indicates a signal that compensation based on an organization's or employees' performance will be the mainstream, because business performance and value depends on each employee's contribution. Compensation for performance combines specific target and compensation, not an employee's position. Such pattern seems that have been accepted by employers because extra compensation brings innovation. On the other hand, employees, as well, accept it because their benefits do not only depend on their position. When their salary decreases, employees can also get a higher compensation through incentive compensation if they finish a target. As a result, the pattern does bring better performance and lower cost. Flexible compensation mechanism also gives employees more freedom. Under such circumstance, employees can make use of their competence to fulfill specific targets based on their own reality. The clear pattern is easy to understand and can help them set definite mini goals for the general goal.

### **2.4.3 Compensation Mechanism Based on Position**

The compensation mechanism emerges in 1930s by Taylor. He argues that each work should be divided into secondary works through scientific analysis, which is called scientific management. The idea grows with production technology and can help companies place in a better position. The mechanism provides a platform for employees show their value and stresses that position decides the level of salary. It is reasonable for people to receive benefits according to job quality and its value and applied by most of government departments and companies.

### **2.4.4 Overall Compensation Mechanism**

Because of the increasing complexity of employee composition, their various demands and values have changed a lot than before. So only various composition mechanism could suit a company's development. With flexibility and Variety total compensation mechanism can be divided into 10 parts: TC, BP, AP, PI, WP, PP, OA, OC, PI (mental satisfaction of employees from themselves and their

companies), and QC (the quality of life) and X other important factors, such as convenience to go to and off work, flexible working time, and personal special demands) <sup>[30]</sup>. The pattern is different from the original compensation mechanism based on position, title, and internal balance. The new pattern also provides various non-material compensations: satisfaction for job, working environment and conditions, opportunities of training, titles, attracting complain culture, good personal relations, social life, symbolic rewards for employees and vacation bonus <sup>[29]</sup> and others. Non-material compensations indicate the designer's humanistic consideration and the respect for personal options, both of which are good for employees to explore their self-values. Such mechanism is more complicated with more factors, so there may be lack of definite norms, for example, why a company provides extra welfare and opportunities of training and research travels. As a result, the sense of unfairness may rise if without clear norms and basis.

#### **2.4.5 Compensation Mechanism Based on Personal Market Value**

One of the principles of compensation plan design is the external fairness. The price of a job is affirmed in the process of reaching external compensation balance within paying ability. As economy grows, the shortage of scarce talents intensifies the flow of talents. In this background, head-hunting companies support such compensation mechanism. In practice, the pattern is more suitable to the talents with special competences. Companies and talents can discuss salary based on market, equity and free will. Moreover, if an employee really thinks about the relationship of individual value and external market, internal conflicts can be solved in a way.

#### **2.4.6 Compensation Mechanism Based on Seniority Pay**

From 1950s to 1970s, the GDP of Japan increased 20 times than before with 5%-6% average salary increase. In this period, compensation mechanism based on seniority pay, the popular compensation mechanism in Japan, is a combination of traditional orient ideas and Japanese reality. In this system, employees' salary and position get promoted with working years and age <sup>[21]</sup>. The mechanism argues that employees with longer working years have richer experience and higher efficiency and business performance. Because their contribution, elder employees should get

more compensation. The mechanism is to strengthen employees' loyalty because loyalty matters for a company's development.

## **2.5 Implementation Strategy of Compensation Reform**

### **2.5.1 Compensation Design Driven by Company Development Strategy**

First of all, compensation mechanism is a plan for a company to reward and acknowledge their employees' contribution. Second, it, as a series of management process, translates the company's strategy and culture into specific action. So the choose, design, and publication of a compensation plan should reflect the company's value and strategy targets. The plan also means that the company should pay more attention to the outside of itself to win a better position in competition.

- a. Innovation Strategy. Innovation strategy means that technique innovation and high-quality employees bring strategy competence to companies. It also argues that companies should endeavor to explore their workers' potentials to improve intelligence resource. On the other side, the employees can receive acknowledgement and economic rewards.
- b. Cost Reducing Strategy. Cost reducing strategy means that added value is created through hiring core employees. Training can improve productivity and punctuality can deal with changing demands. Both of them will contribute to cost reducing. Except those, the strategy will urge companies to rethink the effect of its bonus system.

### **2.5.2 Labor Cost Control Mechanism**

Company compensation (including salary and welfare) records can be used to predicate a company's business performance. It also gives a hand to establish linkage mechanism between business performance and the wage base of employee position. The value of employees' incomes is equal to the value of the coefficient and the point of position level timing the values of the coefficient and the point both of which can be adjusted by a company annual performance. On one side, employees' income and company performance have a positive proportion relation and the relation indicates that employees can enjoy their company's success, increasing the possibility

to adjust compensation; on the other side, such mechanism strengthens the control of human costs because it makes human cost and company's business performance change regularly.

### **2.5.3 Non-material Compensation**

The core of HR management is to motivate employees' potential and translate it to business performance. XCL have realized the importance of non-material reward, built a people-oriented compensation mechanism, applying the concept in whole process of compensation management. The company desires to motivate talents and make them stay through worker congress, company leader investigation to the workshop, reception days and hosting special democratic life.

### **2.5.4 Position Evaluation to assess the Relative Values of the Jobs in Departments**

Position evaluation means to evaluate job characters and confirm job values from importance, duty, conditions and environment of a job through analysis. It has two main purpose: position ranks and compensation investigation. The rank of a position is a key factor for the level of salary, welfare, travel benefits and even internal equity allocation. Compensation investigation is to explore job requirement and difficulty to ensure fairness.

## **2.6 Compensation Status in New and High-tech Companies**

New and high-tech companies in China are different from the foreign ones. The Chinese companies depend heavily on policy supports from government, although they have progressed a lot. However, there are still problems in their corporate governance structure such as incomplete modern corporate mechanism and inefficient compensation motivation mechanism.

- a. Cash and Bureaucracy Nature Oriented Compensation Mechanism. In early time, companies attract talents through high salary causing Psychological comparisons. Employees argues that there might be another company who is willing to pay higher salary (including bonus and annual bonus), if this company can pay such high. The more an employee gets, the less sensitive he or she will be, and the less working marginal utility is. As a result, a company not only need establish a

complete compensation mechanism but also sufficient financial support, both of which would bring strong pressure to the company. Some companies apply annual salary system, including basic salary and risk income. Whereas the examination of risk income is not effective, even full of levellism. So such mechanism intensifies outflow of talents because it doesnot reflect employee's value and contribution.

