

*Pay System Reforms in Public Service Units in
Contemporary China: The Implementation
and Impact of Performance-Related Pay*



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Declaration

I certify that the dissertation I have presented for examination for the PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others. No part of the dissertation has been previously submitted to any university for any degree, diplomas, or other qualifications.

This dissertation consists of 82,721 words, of which 66,565 are in the main text and the rest are in the bibliography and appendices.

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Abstract

The reform of pay systems in China has received growing attention from scholars over the past two decades. However, despite the great attention given to the business sector in China, one significant category among the pay studies in the Chinese public sector has been missing. In recent years, the Chinese government has started to implement a new wave of reform in the national payment system: performance related pay in the public service units (PSU, “*shiyue danwei*”), which form a cluster of public service providers operating alongside core government and separate from other state-owned or state-sponsored organisations. Compared to the extensive discussion of public sector pay in Western countries, there has to date been no academic research on pay systems in the Chinese PSU sector, leaving a significant gap in our understanding of the key changes in and challenges to its human resource management in different organizations. This thesis conducted in-depth case studies on the pay system reforms in six state schools and in one publishing organization, exploring a range of research objectives which draw on the New Economics of Personnel (NEP) theory and such motivation theories as expectancy theory, goal-setting theory, agency theory, cognitive evaluation theory and equity theory.

The case study results were found to be consistent with the NEP predictions. The two cases indicate that, although the principle of linking pay to individual performance has been well accepted by employees across PSUs, performance related pay was better implemented and more successful in the publishing organization than the state schools. The introduction of performance related pay in schools does not appear to have achieved the government’s objective of encouraging higher performance but did have other positive consequences such as retaining teachers in rural areas and possibly balancing the teaching resource in the longer run in addition to some unintended outcomes at the same time.

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Abbreviations

CET	Cognitive Evaluation Theory
COEs	Cooperate Owned Enterprises
FIEs	Foreign Invested Enterprises
HRM	Human Resource Management
IBPRS	Individual Based Performance-Related Rewards Systems
IJVs	International Joint Ventures
NEP	New Economics of Personnel
OECD	The Organisation for Economic Co-operation and Development
PLFs	Publicly Listed Firms
POEs	Private Owned Enterprises
PRC	People's Republic of China
PRP	Performance Related Pay
PSU	Public Service Unit
SOEs	State-Owned Enterprises
TVEs	Township and Village Enterprises

A list of selected Chinese pinyin and characters

<i>an lao fen pei</i>	按劳分配	<i>jishu gongzi</i>	技术工资
<i>ban zhuren</i>	班主任	<i>jixiao gongzi</i>	绩效工资
<i>bianzhi</i>	编制	<i>ligaishui</i>	利改税
<i>dangzheng jiguan</i>	党政机关	<i>mianzi</i>	面子
<i>danwei</i>	单位	<i>qiye</i>	企业
<i>duo lao duo de</i>	多劳多得	<i>shiye bianzhi</i>	事业编制
<i>fei jingying xing</i>	非经营性	<i>shiye danwei</i>	事业单位
<i>fudong gongzizhi</i>	浮动工资制	<i>shetuan</i>	社团
<i>gangwei gongzizhi</i>	岗位工资制	<i>tie fan wan</i>	铁饭碗
<i>gongjizhi</i>	供给制	<i>tong gong tong chou</i>	同工同酬
<i>gongling gongzi</i>	工龄工资	<i>tuixiang shichang</i>	推向市场
<i>gongyi</i>	公益	<i>xiaokang</i>	小康
<i>guanxi</i>	关系	<i>xinji gongzi</i>	薪级工资
<i>houshe</i>	喉舌	<i>xuexiao</i>	学校
<i>huodong gongzi</i>	活动工资	<i>yangguang gongzi</i>	阳光工资
<i>jianglixing</i>	奖励性	<i>yiwu jiaoyu</i>	义务教育
<i>jianglixing jixiao gongzi</i>	奖励性绩效 工资	<i>yuan</i>	元
<i>jichu gongzi</i>	基础工资	<i>zanzhufei</i>	赞助费
<i>jichuxing</i>	基础性	<i>zhiwu gongzizhi</i>	职务工资制
<i>jichuxing jixiao gongzi</i>	基础性绩效 工资	<i>zhuanye jishu ren yuan</i>	专业技术人员
<i>jiguan</i>	机关	<i>zhuguan bumen</i>	主管部门
<i>jintie butie</i>	津贴补贴		

Chapter 1 Introduction

1.1 Background

In Western societies and to an increasing extent in enterprises in contemporary China, pay is considered to be of strategic importance in attracting and retaining employees, motivating them and encouraging good performance, which could in turn enhance organizational performance, although the existence of such a link and the effectiveness of pay as a management strategy have long been open to debate. The pay system in China has gone through different stages. In terms of changes in the pay system in contemporary China, the popularity of performance related pay has been a major trend in several different sectors (Chow, 1992; Child, 1995; DeCieri, Zhu, et al., 1998; Ding, Goodall and Warner, 2000; Bjorkman, 2002; Cooke 2002, 2004, 2005; Bozionelos and Wang, 2007), although the real impacts of linking pay to employees' performances at the organizational level have rarely been investigated.

The reform of the pay system in China has received growing attention from scholars over the past two decades (e.g. Jackson and Little, 1991; Peng, 1992; Takahara, 1992; Child, 1994; Warner, 1996, 1997; Yu, 1998; Cooke, 2004 etc.). However, compared to the attention researchers have given to investigating business sectors (eg., SOEs¹ and FIEs²) in China, there has been very little discussion of human resource management and changes in the types of payment systems used in the Chinese public sector and government organizations, leaving a significant gap in our understanding of the key changes and challenges to human resource management in these organizations.

In recent years, the Chinese government has started to introduce a new wave of pay system reforms, focusing on the sector of public service units (PSU, “*shiyedanwei*”), which are a cluster of public service providers operating alongside the

¹ SOEs: State-owned enterprises

² FIEs: Foreign invested enterprises

core government, and which are separate from other state-owned or state-sponsored organizations. As one important part of the national PSU personnel reform, which started in 2000, a pay system reform was announced by the central government in 2006, aiming to introduce performance related pay in different groups of PSUs nationwide. This research will explore the process and outcomes of the pay system reform in a previously unanalyzed sector in China, the PSU sector, in which performance related pay has been the central theme in recent years.

1.2 Research Objectives and Questions

Despite the vast number of PSUs and the important role the sector plays in China, the process of the PSU pay system reform and its outcomes at an organizational level remain unexplored in the literature. Given the complexity and diversity of the organizations included in the Chinese PSU sector, it is crucial that the pay system reform be designed and implemented with full consideration of sectoral and regional circumstances (Cheng, 2000; World Bank, 2005), especially regarding how such changes in pay systems would directly impact employees.

In order to get an insight into the pay system reforms in different PSUs, this research conducted two in-depth case studies, using six state schools and one publishing organization. The main research question that this research aims to explore is: ***“How has performance related pay been implemented in different public service units (PSUs) in China during the pay system reform, and what has been its impact?”*** Based on the predictions of the New Economics of Personnel (NEP) theory and such motivation theories as expectancy theory, goal-setting theory, agency theory, cognitive evaluation theory and equity theory, a range of sub-questions are proposed, as follows:

- How does PRP fit into different PSUs in China?
- Can the employees improve performance by working harder?
- If the employee works harder, will he/she get higher pay?
- Do the employees perceive the bonuses they can receive by working harder to be valuable?
- How were the criteria for PRP decided upon in individual PSUs during the pay system reform?
- Has the introduction of PRP helped to align the interests of different parties in PSUs in China?
- What influence has the implementation of PRP had on employees' intrinsic motivation in different PSUs in China?
- Equity or equality which has had a more significant impact on the design of PRP systems in PSUs in China?

1.3 Thesis Structure and Overview

This thesis is structured into nine chapters (See Figure 1-1). Following the introduction given in Chapter 1, Chapter 2 identifies the development of pay systems in China through two main stages—the pre-reform stage prior to 1978, and the reform stage after 1978. In one part of the literature review, studies of pay systems in China are reviewed. This identifies pay system studies in the Chinese PSU sector as a gap in the existing literature. Chapter 3 introduces the Chinese PSU sector and the recent organizational and pay system reform different groups of PSUs in China have been going through. Due to the apparent popularity of performance related pay (PRP) in different PSUs in China, Chapter 4 reviews different theories related to this pay system, with a specific discussion

of the debates in the literature, surrounding PRP in the public sector. The NEP theory and motivation theories such as expectancy theory, goal-setting theory, agency theory, cognitive evaluation theory and equity theory are discussed, leading to the development of the research objectives this thesis aims to investigate.

Building upon the literature and theory reviews, Chapter 5 begins by identifying major research gaps and formulating the research questions. This is followed by the alignment of various elements of research design with the nature of the inquiry, which leads to the selection of the case study approach. The research design, covering data collection, data analysis procedures, and research quality assurance are also presented in this chapter, as well as a discussion of the challenges and efforts involved in conducting research in practice.

Chapter 6 presents the case study of the performance related pay system reform for schoolteachers in the compulsory education system in County H, illustrating the reform process with regards to both government policy-making and the adjustment of the pay systems in six different schools, and also revealing the impacts the change in pay system has had on the schools. As a comparative case study, an organization-spontaneous pay system reform in one publishing organization in Beijing is discussed in Chapter 7. The whole process of pay system reform in the organization, which has shifted its pay system from a seniority based to a performance based pay system, is looked into.

Based on the evidence observed in the two cases, a cross-case analysis is set forth in Chapter 8, discussing the research objectives this study has aimed to achieve. Beyond the findings related to the proposed research objectives, some further phenomena noticed during the empirical research are also presented, summarizing the diverse impacts the pay system reforms have had on the various PSUs examined in this research.

Finally, the concluding part, Chapter 9, draws together the key research findings and translates them into implications for both theory and practice. It also acknowledges the research limitations and indicates directions for future research.

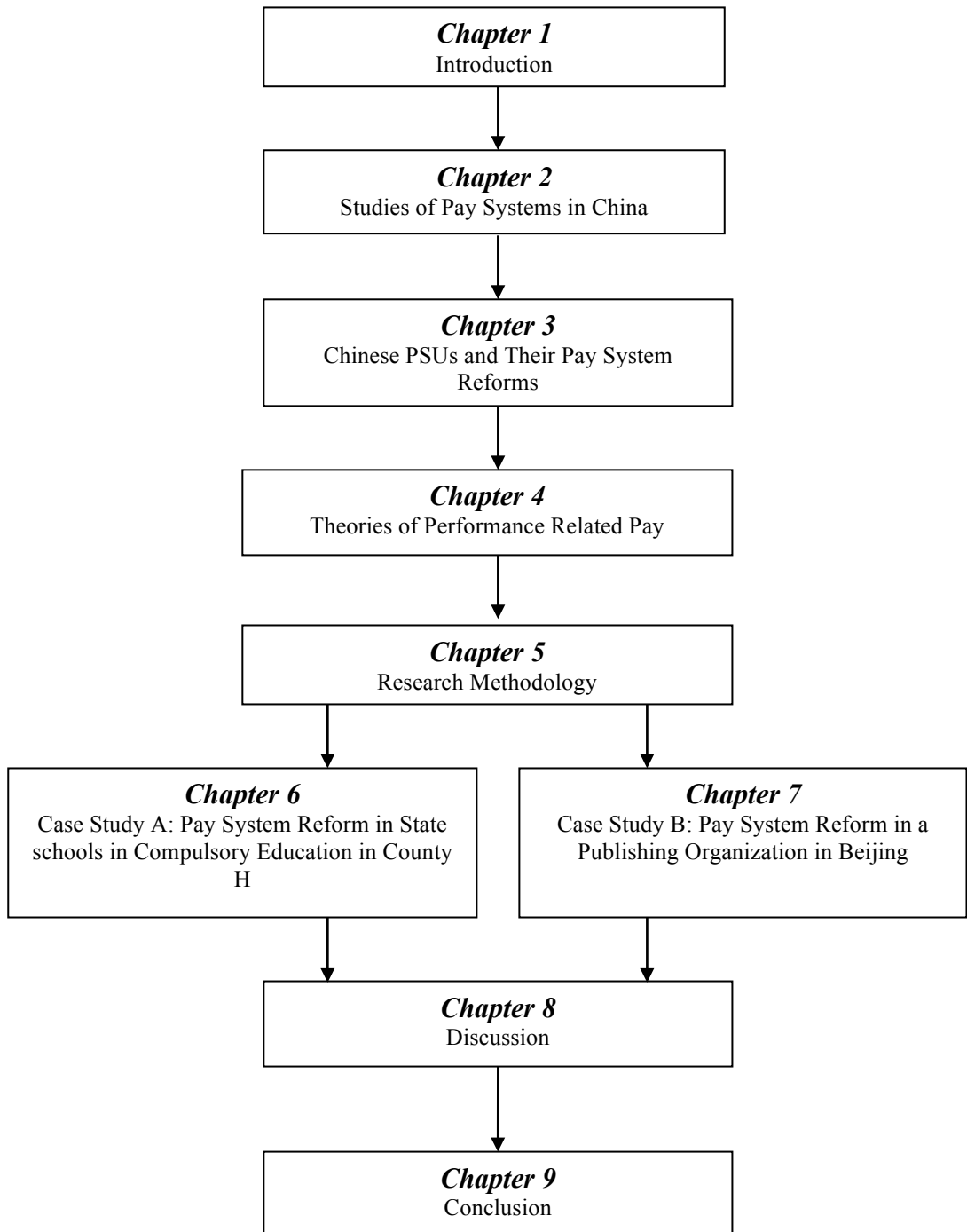


Figure 1-1: Thesis Structure

Chapter 2 Studies of pay systems in China

The question of pay and its determination has exposed tensions in China between socially embedded values and the functional requirements for modernization (Child, 1995), because pay systems in China have been undergoing reforms in line with the country's economic development. The changes in the pay systems used in China have demonstrated a number of unique characteristics, unlike those in other countries. Generally speaking, pay systems in China have gone through two main stages—the pre-reform stage before 1978 and the reform stage after 1978, when China started its “open door” policy and shifted to “Socialism with Chinese characteristics”. In this chapter, first of all, a historical review of pay system reform in the People's Republic of China (PRC) will provide the background for the thesis. Second, a review of existing studies of pay and payment systems in China will be presented. Third, research gaps in three major areas will be identified.

2.1 The development of pay systems in China

1949-78: the pre-reform stage

A typical Chinese state compensation system before the national economy reform usually consisted of three types of wage: monetary wages, social wages and non-material incentives. Each type could include different components, as shown in the following table (Table 2-1).

However, although these were the typical components of pay systems across China, a review of the development of the pay system in China during the pre-reform stage, shows that there were in fact different phases with distinctive features. For example, the initial consolidation period (1949-1952) saw a

confusing application of various compensation systems, some inherited from the Nationalist regime and some from the Soviet system (Shenkar and Chow, 1989; Takahara, 1992).

Table 2-1: Components of the Chinese state pay system (1949-1978)

Monetary wages	Basic (or standard) wage	The wage earned by all PRC workers. Set to ensure that a worker's basic needs were met; relatively stable over time except for adjustments to match the regional cost of living.
	Seniority wage	Based on the number of years of experience.
	Position wage	Determined by a worker's position on the industry ladder as well as his current position (i.e., the amount of labour and quality of work the position requires, its importance, level of responsibility and the job-holder's technical know-how).
	Floating (or flexible) wage	The differential pay awarded according to the individual's contribution to the enterprise's economic performance.
	Time-rate wage	Pay determined by the amount of time spent at work, measured in hourly, daily, or monthly units.
	Piece-rate wage	Awarded on the basis of productivity efficiency.
	Bonuses	Payments based on such criteria as above-quota output, superior product quality, cost reduction, waste elimination, on- or before-schedule completion, improved safety and technical innovation.
Social wages	Allowances	Workers were given various forms of allowances to make the compensation package more fully meet their needs—for example, allowances for overtime, shift work, difficult or hazardous working conditions, cost of living adjustments, and fuel in some cold regions.
	Labour insurance	Included paid sick leave, disability pay, paid maternity leave, funeral allowance, relief pay for family dependents, retirement benefits, free annual medical check-up, paid vacation, leave for visiting immediate family members, hardship allowance, etc.
Non-material incentives	Collective welfare	Included subsidized housing, subsidies for grain, oil and non-staple foods, subsidies for personal services (e.g., haircuts) and transportation, and various kinds of community services, such as nurseries, kindergartens, medical and recreational facilities.
	Model workers	Form of recognition offered at various levels, from the work unit up to the national level. Model workers were publicly praised and presented as role models for other employees to follow.
	Participatory management	Allowed employees to participate in decision-making but was frequently a ritual, orchestrated from above.
	Job enrichment	Various job enrichment strategies, e.g. rotation.
	Election of directors	Election of top workers to management positions.