- b. Bureaucracy Nature Oriented Compensation Mechanism. Most new and high-tech companies have many levels of compensation, and employees have to get position promotion if they want to get salary increased, leading to bloated organization, confusion of responsibilities, and low efficiency. A common employee has to spend years or even dozens of years to be a top manager, by jumping tens of administration levels. The fact not only hinders the company's innovation competence but also makes talents stay because positions are limited. To deal with issue, some companies have to promote a large number of employees exceptionally as a matter of expediency. Moreover, as the unique way to get an employee acknowledged and compensated, most of new and high-tech companies would like to promote an employee, no matter from management, sale or technique department, to be a manager.

## **2.7 Reform Measures of New and High-tech Companies**

Faced with such issues, new and high-tech companies have proposed a series of measures against their backward compensation mechanism.

- a. Promoting Expert or Technical Employees. To improve technical employees' promotion room, some companies set a few of extra positions and titles, although both of which still in the catalog of management.
- b. Making Employees Engage in Management. In some Chinese companies, employees have begun to engage in management, giving the companies more opportunities to translate managers' decisions to employees'. However, the measure should be furthered and extended.
- c. Distributing Share to Employees as Planned Compensation. Conference of Shareholding Employees, responsible for managing shares and related

regulations established in some new and high-tech companies of China to improve business performance. Most middle or small companies would set distributing share to employees. No matter in which situation, employees are both of their company's owner and works, enjoying certain benefits. The measure also has some problems. For example, the short-term measure would make employees care more about the value of shares because of their lower sense of risk than managers, intensify unfairness, and even make companies unwilling to employ more workers.

- d. Other Motivation Measures. Stock options emerge some models with local characters in China, such as Beijing Model and Shanghai Model. These models effectively give strong motivation to core employees, although mainly for CEO and chief manager and seldom for common workers. Efforts are made by some companies to make better working environment and improve employees' benefits, such as supplementary insurances to keep employees stay and explore their potentials. For the current status of Chinese new and high-tech companies, Ministry of Labor and Social Security of China, in Nov. 2000, published "Guidance on the Further Deepening Reform of Enterprise Distribution System", and the meaningful parts in the document are: 1. establishing comprehensive and effective compensation motivation and restraint mechanisms, in which PV is the main compensation and the compensation of rare talents in key management and technology positions and with high quality should be increased; 2. the compensation of board of directors, executive members, managers should be paid in accordance with responsibility and contribution, and some employers can implement annual salary mechanism; 3. motivation should be made to technological employees with the exploration on annual salary mechanism, equity and option and it is proper to widen reasonable the compensation gap between technological employees and ordinary ones, the technological employees with high contribution and ordinary technological ones, according to the mechanism based on scientific and technical payoffs; 4. trial to technology appraised as



capital stock and exploring the compensation distribution mechanism based on technological elements such as patent held by technology inventors and contributors <sup>[12]</sup>.

## **2.8 Problems after Reform in Similar Companies**

Human cost has become increasingly important for new and high-tech companies and such companies have reformed current compensation mechanism to cope with fierce talent competition and boost company performance, such as setting flexible compensation mechanism referring to local price index and anti levellism. However, such reform is not comprehensive enough and there still are problems.

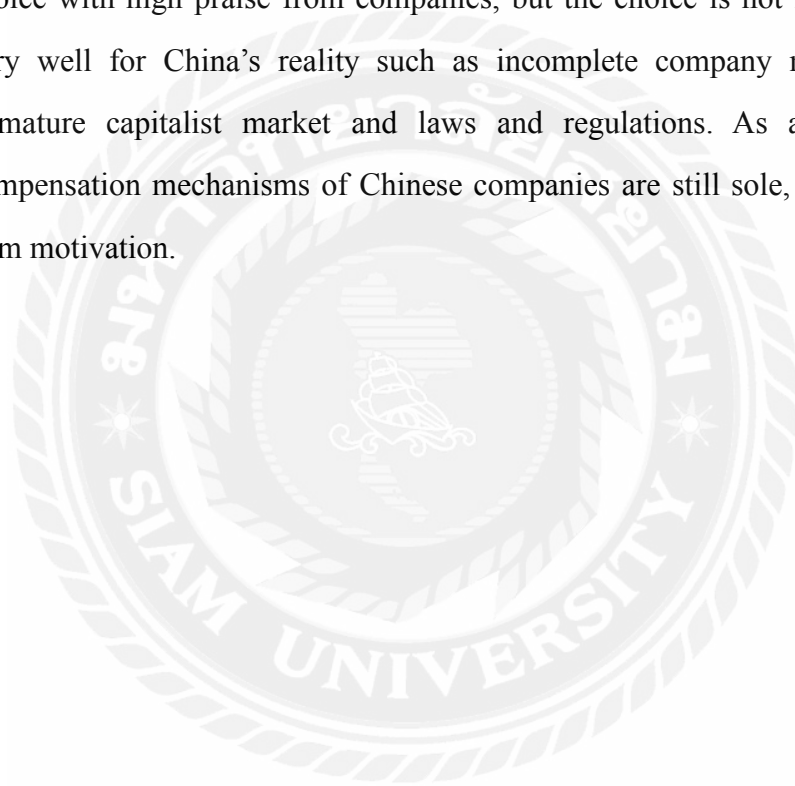
- a. The level of compensation is higher than manufactory industry, but lower than international level, although the level has been upgraded a lot. From May 1<sup>st</sup> in 2004 to Jan 18<sup>th</sup> in 2005, ChinaHR.com surveys and ranks the annual salaries in different fields. Their result shows that nearly half companies of the 15 companies with highest salary are new and high-tech companies and the first highest salary falls on communication telecommunications industry. Different ownership of a company has different level of salary; foreign companies' salary is higher state owned and collective companies. The high salary group in China still fall far behind the foreign peers although the salary level of former has been improved a lot. So in international talent competition, Chinese companies are always in bad position, suffering talent loss a lot because many talents are willing to work in a foreign company for high salary.
- b. Although new and high-tech companies are tending to increasing salary of research staff, the demand of rare talents are still high. In April 2005, Workplace Ranking of T1 by ChinaHR.com shows that employees of project management earn highest salary, the second best is in sale management and research and development. The document reports that employees in R&D and technology development will enjoy higher compensation than project management and a high software engineer will earn more than 11 thousand

RMB. The fact indicates that the increasing importance and value of research and development and the rarity of research staff which makes companies difficult to hire them even companies is willing to pay high.

- c. Large gap of salaries in different position intensifies the polarization between the rich and the poor. Compared with traditional industry, with strong compensation competence, new and high-tech companies need many talents and can pay high salary and provide long term motivation if an employee can contribute a lot. New and high-tech industries always bring many rich men because of its fast growth and high income. In terms of compensation mechanism, new and high-tech companies would like to choose one mechanism with long term motivation, mainly for top managers and R&D talents, flexible salary, whose proportion is going to increase, and competence wage and pay more attention to working competence not only working years. It also shows that common employees would have a lower positivity faced the changes.
- d. Increasing flexible salary is not strong against high risk. As a type of motivation tool, compensation is linked to personal, team and organization performances, which makes high proportion of salary based on performance in whole compensation and improve the flexibility and motivation of compensation. It is needed to see the co-existence of high risks and high benefits. Managers could increase flexible salary and low fix salary to share risks and benefits with employees if they want to drive people working hard.
- e. Ability wage has emerged although lack of scientific norms. In China, many new and high-tech companies are state-owned or private enterprise with small scale. Many of them are in experience stage, and modern scientific management mechanism has not been build, some even have not published position description. Compared with position salary, the implementation of ability salary needs higher and detailed level of management, except in concept, culture, and process. The salary also reflects the differences of position responsibility and competence. So if the salary mechanism is

applied improperly, its strong subjectivity would intensify the internal unfairness. Salary based on technology is relatively easy to handle and more depends on experience. But it has not suitable for knowledge employees, so it is needed to absorb western advanced management idea for reform and innovation.

- f. Many companies encounter many difficulties when carrying long term motivation. Long term motivations are chosen in order to make employees, especially key talents, stay and keep team stable. Stock option is a good choice with high praise from companies, but the choice is not implemented very well for China's reality such as incomplete company management, immature capitalist market and laws and regulations. As a result, the compensation mechanisms of Chinese companies are still sole, lack of long term motivation.



## **CHAPTER 3**

### **RESEARCH METHOD**

#### **3.1 Research design**

This paper mainly takes literature study and questionnaire investigation as its mainly study method. Through literature review, the paper studies salary motivation and its rationality in new and high-tech companies. Then, this paper provides its positive salary design theory effecting on knowledge employees. It also points out the shortage of XCL's salary structure and gives solution to the issue. In the end, the paper scientific plans and summarizes salary reform mechanism.

#### **3.2 Data Collection**

The author designs a questionnaire based on compensation rationality's influence on employees' activity and business performance for a company. 255 questionnaires are sent and collected and 237 of them are valid.

#### **3.3 Questionnaire**

The Questionnaire used in the paper has two parts: Basic information and situation reality. In the first part, the questionnaire takes an anonymous way to keep its validity; in the second part, the questionnaire is designed to explore the influence of compensation rationality on employees' activity and XCL's performance.

#### **3.4 Statistical Analysis Plan**

In this research, the statistical treatments will be used to analyze the collected data. Statistical analyses were performed using SPSS Version 24.0. Correlation Analysis were conducted for analyzing two or more than two variable elements to measure how relevant they were, in this case, the two variable elements were salary administration and enterprise performance. Regression was used for analyzing how two or more than two variable elements were interdependent to each

other. Via regression analysis, we could find factors and regularities that were influencing business performance management, and find the perfect solution of enterprise performance.



## CHAPTER 4

### RESULTS

#### 4.1 Reliability Test

Reliability analysis is a method to analyze the reliability and stability of a comprehensive evaluation system. And the reliability and stability of evaluation results depend on the validity and rationality of the scale. Reliability analysis is to study the validity of the scale. In the analysis of reliability, the internal consistency test is the most commonly used method, that is, to examine whether a group of evaluation items are measured with the same characteristics, whether these projects have a high degree of internal consistency. Cronbach's Alpha is an important index to measure the internal consistency. The larger the value, the higher the internal consistency of the scale is, indicating the better the stability and reliability are. According to standards, the value of Cronbach's Alpha should be at least 0.6, preferably greater than 0.7. If the value is greater than 0.7, the scale is considered highly; if the Cronbach's Alpha is greater than 0.65 (less than 0.7), the reliability is considered the measurement table is acceptable; if the coefficient is greater than 0.6 (less than 0.65), it is considered that the scale exists some problems, but still have a certain reference value; if the coefficient is less than 0.6, it shows that the scale has a lot of problems and should be redesigned. According to this standard, all variables in this study related reliability test, as shown in the following table. The value of the coefficient is greater than 0.7, indicating that the scale is acceptable in internal consistency, which can be used to study.

Dimension	Number of Project(s)	Cronbach's Alpha
Employee Activity	3	0.715
Business Performance	2	0.840
Medical Treatment	6	0.910

Welfare	3	0.827
Subsidy	3	0.807

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#### 4.1.1 Utility Analysis:

In this paper, the structural validity of the scale is tested by factor analysis. Before the factor analysis, KMO test and Bartlett test of sphericity are needed. KMO (Kaiser-Meyer-Olkin) is the appropriate amount of sampling with the general value between 0-1. The higher the value of KMO, the more the common variables, indicating the research data suitable for factor analysis. The standards of the index are explained as follows: If the value of KMO is greater than 0.9, it can be considered to be very suitable for factor analysis; if the value is around 0.8-0.9, it can be considered to be less suitable for factor analysis; if the value is around 0.7-0.8, it is considered ordinary for factor analysis. If the value is less than 0.5, it is not suitable for factor analysis, maybe due to the insufficient sample size or excessive selection of indicators.

Bartlett sphere test is to test whether the correlation matrix is a unit matrix. if so, it shows that the factor model is not suitable.

In general, the value is much less than 0.05, it shows that the more likely the existence of the relationship between the original variables. If the level is much greater than 0.05, it indicates that the data is not suitable for factor analysis. To sum up, before the factor analysis of the questionnaire, the KMO test and Bartlett sphericity test are used to test the validity of the scale.

According to the characteristics of the common factors, extraction value greater than 1, the common factors were extracted. Rotation matrix determines the items below contains all the common factors, to determine the scale dimensions of the division is reasonable, is consistent with the theory.

First of all, use SPSS 21.0 Bartlett to carry out Bartlett test and KMO test. The analysis results show that the value of two times of 17 items of the Bartlett test is 1900.167 (136 degrees of freedom, sig=0.000). The 17 indexes reflect that the information has a certain overlap, essential factor analysis. KMO test is used to

examine the correlation between variables. If the value (between 0-1) is closer to 1, the stronger the correlation between variables, the better the effect of factor analysis. The KMO value in this study is 0.820, which indicates that it is suitable for comparison.