Source: Shenkar and Chow (1989) and Chow (1992)

In 1953, China launched its first Five Year Plan, marking the start of a central planning period (1953-1957). The first pay system reform in the public sector took place between 1953 and 1956. The purpose of the first wave in 1953 was to bring to an end the dual system of pay that was made up of both material supplies and salary. It aimed to make a transition to a salary-based pay system from one which was dominated by material supplies “*gongjizhi*”, a legacy from the revolutionary period before 1949 when the distribution system bore strong indications of military communism. This pay reform also introduced, for the first time, a grading system for classifying each employee’s level of pay on the principle of ‘distribution on the basis of labour’ (*‘an lao fen pei’*) (Cooke, 2004).

The second wave of pay system reform was carried out in 1956, following the announcement of the “State Council’s Decision on Wage Reform”. This reform saw the formal implementation of a pay scale, using a nationwide Soviet-style wage grading system (Takahara, 1992; Cooke, 2004). At this time, the wages of employees in all state-owned enterprises (SOEs) and government organizations were divided into three major categories, as shown in Table 2-2.

Table 2-2: State industrial wage systems from 1956 onwards

1. 8-grade Wage System	2. Occupational Wage System	3. Cadre Wage System
a) set up in 1956 b) eight wage grades; <i>skill-based</i> , to be linked to the bonus system c) covered most production workers	a) set up in 1956 b) one wage rate for each occupation; <i>output based</i> , to be linked to piecework c) covered operatives in selected industries, e.g. textiles, chemicals, iron and steel, railways and other transport	a) set up in 1956 b) 24 wage grades; <i>responsibility-based</i> , to be linked to the bonus system c) covered white-collar workers and staff

Source: Jackson and Littler (1991: 11)

According to Jackson and Littler (1991), after the 1956 national pay system reform, most workers in China were paid under the eight-grade system (seven-grade in some industries), formulated as a unified scheme which initially

classified workers' jobs into different types, mainly according to the level of technical complexity, labour intensity and responsibility. The occupational wage system (“*gangwei gongzizhi*”) consisted of as many as fifteen grades, and was mostly common in factories where division of labour was highly developed, skills were less complex and job differences were small. Piecework wages were common within this system because it was markedly output-based. At the same time, white-collar workers and staff in the public sector, including those in SOEs, were paid under the cadre wage system (also called the ‘position wage system’, or ‘*zhiwu gongzizhi*’). This system was responsibility-based and used a fixed schedule of standard salaries spanning 24 grades (initially thirty, when first established in 1956). At the top were senior officials of the State Council, etc., and at the bottom (the 24th grade) were office workers of the lowest level, such as messengers and cleaners.

For example, according to this system, scientists in research institutes and teaching staff in higher education were divided into twelve pay grades, ranging from the lowest-paid at 62 *yuan* (about £5.60) per month to the highest-paid at 345 *yuan* (about £31) per month (Cooke, 2004). During this time, wages were kept deliberately low in a bid to keep prices down (Takahara, 1992; Cooke, 2004), but material incentives such as piece-rate bonuses were common in different industries in China, as the ideology of “distribution on the basis of labour” was highly supported at that time (Shenkar and Chow, 1989; Cooke, 2004).

As well as these material wage systems, a general policy of combining monetary with non-monetary incentives was adopted after the 1956 wage reform, in order to stimulate productivity. As an important element in the traditional Chinese pay system, non-material incentives were provided in the form of social recognition. Moral encouragement campaigns, with accompanying material rewards, on the basis, for example, of patriotism, or loyalty to the Communist Party were frequently used to improve productivity. During this era, workers were encouraged to emulate, learn from, catch up with and overtake the advanced

units in their organization, and outstanding workers were given wide publicity, with honorary titles, such as ‘model worker’, ‘advanced worker’, ‘labour hero’, as an example for others to follow (Chow, 1992).

However, when the period of the Great Leap Forward began (1958-1960), more collectivist values came to the fore (Glover and Trivedi, 2007) and the bonus payments for cadres, which had helped to widen income differentials, were abolished (Child, 1994), mainly because Chairman Mao believed that the motivating force should come from non-material incentives, appealing to an individual’s need for identification with the Communist Party and group recognition (Chow, 1992). Due to the over-emphasis on expanding the manufacturing sector during the Great Leap Forward, there was a drop in agricultural output between 1959 and 1961, followed by a famine. Thus, a readjustment was needed between 1962 and 1965, with pay systems returning to the previous national system that was in place before the Great Leap Forward.

Nevertheless, the Cultural Revolution, which began in 1966, led to a distinctive period (1966-1976), during which politics and ideology were the prevailing concerns (Glover and Trivedi, 2007). In terms of rewards, competitive, individual and material incentives were rejected in favour of cooperative, collective and moral incentives; material bonuses were denounced as part of the general attack against “bureaucracy”, and were criticized for causing inequality, which “invariably gives rise to class exploitation” (Child, 1994; Glover and Trivedi, 2007). During this period, bonuses were cancelled in most enterprises and “everyone was paid regardless of whether one did a good job or bad, did more or less, or even if one did not turn up for work” (Shenkar and Chow, 1989: 69). The Cultural Revolution was seen to have dissipated incentives and responsibility for economic performance through egalitarianism, the weakening of management, the general devaluation of expertise and the claim that ideological fervour and inspired leadership could substitute for technical knowledge (Child, 1994; Cooke, 2004; Glover and Trivedi, 2007 et al.).

To sum up, from 1958 until 1978, in most organizations in China, the wage structure was essentially frozen and the distribution of wages between organizations was a direct function of employment allocation (Cooke, 2004). For example, earnings increases were virtually frozen from 1963 to 1977, and by 1977 average real earnings were lower than in 1952 (Child, 1994). According to Shenkar and Chow (1989), one of the most important problems in pre-reform enterprises under Mao's regime was that of low probabilities: performance was not perceived as being a product of effort, since the over-staffed enterprises assigned very low performance levels. At the same time, employees did not expect better performance to lead to such desirable outcomes as higher pay (especially when bonuses were cancelled) or promotion (which was based on either seniority or one's political background and connections).

1978 to date: Socialism with Chinese characteristics

After the death of Mao Zedong in 1976, Deng Xiaoping assumed power in China. Under his leadership, China embarked on an economic reform programme, announced during the Third Plenum of the Eleventh Central Committee, in December 1978. Since then, China has entered a reform stage of "socialism with Chinese characteristics", a title first used by Deng Xiaoping in 1982 to describe the new approach to economic reform (Glover and Trivedi, 2007).

Post-1978, there was a gap between the carrying out of economic reform and wage reform. After the cultural revolution was terminated, the 1956 wage system was restored and bonuses and piecework rates returned as components of compensation. Annual income increased from an average of 605 *yuan* in 1976 to 865 *yuan* in 1983, an increase in real wages of around twenty per cent if price inflation is taken into account (China Statistical Year Book, 1996). However, the basic schemes for industrial wages remained intact during the early stages of the economic reform (Chow, 1992).

The need for wage reform was officially confirmed by the Third Plenum of the Twelve Party Central Committee in 1984, when the Communist Party of China's Central Committee adopted a major policy document on *China's Economic Structure Reform*. This sought to build on the country's economic reform programme and expounded that a 'systematic' and 'all round' policy be applied generally throughout the industrial sector (Jackson and Littler, 1991; Child, 1994). The document articulated a clear expectation that industrial performance would benefit if personal contributions were reflected in the level of material reward:

The well-spring of vitality of the enterprise lies in the initiative, wisdom and creativeness of its workers by hand and brain...when their labour is closely linked with their own material benefits, their initiative, wisdom and creativeness can be brought into full play. This has been vividly and convincingly proved by our experience in rural reform (Communist Party of China, 1984: 11).

Since then, the ideology proposed by Deng Xiaoping, including for example "distribution according to the quantity and quality of an individual's work" and "a person's grade on the pay scale is determined mainly by his performance on the job, his technical level and his actual contribution", has spread across China (Child, 1994). In 1984, China started its second pay system reform, which included three 'basic principles', namely, the 'floating wage system', the 'structured wage system' and the 'tax pay for profit system'.

The floating wage system (*fudong gongzizhi*) was introduced to state enterprises as an output-based system, intended (at least in part) to replace bonuses, which were increasingly recognized as failing to link pay directly to performance. The first aspect of the floating wage system involved the enterprise's wage fund, which could increase or decrease according to certain performance indicators, such as profits, sales or some measure of output. The second aspect introduced a variable element into the salary itself, allowing it to fluctuate according to the production volume of the worker or to the degree of responsibility, workload

and/or enterprise profit level, for managerial and non-production workers (Child, 1994; Jackson and Littler, 1991; Cooke, 2005 etc.)

The 'structural wage system' was mainly introduced to the state sectors, including civil servants and employees in the public sector (a point that will be discussed further in Chapter 3). Under the structural wage system, an individual wage package was divided into a number of components, such as basic pay, seniority pay, position and variable pay (in the form of bonuses or other allowances).

Basic pay (*jichu gongzi*) was the same for everybody, irrespective of their hierarchical position, and was meant to cover basic living expenses, about thirty to forty per cent of the individual's total pay.

The positional pay (*zhiwu gongzi*) was based on a person's managerial or technical position and responsibilities. Such position pay, or sometimes also called technical pay (*jishu gongzi*) for employees in technical positions, depended on the nature of the job, and usually made up a third of total wages.

Seniority pay (*gongling gongzi*) was a relatively moderate subsidy, which accrued each year up to a maximum of forty years, and usually accounted for only a small portion of the employee's total wage.

Variable pay (*huodong gongzi*), including bonuses and other allowances, was linked to both the worker's individual performance and the profitability of the whole enterprise. Around twenty to thirty per cent of a worker's total wage came from this.

The objectives of the structural wage system were both economic and political. Its introduction abolished the previous wage grading system, which was criticized for having too many wage standards, causing discrepancies between positions and wages, creating a great deal of irrationality in wage differentials,

and causing conflicts between members of staff. In theory, such pay system represented a marked shift from the earlier egalitarian pay principle, since it placed far greater emphasis on each employee's responsibilities and performance (i.e. 'to each according to his work') (Jackson and Littler, 1991; Cooke, 2005 etc.)

Another important principle introduced in the pay system reform of 1984 was the implementation of the new tax-for-profit (*ligaishui*) taxation system, the aim of which was "leaving all enterprises to be responsible for their own profits and losses and to engage on an equal footing with each other in market competition" (Huang, 2010: 93). This policy required that the enterprise wage bill should come out of profits, instead of being part of production costs (Jackson and Littler, 1991); this separated government intervention from enterprise management and gave managers more flexibility in their allocation of wages.

In the 1980s, the growing emphasis on meritocracy and material incentives in China was the result of the leadership's growing desire for economic efficiency and use of profit as a major indicator of enterprise performance (Jackson and Littler, 1991). For example, from 1978 to 1985, time-rate wages fell from 85 per cent to 59.5 per cent of overall wages, while piece-rate wages increased from 0.8 per cent to 9.9 per cent. At the same time, bonuses rose from 2.3 per cent on average to 12.9 per cent (Shenkar and Chow, 1989).

Table 2-3: Composition of the wages of employees of state-owned units (in percentages) in the 1980s

Year	1978	1980	1982	1983	1984	1985	1986	1987	1988
Time-rate wages	85.0	69.8	64.4	63.5	58.5	57.2	56.3	54.3	49.0
Piece-rate wages	0.8	3.2	7.6	8.5	9.5	9.5	8.7	9.2	9.4
Various bonuses	2.3	9.1	10.9	11.1	14.4	12.4	12.8	14.7	17.2
Various subsidy allowances	6.5	14.1	14.1	14.1	14.5	18.5	18.8	18.9	21.4
Overtime	2.0	1.6	1.5	1.3	1.5	1.6	1.8	1.9	1.9
Other	3.4	2.2	1.5	1.5	1.6	0.8	1.6	1.0	1.1

Note: 1985-1988 time-rate wages included both a base wage and a job responsibility component

Source: *China Statistic Yearbook (1987: 688; 1989: 130)*; cited in Jackson and Littler (1991: 15)

This second pay system reform, which lasted for a period of eight years, played an important role in the development of the Chinese pay system. However, its success was limited. For example, although it introduced the floating wage system to SOEs, with the aim of linking pay more closely to performance, the fact was that, for many workers, a bonus payment was a necessary supplement to the basic wage, due to the rapid rises in retail prices and the availability of a larger range of consumer goods. Thus, there was social pressure for more compensation in the form of bonuses, in a situation where the wages of many people remained stagnant until the government made another 'adjustment'. As a result, managers of many types of organizations in China were under pressure to pay equal bonuses to workers and resorted to various methods of finding more money to make these payments. This led to bonuses for meeting output or quality indicators being paid so routinely and extensively that they amounted to little more than an automatic wage supplement (Jackson and Littler, 1991). The implementation of the structural wage system in the state sectors during this national pay system reform also achieved relatively little because it tried to cover too broad a range of occupations, so that the state had great difficulty in establishing a uniform national scheme of positions and appropriate wages. In addition, position is not always a reliable indicator of competence and performance, since promotion in China's state sector is usually based on seniority rather than performance evaluation. This reform also led to a relative wage reduction for public sector employees compared with the wages paid in enterprises, in part because SOEs were better able than other enterprises to increase the proportion of bonus wages paid (Cooke, 2004, 2005), while at the same time, some peasant incomes had more than tripled and some rural collectives and people in the private sector earned more than state workers did (Jackson and Littler, 1991).

In the 1980s, when China sped up its 'open door' policy, more foreign investment entered China and this led to its having a much more competitive market for domestic enterprises (e.g. the first manufacturing joint venture was Beijing Jeep, established in 1984, followed by many other joint ventures and

multinational branches). At one time, SOEs had dominated industrial production, and their work-units (*danwei*, which will be discussed in more detail in Chapter 3) embodied the so-called ‘iron rice-bowl’ (*tie fan wan*), which ensured a ‘job for life’ and ‘cradle to grave’ welfare for most urban industrial SOE employees. However, this SOE employment system changed significantly with the traditional ‘iron rice bowl’ system began to be dismantled across China from that time (Ding, Goodall et al., 2000). As a result, a state legislated personnel reform was begun in 1992, with the introduction of labour contracts, performance related rewards and workers’ contributions to social insurance (Ng and Warner, 1998). At the same time, the State Council issued a circular, stating that enterprises were permitted to set their internal wage structures, within the confines of the overall wage budget established by the government (Yueh, 2004).

The third national pay system reform in the P.R.C. history was introduced in 1993, when the Ministry of Labour ended the quota system for employment. After this, the numbers of new employees that could be hired, conditions of employment and forms of recruitment could all be decided independently by each firm independently (Ning, 2008). Subsequently, the 1994 Labour Law of the PRC, which came into effect on 1 January 1995, institutionalized a market-oriented, extensive labour contract system, requiring all firms, regardless of ownership, to hire their employees using labour contracts (Ding, Goodall et al., 2000). This decisively broke the traditional ‘iron rice bowl’ of the SOEs and was linked to huge waves of downsizing of SOE employees in the late 1990s.