Tests of KOM and Bartlett		
Kaiser-Meyer-Olkin metrics for sampling sufficiency.		.820
Inspection of Bartlett's degree of roundness	Approximate chi square	1900.167
	df	136
	Sig.	.000

Factor analysis takes principal component analysis method to extract characteristic factors whose values is greater than 1. Combining with the gravel map, 17 indicators are selected from 5 common factors and the cumulative variance explained is 72.199%, with 70% above the standard interpretation. Results can be seen table below:

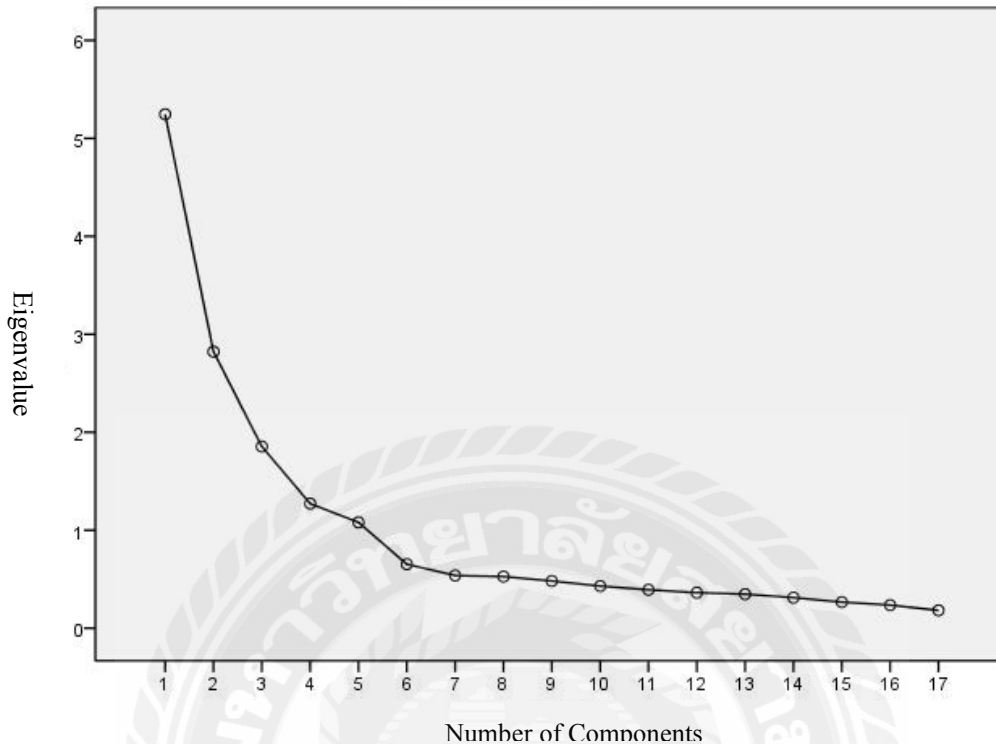
**Explanation of total variance.**

Ingredients	Initial Eigenvalue			Extraction Square and Loading			Rotating Square and Loading		
	Total	Variance (%)	Cumulation (%)	Total	Variance (%)	Cumulation (%)	Total	Variance (%)	Cumulation (%)
1	5.246	30.858	30.858	5.246	30.858	30.858	4.154	24.437	24.437
2	2.822	16.601	47.459	2.822	16.601	47.459	2.268	13.341	37.778
3	1.854	10.907	58.366	1.854	10.907	58.366	2.213	13.020	50.798
4	1.271	7.476	65.842	1.271	7.476	65.842	1.909	11.231	62.029
5	1.081	6.356	72.199	1.081	6.356	72.199	1.729	10.170	72.199
6	.653	3.841	76.040						
7	.538	3.163	79.202						
8	.527	3.097	82.300						
9	.482	2.833	85.132						
10	.430	2.527	87.660						
11	.392	2.308	89.967						
12	.362	2.131	92.099						
13	.347	2.042	94.141						
14	.312	1.835	95.977						
15	.266	1.566	97.543						
16	.236	1.387	98.930						
17	.182	1.070	100.000						

Extraction Method: Principal Components.



Gravel Map



In order to further clarify the structure of the common factors, orthogonal rotation is performed with the maximum variance method:

It can be seen that the first common factor is mainly related to Q2A6, Q2A7, Q2A8, Q2A9, Q2A10, Q2A11 and so on, and the first common factor is medical factor.

It can be seen that the second common factor is mainly related to Q2A12, Q2A13, Q2A14 and other factors, and the second common factor is the welfare factor.

It can be seen that the third common factor is mainly related to Q2A15, Q2A16, Q2A17 and so on, and the third common factor is the subsidy factor.

It can be seen that the fourth common factor is mainly related to Q2A1, Q2A2, Q2A3 and other factors, and the fourth common factor is the motivation factor.

The fifth factor is mainly related to Q2A4, Q2A5 and other components, and the fifth factor is company performance factor.

**Rotation component matrix A**

	Ingredients				
	1	2	3	4	5
Q2A1				.807	
Q2A2				.790	
Q2A3				.647	
Q2A4					.897
Q2A5					.904
Q2A6	.863				
Q2A7	.772				
Q2A8	.792				
Q2A9	.809				
Q2A10	.841				
Q2A11	.836				
Q2A12		.813			
Q2A13		.826			
Q2A14		.815			
Q2A15			.868		
Q2A16			.804		
Q2A17			.828		

Extraction Method: Principal Components.

Rotation Method: Orthogonal Rotation Method with Kaiser Standardization.

a. Rotation Converges after 5 Iterations.

## 4.2 Basic staff information analysis

### Sex

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid Male	114	48.1	48.1	48.1
Valid Female	123	51.9	51.9	100.0
Total	237	100.0	100.0	

### Age

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid Under 20	51	21.5	21.5	21.5

21-29	78	32.9	32.9	54.4
30-45	74	31.2	31.2	85.7
46 and above	34	14.3	14.3	100.0
Total	237	100.0	100.0	

#### Marital Status

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid Unmarried	122	51.5	51.5	51.5
Valid Married	115	48.5	48.5	100.0
Total	237	100.0	100.0	

#### Position

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid Common Employee	33	13.9	13.9	13.9
Valid Primary Manager	90	38.0	38.0	51.9
Valid Middle Manager	72	30.4	30.4	82.3
Valid Top Manager	42	17.7	17.7	100.0
Total	237	100.0	100.0	

#### Education

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Valid Below Middle School and Technical School	39	16.5	16.5	16.5
Valid Junior College	85	35.9	35.9	52.3
Valid Bachelor Degree	75	31.6	31.6	84.0
Valid Master Degree and above	38	16.0	16.0	100.0
Total	237	100.0	100.0	

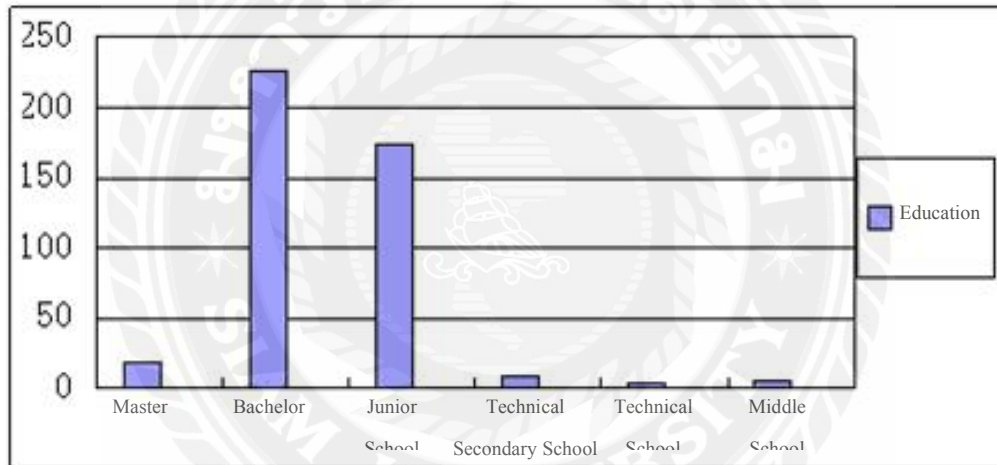
#### Working Hours

	Frequency	Percentage	Valid Percentage	Cumulative Percentage
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Valid	Below 1 Year	41	17.3	17.3	17.3
	1-3 Years	66	27.8	27.8	45.1
	3-5 Years	84	35.4	35.4	80.6
	More Than Five Years	46	19.4	19.4	100.0
	Total	237	100.0	100.0	

#### 4.2.1 Education Analysis

XCL now has 16 employees with master degree, 3.7% of total staff, 227 ones with bachelor degree, 52.3% of total staff, 9 ones with technical secondary school, 2.1% of total staff, 4 people graduated from technical school, 0.9% of the total, 5 people with middle school, 1.2% of the total.



**Fig. 2 Education Analysis of XCL Employees**

Figure 2 shows the tendency of education structure of XCL. Employees with bachelor degree and master degree have become the backbone for XCL and the structure indicates that XCL is gradually upgrading the HR structure with its growth. However, it also can be seen that the percentage of the employees with master degree is only 3.7%, which leaves room for improvement.

#### 4.2.2 Age analysis

In XCL, there are 265 (59%) employees younger than 25 years old, 74 (17%) employees from 26 to 30 years old, 29 (6.8%) ones from 31 to 35 years old, 30 (3.9%)

one from 36 to 40 years old, 34 (7.8%) ones from 41 to 45 years old, 11 employees (2.5%) older than 45 years.

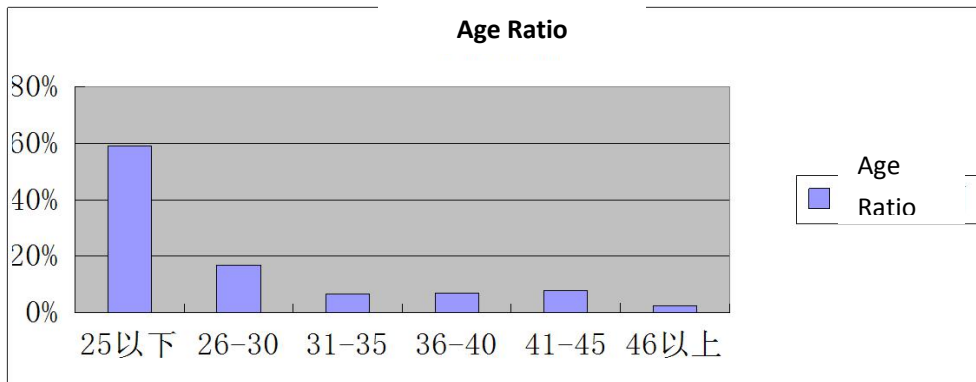


Fig. 3 Age Ration of XCL

From above figure, it can be seen that the main part of the staff is young with 76% employees under 30 years old and insufficient experience.

### 4.3 Analysis of Human Resources

#### 4.3.1 Inefficient HR management

In the author's investigation, 71.7% people argue that they are inactive and in-direct and un-honest in communication, while 64.5% people argue that the atmosphere in the company is want of interact support and trust.

#### 4.3.2 Analysis of the structural problems of HR in XCL

Here are the details of XCL's Structural problems and risks of HR:

- a. The company lacks of excellent innovative talents and management talents.
- b. Employees cannot make their thoughts and practice match each other. They even meet problems even for the work that they can undertake. It is necessary to employ international financial management talents.
- c. Many employees are not professional. In other words, they can deal with the work with a little responsibility not with larger responsibility.
- d. Managers are skillful without insufficient competence and experience.
- e. Students occupies most, who has no enough understanding on management and experience about the industry.
- f. The average age of the staff is 26, which is young, and indicates their

insufficient experience.

- g. When fulfilling new projects, human resources are distributed to new projects and current production, causing job transfer.
- h. Excessive college students would bring instability or great loss for XCL such as groundless position setting.
- i. Lack of HR plan based on company strategy.
- j. HR management fundamentals need to be strengthened, because current recruitment plan lacks of strategy orientation, standards, procedures and methods to selection. Production-driven job description has not been systematized.

Generally, XCL's urgent problems that need to solve are in three aspects:

- a) Lack of HR plan based on XCL's strategy development, unity in talent evaluation and unsuitable structure between talents structure and strategy requirements.
- b) Low efficiency on HR management, such as incomplete HR mechanism, especially larger gap in communication and motivation.
- c) Shortage and excess in HR structure. The percentage of employees whose education is higher than junior college degree occupies 96%; the proportion of employees whose age is under 30 years old is 76%. These data show that the shortage of High-end R & D employees, management talents and production technical talents.

#### **4.4 Mutual Evaluation and Self-evaluation among Employees**

##### **4.4.1 Common Psychological States in Two Assessments**

- 1. Defensiveness. Most employees are afraid to express shortcoming and disadvantages when assessing. So they will avoid to compare with peers on purpose and only express their own advantages to protect themselves.
- 2. Doubt. Some of employees are doubt that whether their colleagues assess them fairly and objectively, or afraid that such Evaluation undermines their relationship with colleagues.

3. Interest-seeking. Conflicts of evaluation results and personal interests among competitors often distort the real purpose of colleague evaluation, especially when it refers to bonus and title, because at this time, interest comes first. As a result, in evaluation, others disadvantages would be always exaggerated while others advantages would be neglected with a perfect self-evaluation.

#### **4.4.2 Controls of Psychological state in Mutual and Self Assessments**

A company should investigate employees' psychological states before assessing and make them realized the meaning of assessment. The recognition would help employees build good relations, build right values, both of which can successfully pave the way for assessing. The controls include:

- a. Self-awareness Control. The control is the base of self-assess and helps employees realize their own roles and tasks. The measure can make employees understand their own advantages and disadvantages, which is good for confidence building and self-improvement.
- b. Value-guide Control. Everyone has their own values for one thing. As a result, the attention to the thing depends on the value an employee considers, vice versa.
- c. Positive value orientation depends on the acquirement of the relation between personal values and collective values.
- d. Emotion Control. Examinees have no possibility to refuse but they would even keep others from participating assessing. Companies should communicate with them to build good relations and construct good emotion atmosphere.
- e. Evaluation Purpose Control. Evaluation purposes are important. Employees can achieve self-improvement and values, get out of Psychological misunderstandings through mutual and self evaluations and based on facts, if they understand the purposes.