The third wave of pay system reform in the PRC started in 1993, after the Third Plenum of the 14th Central Party Committee, during which ‘productivity’ and ‘equity’ in the national wage system were first proposed. Compared to the previous pay system reforms, the 1993 reform mainly focused on the state sector, with the important decision being made to separate the pay system in the public sector from that in governmental organizations. The 1993 pay system reform led to the establishment of five pay schemes divided into two parts,

reflecting the diverse range of jobs in the public sector. According to the new system, organizations in the sector were divided into five categories, each of which had a specific pay system, based on the nature of the jobs involved. The five pay systems were as follows:

The first was the ‘pay system based on technical position levels’. The parts of the public sector that adopted this pay system mainly included education, research, health, publishing, agriculture, museums, and environmental protection. Within them, an employee’s responsibility and performance levels were indicated by his/her position level. For each individual, pay was made in two main parts: position pay (based on the employee’s specific technical position level) and subsidies (the flexible part of the wage, linked to performance). The state would control the overall budget allocated to wages, but the organization itself could decide how to allocate the subsidies. Each individual would receive a fixed amount based on his/her position level, plus a flexible, subsidized part, linked to performance.

The second system was the ‘pay system based on technical positions’. This was mainly adopted by sectors such as geological, topographical, ocean research and other sectors that involved outdoor activities. Similarly to employees in the first category, employees under this pay system again received their pay in two parts: a fixed part based on their technical position and a subsidized part based on working conditions and the difficulty of their position. The main difference between the two was that in the second category, the subsidized part of wages was fixed. The subsidy was tied to position and only changed if the employee’s position changed (e.g. it would be withdrawn if the employee moved from an outdoor-based to an indoor-based position).

The third category was the ‘pay system for employees working in the art performance sectors’. People working as professional performers in the public sector received three pay components: position pay, based on their official skill level, a performance-level subsidy, reflecting their actual performance/skill level

(e.g. main actor/actress; second actor/actress etc.), and a subsidy for their actual performance (based on number of concerts performed, etc.).

The fourth category included employees working in the sports sector, such as professional athletes or coaches. Employees in this sector received a fixed amount according to their professional level, and bonuses, based in part on their competitive performance. The fifth category comprised employees working in financial firms such as national banks, who receive a fixed position pay plus performance pay reflecting their achievement of targets.

Another important feature of the 1993 pay reform was to introduce a flexible wage alongside the traditional fixed wage. The *Wage Reform for Employees in Government and Public Service Sectors by the State Council of the PRC* (1993), set out that employees in those parts of the public sector fully-funded by the national budget should receive seventy per cent fixed pay and thirty per cent flexible pay, while those in partially-funded area should receive sixty per cent fixed and forty per cent flexible pay. No specific requirements were made for self-funded organisations.

In order to recruit and retain workers in the state sector, especially in some less popular positions, the 1993 pay reform also increased wages for dirty, strenuous and high-risk jobs and those in remote areas. In theory, this pay system reform was the first step towards a differentiated management system for the public sector. This kind of non-egalitarian system was believed to motivate employees in each organization, by closely linking earnings to performance, at both the individual and organizational levels. However, like the previous reform, the 1993 wage reform is considered by scholars in the field to have been insufficient. It was found to have little impact on motivating the workforce, rewarding good performers or improving public-sector pay in relation to that of other sectors (Warner, 1996; Yu, 1998; Cooke, 2004, 2005, etc.).

Although the Chinese government made further adjustments between 1993 and

1999, the implementation of performance-related pay elements caused an undeclared but officially endorsed deviation from the principle of ‘to each according to his work’. For example, although the general pay level largely increased during the 1993 reform, seniority remained the most important determinant of pay in the Chinese public sector, and flexible bonuses/subsidies were still allocated in an egalitarian way in most organizations. Then, in 2006, the central government launched another wave of pay system reforms, focusing on the public sector, generally thought of as the fourth pay system reform in the PRC’s history which aimed to introduce performance related pay across the public sector in China. The details of this most recent pay system reform will be discussed in Chapter 3. Meanwhile, in the next section, the literature on pay in contemporary China will be reviewed, demonstrating the research gaps that this thesis seeks to address.

2.2 Review of studies on pay in China

Nowadays, an overwhelming collection of literature on human resource management (HRM) in China can be found in international journals, with more studies appearing on the horizon continually (Cooke, 2009). Among all the literature discussing management issues in China, the reform of the pay system is one subject that has received considerable attention from scholars in the past two decades (e.g. Jackson and Littler, 1991; Peng, 1992; Takahara, 1992; Child, 1994; Warner, 1996, 1997; Yu, 1998; Cooke, 2004, etc.). In recent years, the issue of effective performance and reward management has been the topic of continuous research and discussion in international journals (Jiang, Yi and Liu, 2006; Baruch, Wheeler et al, 2004; Liu and Mills, 2005; Tan and Liu, 2004; Zhang and Li). However, despite the increasing awareness of the introduction of effective pay systems in different types of organization in China, there has been a dearth of research in this area, as very few studies, and in particular little in-depth research, have been conducted on the changes to and effectiveness of pay

systems at different organizational levels, using samples from China (Baruch, Wheeler et al, 2004; Wang, Nicholson, et al., 2009). In order to determine the existing pay studies that have been carried out in China and identify research gaps, all of the literature on pay in contemporary China was reviewed (by searching for the key words “pay/compensation/wage” and “China” in the electronic data base of the LSE library, by ‘title’, ‘key words’ and ‘abstract’, as well as through *google* and *googlescholar*). All of the pay studies based in China, from the 1990s onwards, are listed in Table 2-4 below.

Table 2-4: List of empirical pay studies in contemporary China ³

Author(s)	Year of data	Issues	Method	Major findings
Peng (1992)	1986	Wage determination process for employees in the rural public sector, rural private sector, and urban state sector in China	Survey (N1=1002, from urban state sector; N2= 770, with 541 from rural public sector, 229 from private sector)	Wage determination in rural industry is similar for both public and private enterprises, but differs from wage stratification in the urban state sector. Occupation, gender, and various human capital factors differentiate wages much more effectively in the rural sectors than in the urban state sectors, where pay is more equal among employees.
Takahara (1992)	1948-1986	Political aspects of pay determination and consequences	Ethnography	Pay policy and implementation determined by political forces and the interests of different parties. Increasing bargaining power of workers, higher rate of increase of pay level than productivity increases and egalitarian bonus distribution were observed.
Chow (1992)	1989	Chinese workers' attitudes towards compensation practices	Survey (N=504, in Henan Province)	Respondents preferred a performance-based compensation system to an egalitarian system; the least preferred options were equal distribution or that based on seniority.
Chen (1995)	1991	Comparison of Chinese and US employees' goal orientation and allocation preferences for various types of organizational rewards	Survey	Chinese respondents put emphasis on economic organizational goals, whereas the Americans put emphasis on humanistic ones; the Chinese expressed consistent support for the differential allocation of both material and socioemotional rewards, and the Americans supported the performance rule for material rewards but preferred equality rules for socioemotional rewards.

³ This table lists all articles/books on pay studies in China using empirical research/data, from the 1990s up until the time of final writing of this thesis. Review papers and literature on general HRM studies in China, with partial discussion of pay issues, were also reviewed during this research, but are not included in this table.

Child (1995)	1985-1990	Changes in the structure of earnings in a sample of Chinese enterprises over a period	Two investigations with informal direct personal questioning conducted within the same six Beijing state manufacturing enterprises (1985 N=143; 1990 N=144)	In 1985, factors identified by the traditional model, especially age, were the most important predictors of earnings. By 1990, some movement towards the reform model had taken place, although age continued to have an important, albeit weaker, association with the level of earnings, and the link between pay and performance was still quite limited.
De Cieri et al. (1998)	1994-1995	Pay practices and consequences in Chinese firms with different ownership structures	Survey (N=440, with 104 SOEs, 45 COE ⁴ s, 16 POE ⁵ s and 53 foreign invested enterprises (FIEs) in Shanghai, Nanjing and Tianjin)	Material incentives and pay-for-performance were valued by the employees; benefits were an important part of the compensation package; seniority-based pay was expected to be less important in the future; bonuses were mainly determined by inflation rate and attendance.
Dong (1998)	1984-1990	Employment and wage behaviour of Chinese township and village enterprises (TVEs)	Data analysis based on panel data from Chinese rural enterprises collected by the Research Center for Rural Development of China's State Council and the World Bank	TVEs valued both employment and income but emphasized income above employment, with TVEs employing fewer workers than an ideal firm would; the enterprise's ability to create jobs for its own sake was constrained by its financial situation; workers and local government in underdeveloped noncoastal regions valued employment relative to income more than did those in economically advanced coastal regions.
Zhou, and Martocchio (2001)	N/A	Differences between Chinese and American managers making compensation award decisions (bonus amounts and nonmonetary recognition)	Survey (Chinese sample) of participants in an executive training programme at a large Midwestern university (N=71)	Compared with their American counterparts, Chinese managers (a) put less emphasis on work performance when making bonus decisions, (b) put more emphasis on relationships with coworkers when making nonmonetary decisions, (c) put more emphasis on relationships with managers when making nonmonetary award decisions, and (d) put more emphasis on personal needs when making bonus decisions.

⁴ COES: Cooperate owned enterprises

⁵ POEs: Private owned enterprises

Heneman, Tansky et al. (2002)	N/A	Comparison of compensation practices in small entrepreneurial and high-growth companies in the US and China	Data analysis based on a validated survey of US pay practices (inadequate data for Chinese part)	Seniority is still important, and internal equity determines pay rates far more than the external market for small Chinese companies. Incentive plans and bonuses based on organizational performance are extremely important in China. Thus, China mixed traditional HR practices with more cutting-edge US pay plans.
Chiu, Luk et al. (2002)	1996	Compensation preferences in Hong Kong and China	Survey (Hong Kong N=583; China, questionnaires mailed from Hong Kong, completed by general manager (or HR manager) in Hong Kong-owned and foreign-owned companies with operations in PRC, N=233)	In Hong Kong, the base salary, merit pay, year-end bonus, annual leave, mortgage loans, and profit sharing were the most important factors in retaining and motivating employees. In China, the base salary, merit pay, year-end bonus, housing provision, cash allowance, overtime allowance, and individual bonus were the most important.
Chen, Choi et al. (2002).	N/A	How local employees of international joint ventures (IJVs) perceived the disparity between their compensation and that of foreign expatriates	Questionnaires with local Chinese employees of IJVs who had worked with foreign expatriates (N=161)	Chinese locals perceived less fairness when comparing their compensation with expatriates' than when comparing it with other locals'. However, fairness vis-à-vis expatriates increased if the locals received more than their peers in other IJVs or where there were endorsed ideological explanations for the expatriates' higher compensation.
Giacobbe-Miller, J., D. Miller et al. (2003)	1996 (Russia & US); 1997 (China)	A comparative study of distributive justice values in China, Russia and the US	Survey (Russian managers N=87; Chinese managers N=113, from eighteen enterprises, including SOEs (72 per cent) and JVs/FOEs (28 per cent); university graduates in US, N=100)	Country differences: China more collectivist than Russia and the US. Enterprise differences: no difference in allocations between Chinese SOEs and JVs/FOEs. Culture appears to dominate the Chinese results, in which there were no differences by enterprise type.
Hickey (2003)	2001	MNC pharmaceutical compensation in China	Survey (interviews of HR or compensation specialist of eleven pharmaceutical MNCs' Chinese headquarters)	Significant differences between the labour costs of Western pharmaceutical workers and their Chinese counterparts. It is recommended that human capital intensive MNCs examine their strategies for increasing the variable pay of compliance and QC employees, in order to aid ongoing organizational

Cooke (2004)	1949-2001	China's public-sector pay from 1949 to 2001	Review and analysis Data source: 1) secondary data; 2) informal interviews; 3) author's own experience	learning, while conversely adjusting the variable pay mix appropriately for different types of either knowledge or volume intensive sales incumbents. The pay system in the public sector in China demonstrates a number of unique characteristics which differ from those in other societies, such as the egalitarian culture, the relatively large proportion made up by the bonus in the total pay package, and the significant role of workers in controlling their bonuses.
He, Chen et al. (2004)	2001	Effects of ownership reform and individuals' collectivist values on the rewards-allocation preferences of employees of Chinese SOEs, and how these relationships are mediated by employees' productivity goal orientation.	Survey (N=297, employees from one public SOE and one subsidiary of an SOE for each of four holding companies)	1) Employees of enterprises that had experienced a greater degree of ownership reform expressed stronger preferences for differential allocation rules (e.g., job position and performance) but weaker preferences for egalitarian allocation rules (e.g., group and individual equality). 2) Vertical collectivism was positively related to preferences for differential allocation rules, but horizontal collectivism was positively related to preferences for egalitarian allocation rules. 3) The effects of both ownership reform and vertical collectivism on differential allocation preferences were mediated by productivity goal orientation. Research and practical implications for ownership reform and vertical-horizontal collectivism are discussed.
Baruch, Wheeler et al. (2004)	2001	Performance-related pay in Chinese professional sports	Questionnaires to members of eight professional sports teams (N=50)	The nature of competitive professional sports, with an emphasis on personal abilities, objective measures of performance and an emphasis on continuing short-term performance, is particularly suited to a PRP system of rewards, even in a collectivistic culture where PRP is less likely to be generally applicable.
Yueh (2004)	1995 & 1999	Wage reforms in China during the 1990s for the working-aged urban population	Statistic analysis with two cross-sectional data sets conducted by the National Bureau of Statistics (NBS)	The components of annual income have changed, reflecting fewer subsidies and more diverse sources of income, over the period from 1995 to 1999. By 1999, the wage structure reflects less seniority-based pay, allows for more discretion in rewarding non-productive characteristics, and also permits more productivity related pay.

Liu and Mills (2005)	1978-97	The effect of PRP for hospital doctors on hospital behaviour	Longitudinal data on revenue and productivity from six panel hospitals and a detailed record review of 2,303 tracer disease patients	There was an increase in unnecessary care and in the probability of admission when the bonus system switched from one with a weaker incentive to increase services to one with a stronger incentive, suggesting that the improvement in the financial health of public hospitals was achieved at least in part through the provision of more unnecessary care and drugs and through admitting more patients.
Ding, Akhtar et al. (2006)	N/A	Organizational differences in managerial compensation and benefits in SOEs, PLFs ⁶ and FIEs	Survey (questionnaires by phone/fax in Shanghai, Guangzhou and Nanjing; N=465)	Not only industry sector, but also firm age, ownership and location impact the level of managerial compensation.
Bozionelos and Wang (2007) *	N/A	Workers' attitude towards individual based performance-related rewards systems (IBPRRS)	Survey (N=106, white-collar workers employed in a new Chinese SOE)	While the general attitude is positive, the respondents indicate that the fear of losing face (<i>mianzi</i>) and the concern that performance evaluation is affected by personal relationships (<i>guanxi</i>) make it hard to implement an IBPRRS.
Li and Edwards (2008)	2006	Work and pay in small Chinese clothing firms	Case study; semi-structured face-to-face interviews and observations (owners and managers in 7 case firms and 63 employees in 12 firms)	Workers could negotiate relatively high wages, albeit at the cost of very long hours; work relations in small firms are more nuanced than the sweatshop image allows, and extreme exploitation is more likely in Taylorised workplaces run by large corporations.
Ding, Akhtar et al. (2009)	2005	Impact of inter- and intra-hierarchy wage dispersions on company performance	Questionnaire surveys: (1) HRM questionnaires filled in by HR director, (2) a company performance questionnaire filled in by general or deputy general manager (N=395)	Inter-hierarchy wage dispersion between managers and workers is beneficial to firm performance. Whether intra-hierarchy wage dispersion within manager or worker groups would have positive or negative effects on firm performance would depend on the nature of performance goals and the degree of task interdependence.

⁶ PLFs: publicly listed firms

The studies listed in Table 2.4 are mainly papers published in international journals since the 1990s, when the topic of pay in China started to attract the awareness of academic researchers, both in China and abroad. The only exception is the work by Takahara (1992), which is a book reviewing the Wage Policy in Post-Revolutionary China. As well as the studies listed in Table 2.4, more general review papers and literature about HRM in China, with some discussion of pay issues, were also reviewed during this research. Three significant research gaps were identified after reviewing all the existing literature; these are discussed in the next section.