#### **4.4.3 Implementation of Evaluations**

To improve efficiency, management performance, innovation and service quality, XCL implements mutual and self evaluations, pay more attention to job

performance. This will give a hand to improve the senses of administration, service, continuity and supervisory, strengthen basic management, simplify process. It is also good to achieve comprehensive management, master working performances in departments and advance the level of management. Here are the measures of evaluations:

- a. Self-evaluation: increasing the weighting of working performance, checking work progress, implementation conditions of meet decisions, annual indicators, monthly grading progress, normative foundation management works.
- b. Mutual Evaluation: giving suggestions, checking working performance of related departments, improving cohesion and efficiency, reducing cross waiting time and excessive management progress.

#### **4.4.4 Methods for Mutual Evaluation and Self-evaluation**

Examinees would fill the Mutual and Self Evaluation Form. The document mainly implements test in following aspects:

- i. Attendance and Punctuality: Good record for attendance, without absence, lateness or leaving early.
- ii. Appearance: neat and standard manners, personal hygiene, and clothing and accessories in accordance with the requirements of the company.
- iii. Work quality, Efficiency and Performance: Responsibilities, high quality, good performance, seldom mistakes and timely finishing tasks beyond expectations and quota.
- iv. Working Competence. Well able to plan, organize and arrange works, stick to principles to deal with difficulties with flexible methods, stable and professional working attitudes, sense of innovation and accumulation of thoughts and methods for job.
- v. Cooperation: Teamwork, cooperation, big picture, caring about general and collective interests, communication with others, and able to accept other people's correct opinions.
- vi. Ethics: Enthusiastic dedication, sacrifice and selfless, honest code of honor,



sense of justice, and so on.

#### **4.5 Status and Reasons That Outflow of Employees**

- a. **Outflow of Employees and XCL Status.** Outflow of employees means employees choose to leave their company who does not want to. The concept indicates that companies does not like the outflow of employees, especially talents, because the phenomenon often brings loss of benefits.

Resignation is one of the rights that an employ can enjoy, but it is bad to company. So companies should try their best to make people stay or at least reduce the occurrence of the action. In terms of the relation between company and its leaving employees, there two kinds of outflow of employees. One is that a leaving employee totally break the relationship, i.e. there is no legal bound between the two parties, such as resignation. Another one is that a leaving employee partly break the relationship, i.e. the two ones have legal bound, but the person or people have actually leave their company, which is called active leaving.

The two outflow are relatively common in XCL. They increase work for HR department, difficulty of management of production departments such as quality control and accumulation of techniques and reduce XCL's efficiency. As a result, managers of XCL should pay attention to them.

Here are the three characters of the outflow of employees.

- i. **Groupment.** Here are the characters of leaving employees: active thinking, working in emerging industry with large demand, talented in management, dissatisfied to company, feeling unfair, unclear future for working career, not matching specialty, inharmonious interpersonal relation. All of these fall on XCL.
- ii. **Time Series.** Generally, the outflow of employees is high after they improving in position and compensation, such as education degree, receiving salary and bonus, except after spring festival. For XCL, when it comes to Spring Festival, the number of leaving employees would

increase, for example, some skillful workers never return after the festival. As employees are the treasure for a company, managers should not make it as an empty check but put into action to keep them stay, such as holding part of bonus and return them to employees when they come to work after specific periods.

iii. Tendency to profit. This is the most important reason that causes employees to leave. Employees can be divided into 3 parts: Stable-seeking, material-seeking, environment-seeking. Migrant workers who are hardworking and easy to manage, are likely to seek material benefits because of clear targets. XCL, with a few migrant workers, especially after projects finished, would like to employ more workers with higher education and professional techniques. The employees always seek good working environment and career outlook. Moreover, despite of the current lack of in practice, the employee would play a key role for company because of their innovation and activity of thinking in the future.

b. Reasons Why Employees Leave

Employees will not leave their company if everything runs rightly and many factors will cause persons to change jobs. So company is the main factors to cause employees leave, because the most of people hope to enjoy a stable work.

- i. Lack of Outstanding Work Atmosphere and Enterprise Culture. Inharmonious interpersonal relationship causes lack of positive atmosphere and reduces employees' willing to seek dream and spirit and so people choose to leave. In contrast, outstanding atmosphere can be good for people to build harmonious relationship and bring comfortable and happy environment. So people choose to stay.
- ii. Backward Salary Distribution Mechanism. This is the very reason that causes outflow of employees and in that reason, because people always firstly think about salary. So higher salary can make employees stay.

- iii. Backward Salary Distribution Mechanism. This is the very reason that causes outflow of employees and in that reason, because people always firstly think about salary. So higher salary can make employees stay.
- iv. Hiring Wrong Employees. For the issue, the one is to hire someone because of his Guanxi, not competence. It always brings low efficiency and disappoints other talents. The other one is that a company does not hire the employees who is good in professional ethics and so on.
- v. Neglect of Employee Development and Training. Ambitious employees, except hardworking, often ponder their career. If a company cannot provide prospects for development, employees would choose to leave thanks to fierce competition for talent among companies. Because of the significance of talents for a company, training has been a basic support for development, not only improving employees' quality and the company's cohesive force.

c. Solutions to Reduce the Influence of Talent Outflow.

Normal flow among employees will bring vigor and proper allocation of human resources, and reasonable talent competition. However, in a way, frequent talent outflow will lose employees' loyalty for their company. In a general way, if outflow of employees is within 5%, the negative influence is not serious, otherwise the situation will hinder the company's future development.

Outflow of employees is inevitable, but when XCL must try their best to minimize the loss of negative influence when the phenomenon occurs.

Here are the suggestions to deal with it:

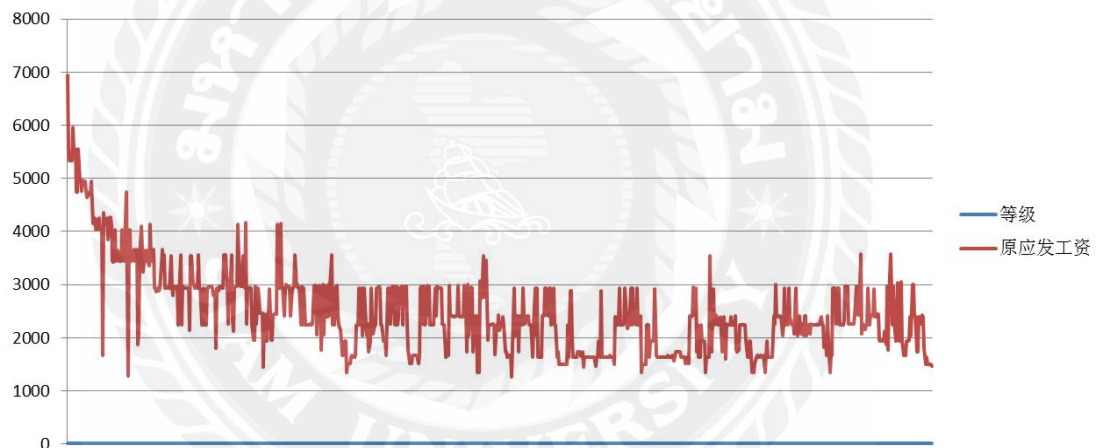
- i. Talk Honestly with Employees Who Want to Leave Their Company. The action will help managers dig out the truth reason why their workers want to leave. Invite them to give you their suggestions. It not only can reduce their disappointment but also collect unusual information to find out the company's problems in management. A leaving employee honestly can speak out what he is willing to say in daily life and that may

be good for improvement.