2.3 Identification of research gaps

There are many different issues influencing HRM and pay system development in China. As it is a big country in terms of both land mass and population, it is common to find differences in culture between employees from the north and the south (Beardwell and Claydon, 2007). It is also usual to see deep divisions according to sector, location, ownership type and employee numbers (Warner, 2004). Based on an extensive review and analysis of 182 articles published in the field of HRM, focusing on China since its economic reform, Zhu, Thomson et al. (2008) suggest that ownership has emerged as an important facet of HRM research in China, and is included as a major category in the research protocol (Zhu, Thomson et al. 2008).

When classifying pay studies according to the ownership of the sample organizations, three groups emerge. First, there are several studies that do not specify ownership style, especially among earlier studies. Representative studies in this group include those of Shenkar and Chow (1989), Jackson and Littler (1991), and Chow (1992), which discuss the pay development in China from a general point of view. Later on, as China deepened its economic reform, with diverse impacts on different sectors, more researchers started to pay attention to

the ownership type of their research targets, noticing the significant influence it had on outcomes. However, among those studies paying attention to the link between ownership and pay systems, there is a cluster of research using samples from SOEs, FIEs and IJVs. SOEs are the most commonly discussed form of ownership (Child, 1995; De Cieri et al., 1998; Giacobbe-Miller et al., 2003; He, Chen et al., 2004; Ding, Akhtar et al., 2006; Bozionelos and Wang, 2007), followed by FIEs (De Cieri et al., 1998; Chiu, Luk et al., 2002; Giacobbe-Miller et al., 2003; Hickey, 2003; Ding, Akhtar et al., 2006) and then IJVs (Chen, Choi et al., 2002; Giacobbe-Miller et al., 2003). Such studies make up the second group of current literature on pay in China. The final group includes a few pieces of research looking into the pay systems applied in organizations with other types of ownership. These have their own specific features but are not as well explored.

The third, smaller group includes the work of Dong (1998), who analyzed the employment and wage behaviour of Chinese TVEs, showing that they valued both employment and income, but emphasized income, and tended to employ fewer workers than would be ideal. Baruch, Wheeler et al. (2004), meanwhile, conducted a survey of fifty professional players of eight different sports in China, and found that the nature of competitive professional sports, with its emphasis on personal abilities, objective measures of performance and continuing short-term goals was particularly suited to a PRP system of reward. Liu and Mills (2005) also analyzed the effect of PRP in China, and found an increase in unnecessary care and the probability of admission when the bonus system in public hospitals switched from one with a weaker incentive to increase services to one with a stronger incentive. This suggested that the improvement in the financial health of public hospitals was achieved at least in part through the provision of more unnecessary care and drugs, and through admitting more patients. Another study in this category is by Cooke (2004), who reviewed and analyzed the pay system in the Chinese public sector, showing that it demonstrates a number of unique characteristics compared to pay systems in other societies.

In terms of such an unequal distribution of pay studies across different types of ownership in China, a recent review by Cooke (2009) points out that one noticeable missing category is the public sector and government organizations, which is in sharp contrast to the continuing attention that the public sector has attracted from management research in western countries, such as the UK, the US, Australia and Canada, since the 1990s. In China, public sector organizations are traditionally called PSUs, or *shiye danwei* (Cooke, 2005). This usually refers to public sector organizations providing public goods and services to citizens, which are non-profit making, maintained by state fiscal expenditure and under the control of government departments (Cheng, 2000). While it is understandable that changes in the business sector in China have captured much of researchers' attention in the last decade, Chinese public sector and government organizations have also undergone significant changes as a result of changing expectations of their function and performance—necessary for transforming the economy (Cooke, 2009).

Table 2-5: Number of Staff at Year-end (2008), by Registration Status and Sector

Item	Total (million persons)
Total National Employment	774.800
Total Employees in Institutions (<i>shiye</i>) ⁷	29.149
Total Employees in Agencies & Organizations ⁸	11.568

Source: *China Statistic Year Book* (2009)

In China, over half of all state sector employees work in PSUs and government organizations (Cooke, 2009). By the end of 2002, there were over 26 million employees working in PSUs, accounting for a quarter of total national employment (*China Statistic Year Book*, 2003). However, compared to the extensive discussion of public sector pay in western countries, there is almost a

⁷ Employees in institutions (“*shiye*”) are those with official “*shiye*” (PSU) status, which is the definition of the public sector used by Cooke (2005, 2009). Further details will be introduced in Chapter 3.

⁸ Employees in “agencies and organizations” here refers to those with official civil servant status.

vacuum of in-depth research on pay in PSUs in China⁹, leaving a significant gap in our understanding of the key changes to HRM and the challenges it faces across the country as a whole (Cooke, 2009). Therefore, the first research gap identified in the current literature on pay in China is as follows:

Research gap 1: There is a significant lack of empirical studies of the pay systems in the public service units (*shiye danwei*) in China.

The other important gap observed when reviewing the literature on pay in China is that very few studies have conducted in-depth research in China covering changes in pay systems, at the organizational level. Several works provide very good reviews of the changes in the pay system, covering the different stages of pay reform in China, such as the studies of Shenkar and Chow (1989), Jackson and Littler (1991), Takahara (1992) and Cooke (2004), among others. However, most of these focus on changes in pay system policies and only use macro-level data, rather than carrying out in-depth investigations of specific organizations.

A few studies of pay systems at the organizational level do include longitudinal data, such as Liu and Mills' (2005) study, which used longitudinal data on revenue and productivity from six hospitals and a detailed record review of 2,303 tracer disease patients during 1978 and 1997. Also, Dong (1998) used panel data between 1984 and 1990 to analyze the employment and wage behaviour of Chinese TVEs. Finally, Yueh (2004) analyzed the effects of wage reform in China during the 1990s on the working-aged urban population, using two cross-sectional data sets between 1995 and 1999. However, the longitudinal data used by these researchers were based on statistical data or panel data. Perhaps the only exception is Child (1995), who collected data on 144 job-holders in six Beijing SOEs, at two points in time, October 1985 and March

⁹ The only pay study to include PSUs is that by Liu and Mills (2005), listed in Table 2-4 above.

1990. The results indicated that, in 1985, the “traditional model”, which predicts that earnings will be higher for people who are older, loyal to their unit and male, was most prevalent, with age the most important predictor of earnings. In 1990, age continued to have an important, albeit weaker, association with the level of earnings, and the link between performance and pay was still quite limited. From the above, the second gap observed in the current literature on pay in China is as follows:

Research gap 2: There is a great lack of in-depth research on pay systems at an organizational level in China. In particular, there is a lack of studies covering changes in pay systems through reforms at the organizational level.

When discussing changes in pay systems in contemporary China, the popularity of PRP in various organizations has been noted by many researchers (Chow, 1992; Child, 1995; DeCieri, Zhu et al., 1998; Ding, Goodall and Warner, 2000; Bjorkman, 2002; Cooke 2002, 2004, 2005; Bozionelos and Wang, 2007, etc.). However, compared to the large amount of literature on PRP in western countries, only three papers were found in international journals on the same topic in relation to China. The first two are the studies by Baruch, Wheeler et al. (2004) and Liu and Mills (2005), mentioned earlier. In the third, Bozionelos and Wang (2007) conducted a survey of 106 white-collar workers in a Chinese SOE and found that, while the general attitude was positive, respondents indicated a fear of losing face¹⁰ (“*mianzi*”) and were concerned that performance evaluation was affected by personal relationships (“*guanxi*”¹¹), making it hard to implement an IBPRRS.

Therefore, when looking at the development of pay systems in China, it is

¹⁰ Face, or “*mianzi*” in Chinese, means that a person is perceived by others as decent and reputable (Bond and Hwang, 1986).

¹¹ The literal meaning “*guanxi*” is “interpersonal relationships” which signifies the connections or relationship ties that exist within a Chinese social group (Bozionelos and Wang, 2007, pp289).

significant that not much has been written on the link between pay and performance at an organizational level, and especially the theory behind the improvement of performance. Due to the great shortage of empirical evidence on the application of PRP at the organizational level in China, a contribution to the PRP literature, using a sample from China, will address this third gap in the literature.

Research gap 3: There is a great shortage of research on performance related pay in different organizations in China.

To sum up, this chapter first provided a chronicled review of changes in the pay systems used in China, introducing the four waves of pay reform that have taken place over PRC history. Then, a review of existing research into pay in China was conducted, which identified three major gaps in the literature that this study aims to address. The purpose of this thesis is to present an in-depth study of pay system reforms in a previously unexplored sector, Chinese PSUs (or *shiye danwei*), aiming to explore the question of “*How has performance related pay been implemented in different PSUs in China during the pay system reform, and what has been its impact?*” In order to answer this question, more background information regarding the Chinese PSU sector and the recent pay system reform undergoing will be introduced in Chapter 3. In Chapter 4, a review of different theories concerning the implementation of PRP will be presented which generates the specific research objectives this research aims to explore.

Chapter 3 Chinese PSUs and their Pay System Reform

In this Chapter, an overview of the public service units in China will first be presented, followed by a review of the changes in the pay systems used in this sector, including the recent pay system reform.

3.1 An Introduction to Public Service Units (*shiye danwei*) in China

There are four categories of public sector institutions in China: Communist Party or government departments (*dangzheng jiguan*), state-owned enterprises (SOEs) (including state-owned financial institutions), state-sponsored social organizations (*shetuan*), and public service units (*shiye danwei*)¹² (World Bank, 2005). Public service units (PSUs) in China include a galaxy of public service providers, operating alongside the core government, and separate from other state-owned or state-sponsored organizations (OECD, 2005a). In China, discussion of public sector organizations usually means PSUs (Cooke, 2004; 2005), which traditionally have the role of providing public goods and services to citizens, and are non-profit making, maintained by state fiscal expenditure, and under the control of government departments (Cheng, 2000). According to a decree by the State Council of the PRC (1998), PSUs are defined as organizations aimed at “the provision of social services ..., established by governmental agencies or other organizations with state-owned assets, and working for the public good”.

Generally speaking, the PSUs mainly include “organizations of science, education, civilization, hygiene, news, publishing, athletic sports, environmental

¹² There are several different translations of “*shiye danwei*” in English, including “public service unit”, “public institutions”, “institutional units” and “non-profit organizations”. In this thesis, we translate the term as “public service unit” (PSU), which is the English name used in both the World Bank’s and the OECD’s reports.

inspection, urban construction, labour employment, some governmental accessorial organizations and law-serving organizations, etc.” (State Council of the PRC, 1998). The PSU sector is large and diverse, comprising over one million organizations with a total employment of nearly 30 million, accounting for 41 per cent of Chinese public institution employment and 4 percent of the total national labour force (World Bank, 2005; China Statistical Year Book, 2009). According to a World Bank (2005) report, a substantial portion of China’s economic resources is devoted to PSUs, including sixty per cent of its well-educated professionals (*zhuan ye jishi ren yuan*¹³), a large amount of state-owned land, around two-thirds of “noncommercial (*fei jingying xing*)” state-owned assets, and one-third of the recurrent expenditure in the consolidated budget of the whole government.

PSUs in China are highly concentrated in a few key sectors, such as education and health, which together account for seventy per cent of PSU employment (China Statistical Year Book, 2002), with scientific and technological research, cultural services and agriculture extension services the three next largest sectors (World Bank, 2005). However, despite this high degree of concentration, there is also extreme diversity in terms of the services provided. For example, consumers of PSU services include the general public, individuals, farmers, other business firms, government departments and the Communist Party (World Bank, 2005), and PSUs in China also show some specific characteristics that make them different from public service providers in many other countries.

Within the OECD, for example, there are public service providers in each country, which are referred to and organized in different ways, but play similar roles in their respective economies. According to a World Bank report (World Bank, 2005), public service providers in OECD countries have a wide variety of organizational forms, including different budgetary regulations, funding sources

¹³According to the definition of the Ministry of Personnel, professionals in the PSU sector include intellectuals such as teachers, doctors, scientists, engineers, actors, writers, etc. (World Bank, 2005).

and governance. In particular, there is considerable involvement from non-state organizations in the production of public services in OECD countries, even if they are financed from the government budget. However, the situation is different in China, as traditionally all PSUs have been run by the government, and are affiliated with, and supervised by, authorities at any of the following six levels: (i) the State Council; (ii) a central ministry; (iii) a provincial (or municipal) government; (iv) a prefecture (or municipal) government; (v) a county (or municipal, or district) government; (vi) a township government. These affiliations and supervisors are determined when the PSUs are created. Organs of the Communist Party of China (CPC) are involved directly in the supervision of some PSUs, such as those involved in the mass media and publishing. According to Chinese regulations, when a PSU is created at a particular level of government, one government department, the “approving authority”, approves its establishment. Then, the PSU must register with the Offices for Posts and Establishments at the appropriate level of government, and one government department will act as the PSU’s “supervisory department (*zhuguan bumen*)”. The latter often holds the power to appoint the management of the PSU, review and approve its budgetary, financial and staffing plans, and evaluate its performance (World Bank, 2005).

Another major difference between public services in China and OECD countries is that, in the latter, few public agencies are involved in predominantly commercial activities, and within their public sectors, the legal forms that a public service provider can take are more diverse than in the PSU system in China. Meanwhile, it is common for PSUs in China, although controlled by the government, to have their own business entities, which may include listed companies controlled by universities and research institutes, as well as other less visible business operations (World Bank, 2005).

Besides this, the boundary between the government and PSUs in China is fluid. For example, PSU staff have the same personnel system as civil servants in most aspects, such as recruitment, basic remuneration, and the traditional life-long

employment (“iron rice bowl”). The two also share the same pension and medical insurance schemes, which differ from those applied to SOE employees. It is only the greater flexibility of informal salaries and bonuses that differentiate PSU staff from their civil servant counterparts (World Bank, 2005). In other instances, when government recruitment is constrained by post and establishment controls, PSUs are sometimes created to circumvent restrictions. The relatively weak financial discipline of PSUs has also created incentives for some government departments to use them as vehicles for revenue-generating activities (World Bank, 2005).

To sum up, PSUs in China are characterized by their “diversity in terms of services provided, governance structure, financing arrangements and relationship with the government” (OECD, 2005a: 81), which makes them different from the public sector organizations of many other countries. Thus, due to the specific features of the traditional PSU system in China, improving PSU service delivery requires a far-reaching reform process, which needs to include “a reconsideration of the role of the state and the divestment from commercial activities, revamping public finance for public services, allowing for more non-state supplies of public goods, improving accountability relationships within the PSU sector, and stepping up performance management and monitoring” (World Bank, 2005: 11).

3.2 The Chinese PSU Reform

"The PSU reform is as important as SOE reform, but is much more complex. This is largely because of the high degree of diversity and complexity of PSUs. It is therefore crucial for any major reform action to be designed with full consideration of sector- and region-specific circumstances."

---- Bert Hofman, World Bank's Lead Economist for China (World Bank, 2005).

PSUs in China have been undergoing reform for almost twenty years aimed at improving their efficiency. Since the mid-1980s, a wide range of measures have been taken, representing an important part of China's overall reform programme (World Bank, 2005). Early in the 1980s, reform of the PSUs started in a piecemeal fashion, focusing on granting additional autonomy to managers and employees, while encouraging them to find non-budget subsidy revenues and increase labour market competition. As part of the transition from a centrally planned economy to a market economy, the reform of the PSUs is at the core of re-defining the size and role of government in the Chinese economy, as well as defining its modes of operating and funding mechanisms (OECD, 2005a).

While China has made great achievements in its transition to a socialist market economy, a reconsideration of the role of the PSUs is warranted, as all are under the control of government. Many of the activities performed by current PSUs could be considered the commercial production of private goods or services which may be best left to the market, because according to the experiences of many developed countries, it is only in the case of market failure that government intervention should be considered (World Bank, 2005). Therefore, following on from the reform of the SOEs and core government, PSU reforms represent another major stage of reform that aims at transforming the organizational structure of the public sector into one that will assist the socialist market economy (OECD, 2005a).

Since the very beginning of PSU reform, there has been a strong emphasis on classification, reflecting the government's awareness of the high degree of diversity and complexity among PSUs, and the implications of this for the government's role (World Bank, 2005). According to the OECD (2005a), at the sectoral and local levels, there are mainly three steps that need to be taken in the current PSU reforms in China. First, given the diversity and complexity involved, all PSUs should be classified according to the service they provide, into three major categories: administrative and law enforcement units, public benefit units and business-related units. Second, those PSUs which are

considered to be performing commercial activities should be transformed into public enterprises or fully private companies. Finally, the remaining PSUs that are considered to provide public benefit, must be restructured, in terms of financing and personnel, and reduce their staff expenditure and numbers.

For instance, some PSUs with important administration functions should be amalgamated into the government, forming the Stock Admission Department, say; PSUs with a close link to public welfare (“*gongyi*”), such as hospitals and schools, should be appropriately funded from the national budget, reduce their profit-making activities, and made to serve the public better; finally, the many PSUs which resemble production units, and have little connection to public welfare, should be made to compete in the market, where market mechanisms would make them work more efficiently (Li, 2004; Wu, 2004). The aim of such reform is to improve PSU efficiency, which would secure an optimal return on the resource allocation made to the sector. At the same time, the national financial burden would be lightened, through a reduction in the budget allocated to PSUs, made possible as a result of the restructuring.

According to a World Bank (2005) report, past PSU reform efforts, aiming to “push PSUs into the market”, have achieved much, but at the same time introduced undesirable incentives into service delivery. For example, nearly half of the PSUs’ funding is raised through charging fees, which often cross-subsidizes the public service delivery of the unit, and also allows for bonuses and welfare for staff on top of their formal salaries. This gives a strong incentive for PSUs and their supervisory departments to distort the market in which the PSUs are operating. Thus, with the rise in income inequality, the reliance on user fees to finance service delivery is increasingly becoming a barrier to access for the poor. Furthermore, greater autonomy in revenue generation has not often led to better performance management or stronger financial accountability, and the efficiency of the PSUs has also suffered from overstaffing (World Bank, 2005).

To sum up, the establishment of Chinese PSUs is a very complicated business, and their reform throughout China is a broad topic that requires long-term study (World Bank, 2005; OECD, 2005a; Fan, 2004, etc.). There is consensus among policy-makers and advisors that past PSU reform efforts have suffered greatly from the lack of a well-developed overall strategy, and coordination. Thus, in 2002, the 16th National People's Representative Conference put PSU reform on its agenda, and in recent years the reform has been referred to as crucial for improving service delivery in the public sector, raising it to a level commensurate with China's stated goals of a "xiaokang" society (well-off) and "people-centred" development (World Bank, 2005). At the same time, it is generally agreed that there are two main routes which the reform must take: one concerns its financial sourcing and the other its employment system (Wu, 2004; Fan, 2004, etc.). According to the OECD (2005a), how to better improve human resource management among the PSUs is becoming a more and more important issue. Increasing the incentives for good performance is one of the key aspects of the current reforms. As an important issue of human resource management, the changes in the pay systems in different PSUs in China have played a critical role in the reform. In the next section, the development of the pay system used in Chinese PSUs will be reviewed, providing background to this research.

3.3 Changes in the pay systems used in the Chinese PSU sector

As mentioned earlier, traditionally in China, PSU staff have shared the same personnel system as civil servants in most aspects: for example, recruitment, pensions, and basic remuneration. Most PSU employees in China hold a 'shiyebianzhi'¹⁴, under which they enjoy the same welfare rights as civil servants in the government. People with 'shiyebianzhi' do not need to join the national welfare system, and medical treatments and their pension are paid directly from

¹⁴*Bianzhi*, loosely translated as 'establishment of posts', refers to the authorized number of personnel (the number of established posts) in a Party or government administrative organ (*jiguan*), a service organization (*shiyedanwei*) or a working unit (*qiye*) (Brødsgaard, 2002).

the national financial system. Traditionally, life-long employment is also attached to such a system. The situation is different for those with “*qiye* (enterprise) *bianzhi*”, such as employees of SOEs and people in other sectors. However, as the national economic reforms grew deeper, the rigid pay system in the PSUs began to hinder attempts to improve efficiency. The hidebound system failed to encourage innovation or improve productivity (Guo, Zhang et al., 2004). There have been many debates about the problems with the traditional pay system applied in the PSUs; common problems included opaque and insufficiently differentiated pay distribution, and an inadequate link between performance and pay (Guo, Zhang et al., 2004; Su, 2004).

In an attempt to introduce market-like incentives, over the past two decades, the PSU reform in China has restructured the remuneration system in various complicated ways (World Bank, 2005). Four major pay system reforms have been carried out in the PSU sector through PRC history: the 1953-6 national pay system reform, the 1985 national pay system reform, the 1993 national pay system reforms, and the recent national PSU pay system reform, which started in 2006 and aimed to implement performance-related pay in various PSUs, nationwide. The first three pay system reforms in the PSU sector were consistent with the Chinese national pay system reforms, as described in the previous chapter (Chapter 2). However, it is felt that these previous reforms were simply “growing out of” the old system (World Bank, 2005), and did not really change the traditional basis on seniority.

As discussed in the previous chapter, the 1993 pay reform was introduced to separate the pay system for public-sector employees from that of government organizations (civil service). During this reform, both fixed and flexible wages were introduced to the wage packages of PSU employees, which was the first step towards a differentiated management system for the PSU sector (Cooke, 2004; Hu, 2007). It was hoped that such a non-egalitarian system would motivate PSU employees, as their earnings would be more strongly related to their performance, both at an individual and an organizational level (Cooke,

2004). However, the performance-related pay introduced in 1993 had a very limited impact (Cooke, 2005; Li, 2009; Yang, 2009, etc.). Due to the diverse set of services provided by PSUs, significant pay inequalities emerged between different PSUs and between PSUs in different locations, due to the increased opportunities for gaining extra income (Ge, 2003; Hu, 2007). For example, significant income differences emerged between teachers working in different schools, due to the extra fees charged by good schools¹⁵ in urban areas. Therefore, in 2001, a national PSU personnel reform was launched, which aimed at transforming guaranteed lifelong employment into fixed-term contracts, and at giving more flexibility for compensation, hiring and firing. Due to the limitations of the 1993 pay reform, one of the most important features of this latest PSU reform in China was to promote the application of a performance-related pay system nationally (OECD, 2005). Therefore, along with the implementation of “*yangguang gongzi*” (a pay system as clear and transparent as sunshine after the civil servant reform in 2005) for the national civil servants’ pay system reform, a wave of PSU pay system restructuring, starting from July 2006 was introduced, especially for PSUs involved in the delivery of public goods. The main purposes were the standardization of the national PSU pay system and the promotion of better performance, through performance related pay.

3.4 The recent PRP reform in Chinese PSUs

The most recent wave of PSU personnel reforms started in 2000, when a contract of employment was implemented in all PSUs, nationwide. The new contract system broke the traditional ‘iron rice bowl’, as all new employees

¹⁵ In China, students are supposed to fulfill their compulsory education in their local school, which is allocated by community location. If parents want to choose another school outside of their local community, a ‘sponsorship fee’ (*zanzhufei*) is usually needed, with the amount decided by the school. The better the school, the higher this charge will be. Further details will be discussed in the later case study chapter.

recruited to the PSU sector were required to sign a labour contract, and the previous life-long employment was abolished. As an important part of the national PSU personnel reform, a pay system reform was introduced in 2006 by the central government, with a new positional performance-related pay (PRP) system introduced to all PSUs across China. Under the positional PRP system, an individual wage package would be divided into four components: pay based on position in the organization (*gangwei gongzi*), benchmark pay (*xinji gongzi*), performance-related pay (*jixiao gongzi*) and a subsidy (*jintie butie*).

Similarly to the previous pay system, position pay (*gangwei gongzi*) was fixed and set according to one's position. Three different types of position exist: technical, management, and skilled. Each position is assigned to a specific category, and has a corresponding level linked to their pay. This part of the pay is decided according to the responsibility, working stress, working conditions and complexity of the position. Under this system, therefore, each employee of a PSU receives a fixed amount of position pay each month, and if his/her position changes, this part of the pay will change accordingly.

Another fixed component of the pay received is the benchmark pay (*xinji gongzi*), which is linked to an individual's working performance and seniority. Each employee has their own corresponding benchmark pay level. If they pass their annual appraisal successfully, their benchmark pay could be moved to a higher scale in the next year, thus increasing the fixed part of their monthly wage.

The subsidy (*jintie butie*) is an extra allowance allocated to individuals working in remote areas, in tough working environments or under strong stress. Similarly to position pay, this is allocated by the state and tied to one's job position. If one's position changes, the subsidy changes.

The most important part of the 2006 pay system reform was to reinforce PRP in different PSUs, as the previous pay system reforms had failed to achieve this, as

discussed in Chapter 2 (Guo and Chen, 2007; Li, 2009; Yang, 2009, etc.). Thus PRP (*jixiao gongzi*) was emphasized, with the aim of linking pay to the performance of both the organization and the individual employee. According to the current PSU distribution system, the total pay an organization can give is controlled by the state, but its distribution among the employees is decided by the PSU itself. It is highly recommended by the central government that performance should be an important criterion when making this decision.

However, despite the implementation of this new pay system in the PSU sector, limited changes have been observed. For example, although the fixed part of the pay was adjusted almost immediately, PRP was far behind this. Therefore, in 2008, the General Office of the State Council of the PRC announced a new project, aiming to introduce PRP into PSUs through three steps: a national pay system split into seventy per cent fixed wage and thirty per cent PRP was launched in all schools within the Chinese compulsory education¹⁶ system, from January 1st 2009; secondly, a similar PRP system would be introduced into hospitals and other PSUs within the national medical care system; finally, PRP would be implemented in all remaining PSUs in China. Within this project, in December 2008, “*The guide for the implementation of performance related pay in all schools in compulsory education*” was passed at a State Council executive meeting hosted by Premier Wen, and, since 1st January 2010, all public primary schools and junior high schools have been required to implement PRP, with the average total income (including both fixed pay and PRP) of school teachers to be no less than the average pay of civil servants in the local area (further details of this will be discussed in Chapter 6).

Establishing a performance-based organization requires the establishment of performance-based financial and human resources management. This controls how resource allocations are made, and how accountability mechanisms for good performance are established that will improve the incentives for good

¹⁶ The nine-year compulsory education in China includes all public primary schools and public junior high schools, which is called “*yiwu jiaoyu xuexiao*” in Chinese.

performance. A robust institutional framework is key to ensuring performance, but in itself is not sufficient to guarantee it. When exploring the PRP reform in Chinese PSUs, although a national guide policy has been established to achieve these objectives, the gap between the objectives and what is happening on the ground remains relatively large, especially at local and organizational levels. This gap between the policy orientation and its true impact in practice may be explained by “a lack of resources in poorer communities and the widespread expectation in these communities that the bureaucracy will act as an employer of last resort” (OECD, 2005a: 65).

Given the complexity and diversity of PSUs, it is crucial that the PSU reform be designed and implemented with full consideration of sectoral and regional circumstances, as well as the impact of the reforms on employees (Cheng, 2000; World Bank, 2005). Especially when implementing a pay system reform that will impact employees directly, serious consideration and evaluation is needed. According to the aforementioned World Bank report (2005), despite the vast number of PSUs and the important role they play in the economy, data on them are very limited. There has been no in-depth study in the literature about the implementation of the PRP system in the Chinese PSU sector, from an organizational point of view. Therefore, this research aims to contribute to this field. An integrated theoretical framework of the application and influence of the recent pay system reform at an organizational level in Chinese PSUs is presented in the next chapter.

Chapter 4 Theories of Performance Related Pay (PRP)

This chapter constructs an integrated theoretical framework to explore the application and influence of the performance related pay (PRP) that has been introduced into the Chinese PSU sector during the recent pay system reform. There are two parts to the chapter. First, the popularity of PRP is discussed and the debates surrounding it are introduced, including a specific discussion of the literature on PRP within the public sector. Second, different pay theories are discussed, including the “new economics of personnel” (NEP) theory and a range of motivational theories—expectancy, goal setting, agency, cognitive evaluation and equity theory. Each of these theories generates specific research question(s) that this study aims to explore.

4.1 Studies of PRP in the literature

The philosophy of linking pay to performance is not a new concept, but can be traced back to the third century in ancient China, when the emperor of the Wei Dynasty promoted and rewarded government officials according to evaluations of their performance (Murphy and Cleveland, 1991; Coens and Jenkins, 2000). Over recent decades, PRP has acted as a standard element in the management toolkit, helping many organizations to achieve competitiveness (Belfield and Marsden, 2003, etc.). Proponents of PRP usually advocate that traditional time-based compensation, which does not link individual pay to actual performance, could be detrimental to an organization. For example, it may make organization’s more hierarchical and less competitive (Baker, Jensen et al., 1988). The relationship between pay and performance has long been a focus of managerial thought (Belfield and Marsden, 2003; Beer and Cannon, 2004, etc.). However, despite the wide application of PRP in different organizations, empirical evidence regarding its superiority is still ambiguous.

4.1.1 Debates surrounding PRP

Among the various research efforts discussing the impacts of PRP, one robust finding supporting the effectiveness of PRP comes from a study by Lazear (2000), who analyses the responses of 3,000 employees of the Safelite Glass Corporation, a large auto windscreen installation firm in the US. The results show that the switch from hourly wages to output-based (piece-rate) pay resulted in a 44 per cent gain in output per worker on average. Approximately half of the increase in productivity is found to be due to the average worker producing more because of incentive effects; the remainder is attributed to a selection effect, due to a reduction of employee turnover among existing high-performing employees, and the recruitment of more able workers, attracted by the potential to earn higher wages. A slight improvement in quality after the introduction of the new incentive scheme is also identified.

Another solid piece of empirical evidence that confirms the effectiveness of PRP is produced by Fernie and Metcalf (1998), who investigate the links between pay and performance among different groups of jockeys based on the theoretical framework of agency theory. Compared to those paid by non-contingent payment systems, superior performance can be noticed among jockeys paid by PRP, suggesting that incentive contracts are more likely to lead to better performance.

Other empirical studies confirm the success of PRP. For example, conducting an investigation of 984 employees in two large high-technology companies, Zenger (1992) finds that merit-based PRP schemes that reward the efforts of employees can differentially induce higher performance. Investigating the application of PRP in professional sports teams in China, Baruch, Wheeler et al. (2004) suggest that the nature of competitive professional sports, with its emphasis on personal abilities, objective measures of performance and continuing short-term performance, is particularly suited to a PRP system, even in collectivistic cultures where PRP is less likely to be generally applicable.

However, despite the wide application of PRP in different sectors, there has been much debate addressing its pitfalls, due to various negative feedback it has received. For example, it is argued that PRP systems can have a destructive effect on intrinsic motivation, teamwork and creativity (Deci, 1971; Ryan and Deci, 2000, etc.), and that incentives may work too well, motivating employees to focus excessively on doing what they need to gain rewards, sometimes at the expense of other tasks the organization values (Beer and Cannon, 2004). Furthermore, although PRP plans appear to represent a powerful and intuitively-appealing enticement, for a substantial number of firms, the reality is much different from the appearance (Campbell, Campbell et al., 1998).

For example, examining the effects of the implementation of a performance contingent pay programme for managers of different organizations in Hungary and America, Pearce, Stevenson et al. (1985) find that PRP has no effect on organizational performance. A later study by Pearce, Branyiczki et al. (1994) finds that personal reward systems even lead to employee perceptions that their organizations are unfair, to negative evaluations of others at work, to anxiety, and to the feeling that they, their colleagues and their organization are inefficacious. Further empirical evidence comes from Beer and Cannon (2004), who look at five case studies across thirteen cities, of Hewlett-Packard (HP)'s implementation of a PRP programme. The trials of the PRP scheme indicated that, overall, the implementation costs and risks were higher in some branches of HP, mainly because both the managers and the workers focused on the possible gains they could make under the PRP system, which had a negative impact on trust. The company discontinued the PRP programme after the trial, mainly due to the negative affect PRP had on the high commitment culture valued by HP.