- ii. Let leaving employees make good preparation for handover issues. Generally speaking, when negative feelings are reduced, the majority of leaving employees will carefully prepare to handover their work, which will bring good benefits to keep business run stable.
- iii. Organize a party for leaving employees or sent them presents. Both of these has no specific rules, but they are important to reflect a company's quality and good to reduce and even resolve negative feelings.

#### 4.6 Current Situation

XCL published its compensation plan in 2010. In following years, XCL adjusts its structure and optimize the salary structure.



**Fig 1 Relation between Job Position and Salary**

The figure shows that the difference in job grades is insufficient while the gap of salary in same position is clear. Here are the salary standards of XCL:

- a. Starting salary is dependent on job position.
- b. Ordinary Employees. Compensation of ordinary employees can be upgraded three levels at most. Compensation would get into a new level when an employee's working year is more than 10 years. Employees with intermediate professional title, senior technician, and bachelor degree would enter into a new level when their working year is more than 5 years. When faced with

exceptions, managers have right to improve an employee's compensation level after studying.

- c. Middle Managers (Managers and Vice Managers of Departments). Compensation of middle employees can be upgraded two levels at most. The employees with senior professional title and master degree can have a new level of compensation when their working year is more than 15 years. When faced with exceptions, managers have right to improve an employee's compensation level after studying.
- d. Top Managers has their own salary range.

#### 4.7 Correlation Analysis

		Correlation				
		Employee Motivation	Business Performance	Medical Treatment	Welfare	Subsidy
Employee Motivation	Pearson Correlation	1	.257**	.329**	.446**	.263**
	Significance (bilateral)		.000	.000	.000	.000
	N	237	237	237	237	237
Business Performance	Pearson Correlation	.257**	1	.117	.376**	.096
	Significance (bilateral)	.000		.071	.000	.139
	N	237	237	237	237	237
Medical Treatment	Pearson Correlation	.329**	.117	1	.215**	.162*
	Significance (bilateral)	.000	.071		.001	.013
	N	237	237	237	237	237
Welfare	Pearson Correlation	.446**	.376**	.215**	1	.289**
	Significance (bilateral)	.000	.000	.001		.000
	N	237	237	237	237	237
Subsidy	Pearson Correlation	.263**	.096	.162*	.289**	1
	Significance (bilateral)	.000	.139	.013	.000	
	N	237	237	237	237	237

\*\* . Significant Correlation at Level .01 (bilateral).

\* . Significant correlation at Level 0.05 (bilateral).

According to the test results of the correlation table, it can be seen that the correlation coefficient of the enthusiasm of the staff and medical treatment is 0.329, and the significance is 0, less than 0.05, indicating the correlation coefficient is significant with positive correlation between the enthusiasm of staff and medical staff enthusiasm. The correlation coefficient between the enthusiasm and welfare of the staff is 0.446, and the significance was 0, less than 0.05. The correlation coefficient is significant with positive correlation between employee enthusiasm and welfare. The correlation coefficient of the enthusiasm and subsidy of the staff is 0.263, which is 0, less than 0.05, indicating the correlation coefficient is significant and the relationship is significant with positive correlation. The correlation coefficient of the medical treatment and company performance is 0.117 and the significance is 0.071, much less than 0.05, which indicates that there is no significant correlation between enterprise performance and medical treatment. The correlation coefficient of enterprise performance and the welfare of the staff is 0.376, and the significance is 0, less than 0.05, with significant correlation coefficient that is significant positive correlation between enterprise performance and employee benefits. The correlation coefficient of enterprise performance and subsidy is 0.096, which is significantly greater than 0.05, and the significance is 0.139. It shows the correlation coefficient is not significant, and the correlation of performance of enterprises and the subsidy is not significant.

#### 4.8 Regression Analysis

Model 1: Variable: Medical Treatment, Welfare, Employee, Subsidy,  
Dependent Variable: Employee Activity

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Standard Error	Durbin-Watson
1	.519 <sup>a</sup>	.270	.260	1.23034	1.798

a. Predictive Variable:(Constant), Subsidy, Medical Treatment, Welfare

b. Dependent Variable: Employee Activity

Anova<sup>a</sup>

Model	Sum of Squares	df	Average of Squares	F	Sig.
1 Regression	130.196	3	43.399	28.670	.000 <sup>b</sup>
Residual	352.699	233	1.514		
Total	482.895	236			

a. Dependent Variable: Employee Activity

b. Predictive Variable:(Constant), Subsidy, Medical Treatment, Welfare

The  $R^2$  of the model is 0.270, and the adjusted  $R^2$  is 0.260, which shows that the model fitting is good. D-W value of the model is close to 2, which shows that the model does not exist autocorrelation. The statistic of Model F is 28.670, passed through test, and its significance is 0.000, less than 0.05, which shows that the regression equation model is significant, not meaningless.

Model	Coefficient <sup>a</sup>						VIF	
	Unstandardized Coefficient		Standardized Coefficient	t	Sig.	Sig.	Tolerance	VIF
	B	Standard Error	Trial					
1 Constant	1.590	.300		5.291	.000			
Medical Treatment	.215	.054	.232	4.022	.000	.943	1.060	
Welfare	.317	.052	.362	6.087	.000	.888	1.127	
Subsidy	.108	.053	.121	2.057	.041	.906	1.103	

a. Dependent Variable: Employee Activity

According to the regression coefficient table, we know that the VIF value of each independent variable is less than 5. The regression coefficient of the medical treatment is 0.215, and its significance was less than 0.05, which showed that the regression coefficient of the independent variable is significant, and the medical treatment has a significant positive impact on the employee's enthusiasm. Hypothesis 1 is true. The regression coefficient of employee benefits is 0.317, and the significance is 0, less than 0.05, indicating the regression coefficient of the independent variables is significant, and the welfare of the staff has a significant positive effect on the enthusiasm of the staff. Hypothesis 3 is true. The regression

coefficient of subsidy is 0.108, and its significance is less than 0.05, which shows that the regression coefficient of the independent variable is significant, and the subsidy has a significant positive impact on the enthusiasm of the employees. Hypothesis 5 is true.