As well as the outright positive or negative results regarding PRP systems mentioned above, there are other studies which observe mixed results in different situations. One sector in which the impact of PRP has tended to be most controversial is the public sector.

4.1.2 The application of PRP in the public sector

The adoption of PRP in the public sector reflects the influence of the private sector culture of incentives and individual accountability on public administration, which has been one of the most significant challenges for public institutions in many countries over the last decade (OECD, 2005b; Swiss, 2005; Weibel, Rost et al., 2009, etc.). Nowadays, it is common to find pay systems linked to performance in the public sector in many countries, including more than two-thirds of OECD countries and a number of developing ones (OECD, 2005c; Cardona, 2006; Weibel, Rost et al., 2009).

One important rationale behind promoting PRP in the public sector is that, with compensation linked to performance, employees are expected to expend more effort, and lift the quality and/or quantity of their output, thus improving the internal performance of the organization and delivering a superior public service. In addition, introducing PRP may motivate public sector employees to pursue professional development opportunities that previously offered little in the way of additional benefits. Thus, with a PRP system, productivity is likely to improve both in the short and long run, because employees will work harder in the short run, and professional development will generate further gains in productivity in the long run (Lavy, 2007; Prentice, 2007, etc.).

However, an investigation of the implementation and effectiveness of PRP in the public sector in practice, shows that the situation is in fact more complicated. For example, when evaluating the benefits and hidden costs of PRP in the public sector, Weibel, Rost et al. (2009) find that motivation is likely to be a key determinant of the effect of PRP on performance, leading to only modest success in some cases. Based on a meta-analysis of different experimental studies, Weibel, Rost et al. (2009) notice that PRP has a strong, positive effect on performance in the case of non-interesting tasks, but actually tends to have a negative effect for interesting tasks. Thus, Weibel, Rost et al. (2009) recommend

careful consideration of both benefits and costs when implementing PRP systems in the public sector.

Prentice's (2007) study of the application of PRP in the UK public sector also gives mixed results. On the one hand, public sector workers are found to respond to financial schemes, particularly in the field of education, and possibly also health. Such responses may be small, but this is deemed to be mainly due to the small proportion of PRP introduced. On other hand, a 'gaming' situation is also detected, involving the manipulation of behaviour that uses resources and does not increase productivity. Prentice (2007) also find that there have been very few calculations of the overall benefits of PRP in the public sector. Although in some cases public sector workers have responded to the schemes, the overall benefits for society have not been assessed, partially because such assessments are intrinsically hard to make.

Marsden, French et al. (1998) find that, in general, performance pay in the public services in Britain have not motivated staff, and have instead led to widespread feelings of divisiveness and demotivation. Although they find no evidence of a fall in productivity in the two civil service departments studied—in fact they find a distinct possibility that PRP has helped to raise it—serious questions are found over whether such effects can be sustained over the long run, given the effects on employee motivation. For example, in the Inland Revenue, they find that productivity and performance seem to have increased with the development of performance pay, even though the staff feel that the system is divisive and un-motivating. A later study by Marsden, French et al. (2001) confirms that PRP in the British public services has had a positive incentive effect for significant numbers of employees, but that this is dependent on them getting an above-average additional financial reward, as well as the quality of the goal-setting and appraisal process.

Another study by Dahlstrom and Lapuente (2009), involving a quantitative analysis of the implementation of PRP in the public sector in 25 OECD

countries, indicates that the main assumptions about incentives are more difficult to uphold in the public sector than the private, due to the relative lack of objective measures of output, and the complexities of the tasks at hand. As a result, incentives in the public sector are more likely to be implemented in administrations where there is a clear separation of interests, between those who benefit from the incentives and those who manage the incentive system. If the interests of the two groups overlap, the incentives will be less credible. Thus, PRP requires a suitable institutional design, with an organizational structure of “relative separations of interests at the top” (Dahlstrom and Lapuente, 2009).

Although implementation of PRP in the public sector is controversial, it has been said that PRP could be “a window of opportunity for the introduction of many other significant new public management reforms” (OECD, 2005b), which means that, if PRP incentives work, other public management reforms may also be feasible (Dahlstrom and Lapuente, 2009). However, the experience of OECD countries suggests that, despite great variations in the size of payments across countries, the maximum performance-based rewards usually represent less than ten per cent of base salary for the average civil servant. The percentage is higher for managers, but still only reaches a maximum of twenty per cent on average (OECD, 2005c). It is also noted by many researchers that there is often a gap in the public sector, between the formal PRP system and how it works in practice (Ingraham, 1996; Thompson, 2007; Dahlstrom and Lapuente, 2009), as many government organisations claim to have PRP, but the schemes are often barely linked to performance in reality (OECD, 2005c).

Therefore, in the case of China, where the central government has recently begun to promote PRP in the PSU sector, nationwide, it is crucial to investigate the true impacts these reforms have had on different PSUs and their employees (details of the national pay system reform in the PSU sector were discussed in Chapter 3). Since this study hopes to contribute to the existing research gap, by exploring the implementation and influence of PRP in various PSUs in China,

we now review different theories about the PRP system, which lead to the specific research objectives this study aims to address.

4.2 The theoretical framework: the implementation and impact of PRP

One of the controversial issues regarding PRP has been explaining the manner and magnitude with which pay influences employee motivation and performance. In order to explore the implementation and impact of PRP on different PSUs in China, a range of theories are discussed in this section, with the aim of constructing a proper theoretical framework for the research topic. First, the NEP is introduced, raising questions regarding the suitability of PRP for different organizations in the Chinese PSU sector. Second, different motivational theories in the human resources management (HRM) field are presented, including expectancy theory, goal-setting theory, agency theory, cognitive evaluation theory and equity theory, each of which generates specific question(s) that need to be explored in terms of Chinese PSUs.

4.2.1 The NEP theory

The NEP, pioneered by Edward P. Lazear (1986), analyses the choice of pay system in a cost-benefit framework. As a powerful theory for explaining why some workers are paid on the basis of their output, while others are paid salaries relating to their input (Huang, 2009), NEP yields numerous testable predictions concerning the choice and incidence of pay systems (Fernie and Metcalf, 1998). Focusing on the role of workplace context, also known as the ‘monitoring environment’, NEP acts as a critical determinant of the performance effect achieved by PRP systems (Belfield and Marsden, 2003). According to NEP, employers need to link pay to performance when jobs involve a lot of discretion, and effort is hard to monitor, based on the assumption that employees will take the easy option if they are paid the same amount no matter how hard they work

(Lazear, 1998; Marsden, French, et al., 2000). The principal factor that affects the choice to use input-based (basic) or performance-based pay is the measurement costs. The NEP indicates that, given perfect knowledge of a worker's performance, PRP will produce better results for the firm, because it creates an explicit connection between individual and organizational interests (Belfield and Marsden, 2003). Fernie and Metcalf (1998) provide an excellent review of NEP, with regard to the choice of payment system, showing that measuring output, monitoring input and the nature of the job itself, are the fundamental factors determining the choice of PRP or pay based on input. According to the NEP, PRP tends to be superior when it is easier to measure output, job tasks are more repetitive, and team production is not that important. In terms of the labour market and the product market, PRP is more suitable when market competition is high, workers are more heterogeneous and have low risk aversion, and their elasticity of effort is high. In contrast, when performance/output is difficult to measure, jobs include a variety of tasks, and it is difficult to measure the contribution of an individual to the output of the whole organization, basic pay is a better choice and individual PRP is inappropriate. Also, pay based on input is more common when the production market is not very competitive, and the average tenure of employees is long. A summary of the NEP's predictions about PRP and basic pay is shown in Table 4-1.

Table 4-1: Alternative payment systems: summary of NEP predictions

PRP	Characteristic	Basic Pay	Studies, e.g.
MEASURING OUTPUT, MONITORING INPUT AND NATURE OF THE JOB			
Low	Output measurement costs	High	Lazear (1986)
High	Cost of monitoring input/effort	Low	Milgrom and Roberts (1992)
Low	Supervision intensity, programmability	High	Eisenhardt (1988)
High	Span of control	Low	Eisenhardt (1988)
Large	Workplace size	Small	Brown and Medoff (1989)
Repetitive	Job task	Wide range	Rebitzer et al. (1996)
Unimportant	Team production	Important	Beach (1975)
High	Labour intensity	Low	Parsons (1986)
	Role of technical change		

No	i if technical change is rapid	Yes	Stiglitz (1975)
Yes	ii whether skill-based	No	Brown (1990)
LABOUR MARKET AND PRODUCT MARKET			
High	Worker heterogeneity	Low	Lazear (1986)
High	Wage in alternative firm	Low	Lazear (1986)
High	Elasticity of effort wrt wage	Low	Stiglitz (1975)
Low	Risk aversion (worker)	High	Bloom and Milkovich (1995)
No	Union recognition	Yes	Brown and Philips (1986)
Short	Tenure	Long	Goldin (1986)
Few	No. of occupations	Many	Carlson (1982)
Low	Cost of monitoring quality of output	High	Lazear (1986)
High	Competition	Low	Drago and Heywood (1995)

Source: Fernie and Metcalf (1998: 22)

When studying PSUs in China, one immediately notices the great diversity that exists within them, for example in terms of the types of job, and the external labour and product markets that exist. PSUs that receive full funding from the government may not need to compete in an external market, say, while other commerce-related PSUs, pushed to compete in the market due to their less generous financial budgets, face fiercer competition in both the labour and product markets. Given the great diversity of jobs that exist in different PSUs, PRP may not be the best approach for all. Therefore, it is necessary to look at how the NEP's theories fit the case of the Chinese PSU sector, especially following the introduction of PRP. This will provide us with a general picture of the suitability of PRP for this sector, and is the central question this research aims to explore.

Question 1: How does PRP fit into different PSUs in China? (Q1)

When evaluating the benefits and hidden costs of PRP in the public sector, motivation is likely to be a key factor influencing the effect of PRP on

employees' performance (Weibel, Rost et al., 2009). Theories of motivation provide the guiding principles behind different reward systems (Chiang and Birtch, 2007), and it has been common to analyse how PRP works, in recent years, through the lenses of different motivational theories, such as expectancy, goal-setting and agency theory (Marsden, 2004c).

4.2.2 Expectancy theory

Expectancy theory, first proposed by Vroom (1964), stresses the importance of a series of links between behaviour and the rewards accruing to that behaviour (Lawler, 1971). According to expectancy theory, motivation, or the force to act, results from a conscious decision-making process, undertaken by an individual. Such a decision to act depends upon three sets of perceptions—expectancy, instrumentality and valence (Heneman and Werner, 2005, pp52)—which are shown in Figure 4-2.

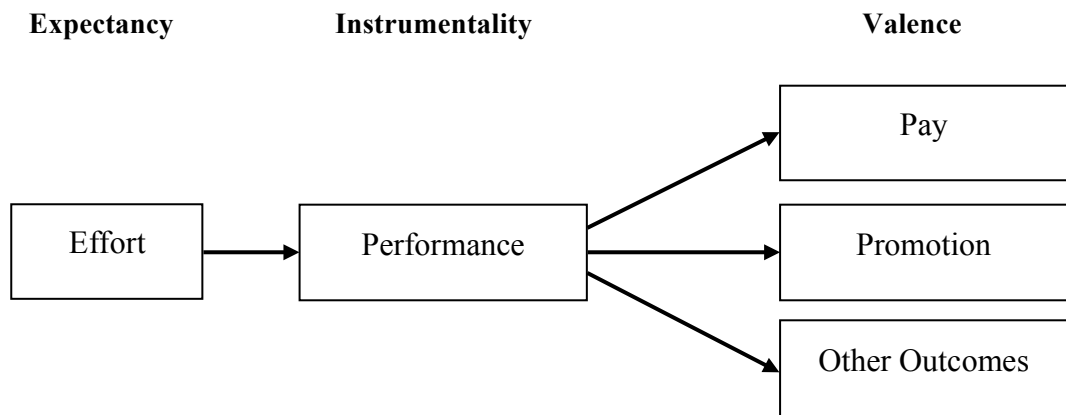


Figure 4-1: Expectancy theory model

In expectancy theory, *expectancy* refers to the individual's perception that a certain level of effort is required to achieve a certain level of performance. *Instrumentality* is the strength of the belief that a certain level of performance will be associated with various outcomes. *Valence* is the attractiveness of these outcomes to the individual (Heneman and Werner, 2005). According to this

model, expectancy theory means that a person must feel able to change his or her behaviour, must feel confident that a change in behaviour will produce the expected rewards, and must value those rewards sufficiently to justify the change in behaviour (Marsden and Richardson, 1994). In other words, individuals will engage in behaviours likely to lead to valued outcomes, as long as they perceive that they can successfully produce such behaviours. Employees will respond to performance incentives if they value the reward, if they believe extra effort will generate sufficient additional performance, and if they believe that management will reward this (Marsden, 2004a). Thus, provided that a financial incentive is perceived as valuable, and the increased performance is expected to lead to outcomes that are expected to result in the financial reward, such a payment system would enhance performance through increased extrinsic motivation and effort (Kuvaas, 2006).

Expectancy theory has a number of important implications for the PRP system, as it suggests that PRP is likely to motivate employees when the following conditions are met (Heneman and Werner, 2005): First, the performance must be accurately measured. If it cannot be, then employees cannot perceive a link between effort and performance (expectancy) or performance and reward (instrumentality). Second, the increased pay must be a valued outcome, in other words, the end result of an increase in performance must be attractive or have positive valence. If a pay increase is less attractive than leisure, then an employee will feel less motivated to perform when promised a pay increase rather than additional time off. Third, the relationship between performance on the job and pay associated with performance must be clearly defined, in order to ensure that employees perceive performance as instrumental in attaining a pay increase. Finally, opportunities to improve performance must exist. Employees should have the time, equipment, ability or supervision required to perform a task, if they are expected to improve performance. If such opportunity is absent, PRP will be a futile system.

Thus, performance pay systems will not work unless employees regard them as fairly designed and operated, and corresponding to their own preferences for incentives provided (Lawler, 1971; Marsden and Belfield, 2004). If employees do not believe they will be rewarded for extra effort, they are less likely to respond to the incentive scheme (Marsden, 2004a). In practice, flaws in PRP design can be found in some cases, when the assumptions required under expectancy theory are not fully accomplished. For example, OECD (2005b) surveys, looking at the failure of incentive systems in the public sector in several countries, suggest that it is common to see ‘disappointed expectations of employees who have been promised money for improved performance and then find it is funded by means of smaller increases in base pay’ (Dahlstrom and Lapuente, 2009: 581). In light of the above, it is important that we investigate whether the assumptions of expectancy theory have been fulfilled in different PSUs in China during the recent pay system reforms. Therefore, the following questions will be explored in the coming fieldwork, with empirical findings presented in Chapter 6 and 7.

Question 2a (Expectancy): Can the employees improve performance by working harder?

Question 2b (Instrumentality): If the employee works harder, will he/she get higher pay?

Question 2c (Valence): Will the employees perceive the bonuses they can receive by working harder to be valuable to them?

4.2.3 Goal-setting theory

Goal-setting theory, first established by Locke (1968), is based on a simple premise: performance is produced by an employee’s intention to perform (Beardwell and Claydon, 2007). Goal-setting theory proposes that employees will be more motivated if they have goals that they see as specific, challenging,

and acceptable (Heneman and Werner, 2005). According to the theory of goal-setting, when setting individual objectives for employees, these must not be too easy to achieve, nor too complex or unrealistic (OECD, 2005c). If employees see the criteria as inappropriate or inapplicable, they will not adopt them voluntarily, and are only likely to apply them if their work is closely monitored (Marsden and Belfield, 2004).

One key reason for implementing PRP is that performance pay may enable management to attach rewards to some discretionary activities and not to others (Marsden, 2000). By rewarding particular aspects of a job, PRP sends out messages about what the firm values, and the sort of behaviour that is desirable (Chamberlin, Wragg et al., 2002). According to Marsden, French et al. (2001), who study PRP in the UK public sector, goal-setting theory plays a critical role in the decision process of PRP. They say that improving goal-setting may raise performance in two ways: clarifying work goals and enabling management to negotiate higher levels of performance, which may not always be given voluntarily.

However, the process of goal-setting in the public sector tends to be more challenging than in the private sectors, mainly because many public services are multifaceted, which can make it difficult to define the specific objectives of an organization. For example, the objective of a school might be to provide a “good education”, but such a goal is much more complicated than defining the production of cars (Propper, 2006) or the number of windows to be installed. Compared to some other sectors, jobs in the public service may be more complex, involving several dimensions, some of which may be relatively easy to measure, while others may be much harder. For example, students’ test results would be easy to measure but the education of a country’s future citizens would be very difficult (Marsden and Belfield, 2006).

Such differences in the measurability of different goals may mean that incentives can only be linked to the easy-to-measure outcomes, which may lead to an

excessive focus on these at the expense of other tasks (Propper, 2006). Thus, employers must be very careful when choosing the criteria to be evaluated, any may have to “weaken the incentives on more accurately measured tasks” (Prentice, 2007). For many OECD countries (OECD, 2005c), whether or not PRP has a positive impact on staff in the public sector is strongly dependent on how well the appraisal process is carried out, and particularly, on how well individual and team objectives are identified, and to what extent they are based on performance.

In China, although the link between pay and performance in PSUs is addressed in government policy, no specific instructions about the setting of performance measures is included. Thus, it is mainly the responsibility of the individual PSUs to decide on the criteria they use. As this research seeks to carry out a pioneer study of the pay system reform at the organizational level in Chinese PSUs, how these individual PSU performance criteria were decided upon will be an important question herein.

Question 3: How were the criteria for PRP decided upon in individual PSUs during the pay system reform?

4.2.4 Moral hazard and agency theory

The goals set during the pay system decision process are recognized as being an objective of PRP. However, such goal-setting may in fact be counter-productive: one of the main criticisms of PRP is that employees may become so firmly fixed on hitting their measurable targets that other important elements of their jobs could be ignored. This is one of the most commonly cited difficulties with PRP; individuals focus on the specified objectives so as to receive higher payments, and neglect other features of the job; this is known as ‘moral hazard’ (Kessler and Purcell, 1991).

Moral hazard, also called “dysfunctional behavioral responses’ (Prendergast, 1999) or “opportunistic behavior” (Murnane and Cohen, 1986), is behaviour under a contract, that is inefficient and arises from the differing interests of the contracting parties (Ferne and Metcalf, 1999). It arises frequently in principal-agent relationships, where the agent is called upon to act on behalf of the principal, but there is some uncertainty regarding the relationship between the agent’s effort and his/her output (Levacic, 2009).

Principal-agent theory, or agency theory, was initially developed for analysing differences in behaviour between owner-management firms and public companies, due to the separation between shareholders’ ownership and managers’ control (Fama, 1980). According to agency theory, the moral hazard problem occurs when the agent’s interests differ from those of the principal, and the principal cannot easily evaluate how well the agent has performed or whether he or she has been honest (Ferne and Metcalf, 1999). Based on the assumptions of agency theory, there are two main approaches to controlling moral hazard problems: monitoring and incentive contracts (Milgrom and Roberts, 1992). Monitoring can lessen the asymmetric information problem, which is a fundamental component of moral hazard. Its limitation, however, is that obtaining information about the agent’s truthfulness and performance by monitoring him or her, can sometimes be very costly (Ferne and Metcalf, 1999). The second option is to use appropriate incentive contracts; agency theory assumes that agents act to maximize their utility, thus determining what aspects of the agent’s work for the principal increase his or her utility is crucial (Levacic, 2009).

Thus in the case of employees and work goals, according to agency theory, in order to avoid the problem of moral hazard, it is important to align the individual’s goals with those of the organization. When designing an appropriate incentive scheme, agency theory explains the importance of monitoring performance and gaining agreement for a mutually satisfactory arrangement between the employer and the employees, during the decision process (Marsden

and Belfield, 2006); performance incentives are needed when the principal (the employer) cannot easily monitor the agent's (the employee's) work effort (OECD, 2005b).

As an important theory of motivation, agency theory relates just as much to non-marketed services as marketed ones, so it is believed to be valid in different sectors, both private and public (Levacic, 2009). However, the situation might be different for different occupations. For example, the classic example of jockeys' pay shows that an appropriate PRP scheme can generate superior performance to a non-contingent pay system, due to the fact that the former overcomes the moral hazard problem within the principal-agent relationship (Ferne and Metcalf, 1999). However, in other occupations, PRP may encourage unethical behaviour if employees are over-keen on carrying out behaviours that will lead to pay increases. Chiu, Luk et al. (2002) address this issue. They compare the compensation preferences between employees in Hong Kong and China and find that performance-based programmes may lead to unethical behaviour, and produce the risk of moral hazard, due to asymmetric information in performance evaluations.

In public services where multiple principal-agent situations may exist, the implementation of PRP could be even more complicated. For instance, in the UK, the Minister of Education is the principal in relation to local authorities, as it sets the national education policy and provides a proportion of school funding; local schools are agents of the local government, and held accountable by them; parents are principals of the school governing body, as they elect representatives to them, but the governing body is also an agent of the local authority (Levacici, 2009). In such situations, it is critical to determine how the interests of these multiple principals and agents can be properly aligned, when considering different financial incentive schemes. Therefore, given the possible multiple principal-agent situations, as well as the multi-tasking that goes on in the Chinese PSU sector, as discussed in the previous section, it is necessary to

investigate whether introducing PRP helps to reduce moral hazard. We do this by looking at the relationships between principals and agents in PSUs.

Question 4: Has the introduction of PRP helped to align the interests of different parties in PSUs in China?

4.2.5 The cognitive evaluation theory

In the field of HRM, most incentives to work and/or heighten performance can be classified into one of two general categories: intrinsic and extrinsic (Tung and Baumann, 2009). Intrinsic motivation is defined as the motivation to perform a task or activity when no apparent reward is received except that directly involved with the task itself. Extrinsic motivation is defined as the motivation to perform an activity strictly for the external rewards that are received (Daniel and Esser, 1980). While intrinsic motivation refers to doing something because it is inherently interesting or enjoyable, extrinsic motivation denotes doing something because it leads to a separate outcome, such as monetary compensation (Ryan and Deci, 2000).

When discussing motivation in the public sector, intrinsic compensation is usually felt to play an important role, as public sector workers may care about the outcomes or mission of the public organization they work for and thus gain satisfaction. For example, having internalized the goals of their organization, nurses and doctors may care about the health of their patients, and teachers about the achievements of their pupils, to the extent that they obtain welfare from seeing their users' needs being met (Prentice, 2007). Thus, it is proposed that intrinsically motivated employees could actually work best when incentives are small or even absent, and their employers commit to not diverting any surpluses or public sector "profits" away from the organization's mission (Francois, 2000). In other words, setting financial rewards based on performance in the public sector may actually be counterproductive, in that it may send the signal that the

relationship between the workers and the organization is a purely market-based one (Burgess and Ratto, 2003), which may dilute the workers' intrinsic motivation, so that they develop a 'distaste for the required effort' (Kreps, 1997).

In terms of the effects of external rewards on intrinsic motivation, cognitive evaluation theory (CET) specifies the factors in social contexts that produce variability in intrinsic motivation, suggesting that it is adversely affected by rewards when reward recipients perceive the rewards as controlling or as a challenge to their competence (Deci, 1975; Ryan and Dec, 2000; Boxall, Purcell et al., 2007). In other words, CET implies that, under certain conditions, intrinsic motivation will be undermined by PRP. An example of this is giving someone a performance-contingent monetary incentive to do something they already enjoy; their motivation to do it decreases, as they then view their actions as externally-driven rather than internally appealing (Weibel, Rost, et al., 2009). A substantial body of experimental and field evidence indicates that extrinsic motivation (contingent rewards) can sometimes conflict with intrinsic (the individual's desire to perform the task for its own sake) (Bénabou and Tirole, 2003). One classic experiment which supports this argument was carried out by Deci (1971), who found that subjects who received a contingent monetary reward for performing a puzzle task demonstrated significantly less intrinsic motivation towards the task than those who received no reward. Based on a meta-analysis of 128 studies examining the effects of extrinsic rewards on intrinsic motivation, Deci, Koestner et al. (1999) find that unexpected tangible rewards, introduced after task performance, tend not to affect the intrinsic motivation towards the activity, but expected tangible rewards significantly undermine the free-choice intrinsic motivation in most situations. This is supported by Weibel, Rost, et al. (2009), who find that PRP has a strong, positive effect on performance in the case of non-interesting tasks, but a negative one in the case of interesting tasks.

CET plays a critical role when introducing PRP into public service jobs where intrinsic motivations are valued, for example, educating children and dealing with public goods (Marsden and French, 1998). In some occupations, such as

teaching, money, though motivating, is not the only reward the employees receive (Chamberlin, Wragg et al., 2002). CET shows that external financial incentives, such as the PRP scheme, could decrease motivation in this case, if the employees think their employer recognizes no association between output and effort, other than a purely market-based one (Prentice, 2007).

In the case of the application of PRP in the PSU sector in China, CET could be highly relevant, mainly because intrinsic and extrinsic motivation seem to be more controversial in China. For instance, the Chinese word for incentive, “*ji li*”, has a connotation of inner, non-material motivation, and material incentives have always been considered somewhat ‘suspicious’ in the Chinese tradition (Shenkar and Chow, 1989). Traditionally, especially during the period of Mao, it was generally believed that the motivating force should come from non-material incentives (Chow, 1992). However, since China started its economic reform, there has been a considerable and growing emphasis on meritocracy, and material incentives (Jackson and Littler, 1991; Warner, 1996; Cooke, 2004; Beardwell and Claydon, 2007, etc.), and it seems to be widely accepted now in Chinese society, that money represents one’s success and achievement in life (Tang, 1992). For example, a study by Chiu, Luk et al. (2001) finds that cash appears to be the most effective element in attracting, retaining and motivating local Chinese employees; this is referred to as “the cash mentality”. According to a recent study by the OECD (2005a), public employees in China, like other workers, are motivated by the expectation that, if they perform well, they will receive commensurate rewards that they value. However, at the same time, one distinctive feature in China that has been given particular importance in the public sector, is the morality norm in motivation. For example, one’s political loyalty to the Communist Party, integrity of personality, diligence at work and the quest for knowledge to improve one’s intellectual horizons, may all be sources of motivation (Cooke, 2004). Therefore, it is likely that employees in the PSU sector in China are motivated by the expectation of receiving both intrinsic and extrinsic rewards. Thus, the impact of the PRP reform on the intrinsic motivation of employees in PSUs forms the basis of the next research question.

Question 5: What influence has the implementation of PRP had on employees' intrinsic motivation in different PSUs in China?

4.2.6 Equity vs. Equality

When designing a pay system, equity (to each according to contribution) and equality (to each equally) are two central principles of reward allocation that need to be considered. The equity principle maintains that rewards should be based on individual contributions, while the equality principle suggests giving equal rewards to all individuals regardless of their contributions (Chiang and Birtch, 2007; Bozionelos and Wang, 2007, etc). It is suggested that the maintenance of social harmony is promoted by equal reward allocations, whereas the maximization of performance is achieved by systems, such as PRP, which allocate outcomes equitably in proportion to relative performance (Deutsch, 1985; Greenberg, 1990; Leventhal et al., 1980; Chen, 1995, etc.).

When introducing PRP into an organization, the theory of equity usually plays a fundamental role, because rewarding employees according to their personal performance basically implies a differential allocation of available rewards according to individual contributions (Erez, 1997). According to the equity theory, people compare the ratio of their own perceived work outcomes (i.e., rewards) to their own perceived work inputs (i.e., contributions) with the corresponding ratios of others (e.g., coworkers) (Greenberg, 1990). The theory is based on the principle that, since there are no absolute criteria for fairness, employees generally assess fairness by making comparisons between themselves and others in a similar situation (Beardwell and Claydon, 2007). For example, employees will expect to be given convincing reasons why some employees get more than others, as well as clear guidance as to how they could earn more money (Murnane and Cohen, 1986).

According to Erez (1997), people usually use two sources of evaluation to determine whether or not their self-motives have been satisfied. The first is

personal standards, which are guided by internal criteria of the differences between one individual and another. The second is the standards and norms that people acquire from their social environment, which are shaped by cultural values. Such standards may be shared by all members of the same culture, and may differ from one culture to another. Therefore, motivational practices that have a positive meaning in one culture may not have the same effect on employee motivation in another. For instance, compared to people from Anglo-Saxon nations, who are generally guided more by individualistic values (Bond, Leung and Wan, 1982; Leung and Bond, 1984), Chinese employees' preferences towards equity and equality are noted to be different in the literature. Earlier studies about pay systems in China showed that the Chinese prefer equality to equity in allocation decisions (Bond, Leung and Wan, 1982; Leung and Bond, 1984), which is in line with the traditional image of collectivism and Confucianism in the Chinese culture. However, when the Chinese economic reform started, the principle of equity began to play a more important role in China. Chen (1995) finds that the Chinese are now more likely to report a preference for equity than equality-based reward distribution. A recent study by Bozionelos and Wang (2007) also finds that Chinese employees are more positive towards the principle of equity-based rewards than equality-based rewards. Such findings show that the collectivistic and Confucianist elements of the Chinese culture no longer have such a strong influence on Chinese employees' preferences.

However, it may be the case that the new emphasis of Chinese employees on economic logic and the rejection of equality-based rules is more a product of recent environmental pressure and institutional practices, than any shift in the underlying cultural values (Sparrow, 2000). Consistent evidence in the literature shows that collectivism, harmony goals, and socioemotional resources are linked to egalitarian preferences, and that individualism, economic goals, and material resources are linked to differential preferences (Chen, 1995). It is argued that Chinese people are still very sensitive to, and have a low tolerance towards, income gaps between people, implying that the most prevalent aspect of the

Chinese perspective on distributive fairness is still egalitarianism (Cooke, 2004). Many researchers suggest that Chinese employees regard large pay gaps as potentially disruptive to collective social systems, and still place group harmony and social adhesion as the top priority (Yu, 1998; Cooke, 2004; Farh, Zhong et al., 2004). Moreover, it is believed that, when there is a possibility for a long-term relationship, the Chinese will adopt a more egalitarian solution, for example, than the less collectivistic Americans. When dividing resources with a stranger in an instrumental relationship, in contrast, the Chinese will be more equitable, as their motives will include a higher need for affiliation and sociability (Bond and Hwang, 1986).

Therefore, we also investigate whether, in Chinese PSUs, where interpersonal harmony is favoured and traditional long-term employment is common, attempts from the top to enhance equity by encouraging wage differentials according to performance are preferred, or the traditional equality principle continues to dominate.

Question 6: Equity or equality, which has had a more significant impact on the design of PRP systems in PSUs in China?

4.3 Chapter summary

This chapter provides the theoretical background to this research, giving an overview of the debates surrounding PRP, with a specific focus on the literature regarding the public sector. In order to construct a research framework to explore the application and influence of PRP in different PSUs in China during the recent pay system reforms, NEP theory and a range of motivational theories are reviewed, leading to a list of specific research objectives. Based on the literature and theory review, the research framework and methodology of this study are presented in the next chapter.

Chapter 5 Research Methodology

The objectives of this chapter are three-fold. Building upon the literature and theory review, it first identifies major research gaps, formulates research questions, and develops a conceptual framework. Second, it presents the theory foundation and philosophical stance from which the research design and are derived, leading to the selection of the case study approach. Third, methods of analysing data are elucidated, concluding with a discussion of the validity and reliability of the chosen method and approach.

5.1 Research Questions and Conceptual Framework

5.1.1 Research Gap Identification

During the literature and theory review, three major research gaps were identified. First, it was noticed that one significant missing category among HRM studies in China is the public sector and governmental organizations, which is in contrast to the continuing attention that the public sector has attracted from management research in western countries (Cooke, 2009). Also compared to the extensive attention that the business sector (eg., SOEs and FIEs) in China have received from researchers, there has been very little discussion regarding HRM and pay systems in the Chinese public sector, also called the public service unit sector (PSU, *shiye danwei*) in China. Considering PSUs' significant academic and practical value (discussed in Section 3.1), there is a great need to explore the pay systems used in them, a topic that has rarely been studied in the HRM field.