Model 2: Variables: Medical Treatment, Welfare, Employee and Subsidy.

Dependent Variable: Business Performance.

**Model Summary<sup>b</sup>**

Model	R	R <sup>2</sup>	Adjusted R <sup>2</sup>	Standard Error	Durbin-Watson
1	.378 <sup>a</sup>	.143	.132	1.60151	2.076

a. Predictive Variable:(Constant), Subsidy, Medical Treatment, Welfare

b. Dependent Variable: Business Performance .

**Anova<sup>a</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	99.550	3	33.183	12.938	.000 <sup>b</sup>
Residual	597.608	233	2.565		
Total	697.158	236			

a. Dependent Variable: Business Performance .

b. Predictive Variable:(Constant), Subsidy, Medical Treatment, Welfare

The R<sup>2</sup> of the model is 0.143, and the adjusted R<sup>2</sup> is 0.132, which shows that the model fitting is good. D-W value (2.076) of the model is close to 2, which shows that the model does not exist autocorrelation. The statistic of Model F is 12.938, and its significance is 0.000, less than 0.05, which shows that the regression equation model is significant, not meaningless, and it has passed through test.

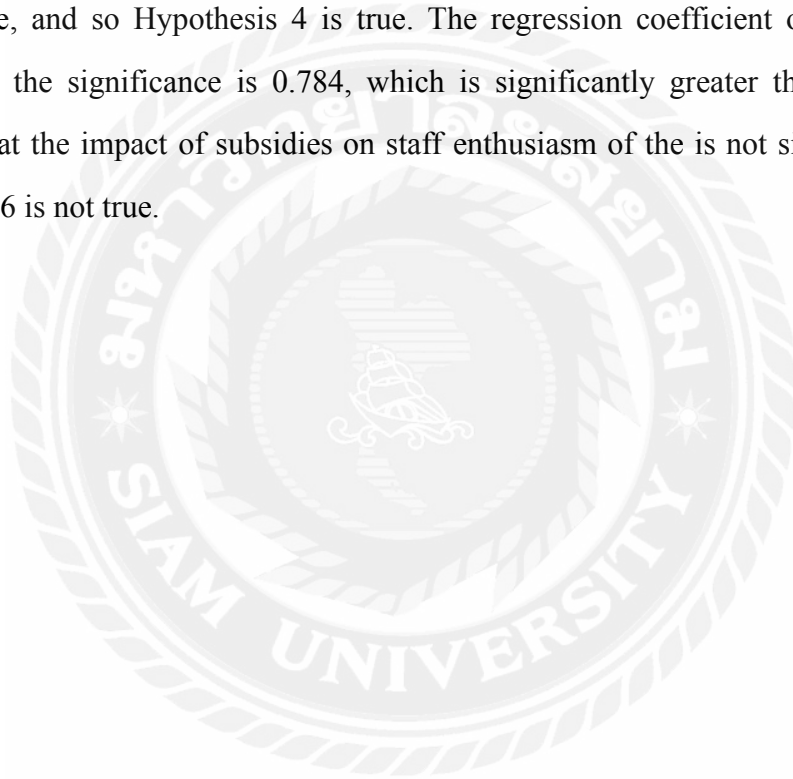
**Coefficient<sup>a</sup>**

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.	VIF	
	B	Standard Error	Trial			Tolerance	VIF
1 Constant	2.461	.391		6.292	.000		
Medical Treatment	.045	.070	.040	.646	.519	.943	1.060
Welfare	.392	.068	.372	5.779	.000	.888	1.127
Subsidy	-.019	.069	-.017	-.275	.784	.906	1.103



a. Dependent Variable: Business Performance .

According to the regression coefficient table, we know that the VIF value of each independent variable is less than 5. The regression coefficient of medical treatment is 0.045 and the significance is 0.519, more than 0.05, indicating the impact is not significant. Health does not have a significant positive impact on enterprise performance, so Hypothesis 2 is not true. The regression coefficient of employee benefits is 0.392, the significance is 0, less than 0.05, indicating the impact is significant. The welfare of the staff has a significant positive effect on firm performance, and so Hypothesis 4 is true. The regression coefficient of subsidy is -0.019, and the significance is 0.784, which is significantly greater than 0.05 and indicates that the impact of subsidies on staff enthusiasm of the is not significant, so Hypothesis 6 is not true.



## **CHAPTER 5**

### **CONCLUSIONS**

As the most active factor among all of production factors, human resources are always the competition center and the core of HR competition is compensation mechanism. So salary management and salary mechanism are the main two core content of human resource management for companies. Compensation system not only refers to the economic accounting and benefits of a company, but also relates to the vital interests of the employees. It directly affects the company to attract, retain, motivate and develop staff and boost employee enthusiasm. All of these are directly related to a company's effective human resources management. Correct compensation idea, scientific and reasonable compensation mechanism design and effective compensation management would directly affect the promotion of a company's competitive competence and the realization of management goal.

Here are the problems of XCL in the research:

- a. Problems in Compensation Mechanism: The lack of motivation compensation system, the lack of fairness, lack of strategic design, the lack of education and working life differences, and the lack of scientific evaluation system <sup>[15]</sup>.
- b. Defects of Motivation Mechanism: construction of enterprise culture does not pay attention to.

The problems force XCL to reform their current compensation mechanism. Under the human oriented principle, the company sets a flexible, systematic, stable mechanism with operability. The new mechanism is also based on performance appraisal to adjust compensation structure, integrate with the market, reflect external competition and increase compensation for managers, employees in key positions, and technological employees.

These tasks will give performance appraisal a role to motivate employees and reflect XCL's reality and fairness. Employees with good performance will win

more motivation and praise, while the ones with bad performance will feel ashamed even get fired. It can be seen that XCL's compensation mechanism is scientific and comprehensive with material, mental and emotional motivations. It can also help establish right and fair view and mechanism of assessment, keep the organization united and balanced with proper assessment and motivation measures.

The paper investigates XCL's situation and demand and analyzes the company's HR status and current compensation mechanism. Then it designs and explores a modern, suitable and efficient compensation mechanism, which is easy to implement, through salary theory to match the XCL's and similar companies' demand and the author hopes that the model can be used for reference. In first part, the paper describes the background and significance of salary mechanism reform of XCL. The author explicates the method of reforming, systematically comparing the compensation status, reform trend and aftermaths between XCL and the companies in the same field, so that the author gives a clear reform plan to avoid mistakes. In second part, the paper explicates points of different salary theories and their meanings for the salary mechanism design of XCL through analyzing the realities of employees in different departments. Through employees' peer evaluation and self- assessment, the paper finds out the reasons of talent outflow and provides solutions, and gives the reform's results and difficulties. In the last part, the paper not only describes the salary reform model of XCL and the method of implementation.

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