Second, although many researchers acknowledge the fact that pay system reforms introducing PRP have been introduced in many organizations in China (Chow, 1992; Child, 1995; DeCieri, Zhu et al., 1998; Ding, Goodall and Warner, 2000; Bjorkman, 2002; Cooke 2002; 2004; 2005; Bozionelos and Wang, 2007,

etc.), very few attempts have been made to explore the application and effectiveness of such changes to a pay system, within the Chinese cultural and institutional environment. In contrast to the broad discussion of pay systems in western societies, there is a great shortage of studies about pay systems at an organizational level in China, and especially of those using longitudinal data, covering different changes to the pay system.

Third, despite the apparent popularity mentioned in the literature of PRP in different organizations, the empirical evidence for the superiority of PRP is still ambiguous, especially in the public sector, where a gap between the theoretical and actual PRP systems can often be seen (Ingraham, 1996; Thompson, 2007; Dahlstrom and Lapuente, 2009). Thus, given the recent pay system reform in China, which aimed to implement PRP in the PSU sector nationwide, its true impacts on different PSUs and their employees is an important question for investigation.

5.1.2 Research Questions and Research Objectives

In sum, the research gaps indicate that the existing literature has failed to answer the following question:

How has performance related pay been implemented in different PSUs in China during the pay system reform, and what has been its impact?

In order to answer this question, different theories about PRP have been reviewed, with the aim of exploring the impact the pay system reform has had on different PSUs in China. Based on the assumptions of the ‘new economics of personnel’ (NEP) and a range of motivational theories, six research objectives have been formulated, as follows:

Table 5-1: Summary of the proposed research objectives

Theory Category	Theory	Research objective proposed
Economic Theory	The New Economics of Personnel (NEP)	Q1: How does PRP fit into different PSUs in China?
Motivational Theory	Expectancy Theory	Q (2a): Can the employees improve performance by working harder? Q (2b): If the employee works harder, will he/she get higher pay? Q (2c): Do the employees perceive the bonuses they can receive by working harder to be valuable?
	Goal-setting Theory	Q3: How were the criteria for PRP decided upon in individual PSUs during the pay system reform?
	Agency Theory	Q4: Has the introduction of PRP helped to align the interests of different parties in PSUs in China?
	Cognitive Evaluation Theory (CET)	Q5: What influence has the implementation of PRP had on employees' intrinsic motivation in different PSUs in China?
	Equity Theory	Q6: Equity or equality, which has had a more significant impact on the design of PRP systems in PSUs in China?

5.2 Philosophical Stances and Theoretical Foundation

For centuries, the relationship between data, knowledge and theory has been intensely debated among philosophers. When designing management research, it is crucial to think through such philosophical issues, otherwise, the quality of the research could be seriously affected (Easterby-Smith, Thorpe, et al., 2008). There are two contrasting views of how social science research should be conducted, known as positivism and social constructionism. The positivist position argues that the social world exists externally, and its properties should be measured through objective methods, rather than being inferred subjectively through sensation, reflection or intuition (Easterby-Smith et al., 2008: 57). Social constructionism, on the other hand, states that 'reality' is not objective and exterior, but is socially constructed and given meaning by people (Easterby-

Smith, Thorpe, et al., 2008: 58). Given its implied objectivity and detachment, positivist research favours quantitative methodologies to describe or explain phenomena (Meredith, 1998). As one of a group of approaches often termed as interpretive methods, social constructionism usually relies more on qualitative data analysis, to better understand and explain the human action that arises from the sense that people make of different situations (Easterby-Smith, Thorpe, et al., 2008). Table 5-2 show the key features of the positivist and social constructionist paradigms.

Table 5-2: Contrasting Positivism and Social Constructionism

	Positivism	Social Constructionism
The observer	Must be independent	Is part of what is being observed
Human interests	Should be irrelevant	Are the main drivers of science
Explanations	Must demonstrate causality	Aim to increase general understanding of the situation
Research progresses through	Hypotheses and deductions	Gathering rich data from which ideas are induced
Concepts	Need to be defined so that they can be measured	Should incorporate stakeholders' perspectives
Units of analysis	Should be reduced to their simplest terms	May include the complexity of 'whole' situations
Generalization through	Statistical probability	Theoretical abstraction
Sampling requires	Large numbers selected randomly	Small numbers of cases chosen for specific reasons

Source: Easterby-Smith, Thorpe, et al. (2008:59)

Although the above philosophical positions seem to be incompatible, some management researchers suggest that a middle ground can be adopted by using mixed methods, and that this can provide different perspectives on the phenomena being investigated (Easterby-Smith, Thorpe, et al., 2008). Despite the already-developed theories in the PRP literature, this research aims to explore the true impacts of the recent PRP reform in PSUs in China, a sector

whose pay system has been so rarely explored. The research goal is concerned with increasing understanding and insight through gathering rich, contextual data from a small sample of carefully selected cases: PSUs that have gone through the recent pay system reform. Therefore, the philosophical stance adopted in this research leans towards the social constructionist position, though some positivist notions are also integrated into parts of the research design. Based on the philosophical position discussed above, and the aims of the study, the research design and methodology will be proposed in the following sections.

5.3 Selection of the Research Method

There are several ways of carrying out social science research, including experiments, surveys, histories, case studies, and the analysis of archival information. Each of these choices has advantages and disadvantages. When choosing a particular method, three main points need to be considered: “the type of research question posed, the extent of control an investigator has over actual behavioral events, and the degree of focus on contemporary as opposed to historical phenomena” (Yin, 2003: 5). Table 5-3 below shows the differences between the five main research methods, based on these three points.

Table 5-3: Relevant Situations for Different Research Strategies

Strategy	Form of Research Question	Requires Control of Behavioural Events?	Focus on Contemporary Events?
<i>Experiment</i>	how, why?	Yes	Yes
<i>Survey</i>	who, what, where, how many, how much?	No	Yes
<i>Archival analysis</i>	who, what, where, how many, how much?	No	Yes/No
<i>History</i>	how, why?	No	No
<i>Case study</i>	how, why?	No	Yes

Source: COSMOS Corporation. Cited in Yin (2003:5)

When choosing the research method for this study, then, we consider all three points. First, the form of the research question is predominantly ‘how’: “How is performance related pay performing in different PSUs in China, since the recent pay system reform?” Second, within this research, there is no need to control behavioural events. Finally, this research focuses on contemporary events, in investigating how employees in different PSUs have reacted to the pay system reform. Therefore, given the exploratory nature of the study, the case-study based approach is found to be appropriate, as it is suitable when “how” or “why” questions are being proposed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context (Yin, 2003: 1). Further reasons for choosing the case study over other suitable methods, such as surveys, are given in the following paragraph.

A case study is “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident” (Yin, 2003: 13). The case study research strategy is particularly suited to providing an analysis of the context in which behaviour and/or processes are affected by and in turn impact on context (Hartley, 2004: 323). Compared to the large amount of quantitative research involving contextual variables, there has been much less research using qualitative contextual data, despite the fact that it can provide insights into how context directly constrains particular outcomes or governs particular relationships (Bamberger, 2008). In recent decades, there have been calls for more case studies in the field of payment research, as many researchers believe that the field would benefit from in-depth descriptions of different compensation strategies, obtained through qualitative methods such as interviews and participant observations (Gomez-Mejia and Welbourne, 1988; Heneman and Judge, 2000; Werner and Ward, 2004). For example, on-site visits are necessary to gain a deep understanding of the choice and design of payment systems in companies. Researchers ‘must enter the field, rather than merely survey it, if we are fully to understand and appreciate its content and changes’ (Heneman and Judge, 2000: 82-83). Besides, in the field of HRM research in China, an

“extensive use of snapshots and pragmatic approach to data collection” can be observed, indicating that “more longitudinal studies and in-depth case studies at the organizational level are needed to narrate the nuances and delineate the trajectory of development of HRM in China” (Cooke, 2009: 16). Therefore, a case-study approach is adopted in this research. The details of the research design are presented in the following section.

5.4 Research Design

Every piece of empirical research must have a research design, which is “the logic that links the data to be collected (and the conclusions to be drawn) to the initial questions of study” (Yin, 2003: 19). For case studies, five components of a research design are especially important: (1) the study’s questions, (2) its propositions, if any, (3) its unit(s) of analysis, (4) the logic linking the data to the propositions, and (5) the criteria for interpreting the findings (Yin, 2003: 21). The research question and research objectives have already been presented in Section 4.1.2. In the following sections, the detailed research process, including sampling strategy and data collection methods, how the data will be analysed and research quality assurance, will be illustrated.

5.4.1 Unit of analysis

The unit of analysis within a case study is related to the fundamental problem of defining what the “case” is—it could be an individual, an event or an entity defined by the researcher (Yin, 2003; 2009). According to Yin (2003), the unit of analysis (and therefore the case) is related to the way the researcher(s) have defined the initial research question(s). The research question in this study involves exploring how new pay systems were implemented and how PRP is performing in different PSUs in China. Therefore, the unit of analysis in this research is the “public service unit in China”, and it will be the different changes and adjustments in their pay systems that will be observed.

5.4.2 Number of Cases

The ‘optimal’ number of cases in research design has been a matter of long-term debate. For example, single-case designs are particularly appropriate for completely new, exploratory investigations (Meredith, 1998). For a given set of available resources, the fewer the case studies, the greater the opportunity for depth of observation and richness of data collected (Voss et al., 2002). On the other hand, multiple-case study designs are preferred when there is already some knowledge about the phenomenon but much is still unknown (Meredith, 1998). Although no conclusion exists regarding the ideal number of cases, given the choice (and resources), multiple-case designs are usually recommended, since “single-case designs are vulnerable if only because you will have put all eggs in one basket” (Yin, 2003: 53). According to Eisenhardt (1991: 622), the appropriate number of cases will depend on how much is already known and how much new information is likely to be learned from incremental cases. Generally speaking, multiple-case designs with four to ten cases are considered adequate; after this, it can be difficult to cope with the volume and complexity of the data (Eisenhardt, 1989). Therefore, given the research question and objectives, this research conducted two in-depth case studies, the first looking at pay system reform in six state schools, and the second, pay system reform in one publishing organization. The sampling strategy chosen, which determines the characteristics of the selected cases, will be presented in the following section.

5.4.3 Choice of Cases

As described in Chapter 3, there are mainly three categories of PSUs: those with semi-government characteristic (e.g., the Stock Admission Department), those with a close link to public welfare (e.g., state schools and hospitals), and those that resemble production units and have little connection to public welfare (e.g., publishing organizations). During the national PSU restructuring process, PSUs belonging to the first category were incorporated into the government, and

automatically adopted the national civil servant personnel and pay system. Therefore, this research will concentrate on the other two categories.

The first case study looks at the PRP reform in six state schools within the compulsory education system in one county in Southeast China. We selected Chinese state schools because they are one of the most important components of the PSU sector in China, because they were the first group of PSUs belonging to the public welfare category to go through the PRP reform, and also because the implementation of PRP for schoolteachers has been very controversial across various countries, and its true impact in China remains unexplored. We now look at each of these three reasons in more detail.

First of all, it should be noted that improving the quality and outcomes of education is a key priority for all governments around the world (Atkinson et al., 2009). In China, a system of nine years of compulsory education has been in place since 1986, when the Compulsory Education Law of the PRC was enacted. According to this law, compulsory education was divided into two stages: primary school education and junior high school education. Once primary education had been made universal, junior high school education followed (Compulsory Education Law of the PRC, 1986: Article 7). Since then, the number of state schools and schoolteachers employed has increased significantly. According to the Ministry of Education (2008), in 2006 there were 341,600 primary schools and 60,600 junior high schools in China, with 5.59 million primary schoolteachers and 3.46 million junior high schoolteachers, representing nearly one third of the total employment in the PSU sector. Given the significant role that state schools play as public service providers, investigating how the payment system reforms have worked in them is crucial to this research.

Secondly, when the General Office of the State Council of the PRC announced a three-step project of PRP reform recently, targeting the major category of PSUs that provide public welfare nationwide, state schools within the compulsory

education system were chosen to be involved in the first tier of this reform. According to the General Office of the State Council of the PRC, from January 1st 2009, in the first step of the reform, a payment system comprising seventy per cent fixed-wage and thirty per cent PRP would first be launched into all state schools within the Chinese compulsory education system. The second step aimed to introduce the PRP system into all public hospitals and other PSUs within the national medical care system, from January 1st 2010. Finally, the ultimate goal would be to implement PRP in all PSUs providing public services, nationwide. Therefore, exploring the impacts of the reform on state schools could provide guidelines to be used when introducing PRP into other PSUs.

Thirdly, the effectiveness of PRP among schoolteachers has long been debated in the literature. In theory, schoolteachers should be among the least suitable employees for pay to be linked to performance (Marsden and Belfield, 2006: 1), mainly because the nature of their work is imprecise and characterized by multiple tasks, which makes their performance difficult to monitor and control (Murnane and Cohen, 1986; Marsden, 2006). Nevertheless, teachers are expected to respond to incentives inherent in the compensation structure (Lazear, 2003), and in recent decades, it has been common to find pay systems linked to performance for schoolteachers in many countries, although the effectiveness of such PRP schemes is still controversial. For instance, a recent review by Neal (2011: 14) shows that most assessment-based performance pay schemes do generate a remarkable increase in student performance on the particular assessment used to determine the incentive, confirming that teachers do respond to incentives. The study does note a few exceptions, such as the experience from England, the recent pay scale reform in Portugal, and two recent experiments in the US. Generally speaking, schoolteachers belong to a group of employees who exercise a high level of expertise in their work, particularly with regard to their subject and its teaching methods. As a result, there is an asymmetry of knowledge between the staff and the management (Marsden, 2006: 5). According to Eberts, Hollenbeck et al. (2002), PRP can motivate agents to pursue outcomes that are directly rewarded, but when it comes to schools, which

are characterized by multiple tasks and outcomes, team production, and multiple stakeholders, PRP schemes may produce unintended and, at times, misdirected results, unless the schemes are carefully constructed and implemented. However, among these controversial findings regarding PRP in schools in different countries, none of the samples include schoolteachers from China. Therefore, with the Chinese national pay reform introducing thirty per cent PRP into schoolteachers' wages in all state schools within the compulsory education system, it will be extremely interesting to investigate the impact this has.

To sum up, state schools within the Chinese compulsory education system represent the best sample through which to explore the influence of the recent national PRP reform among PSUs in the public welfare category. Therefore, we chose six state schools within the compulsory education system, from one county in southeast China, as the sample organizations, including primary and junior high schools in both urban and rural areas. Table 5-4 presents the selected case studies. The names of the schools have been omitted to preserve anonymity. All case selections were guided by the following criteria:

- (1) state schools belong to the category of PSUs that provide a public welfare service;
- (2) state schools within the national compulsory education system in China;
- (3) state schools involved in the national pay system reform, which implemented PRP.

Table 5-4: List of selected schools

Case	Primary/Junior High	Urban/Rural	Official start of PRP system
School A	Primary school	Urban	1st January, 2009
School B	Primary school	Urban	1st January, 2009
School C	Primary school	Rural	1st January, 2009
School D	Junior high school	Urban	1st January, 2009

School E	Junior high school	Rural	1st January, 2009
School F	Junior high school	Rural	1st January, 2009

As opposed to the category of PSUs with a public welfare function, where a national PRP policy was implemented, for those PSUs of a commercial nature, with little connection to public welfare, a national strategy of “pushing towards market” (*tuixiang shichang*) has been adopted. Its main purpose is to transfer such organizations from the traditional PSU system to the enterprise system. Thus, this latter category of PSUs have been required to engage in market competition, using a self-funding system. They have also been given flexibility in deciding on their own personnel systems, including pay systems. The change of pay systems in PSUs of a commercial nature started a bit earlier than it did for state schools and other PSUs providing public services. National financial and ownership reforms were introduced in 2000, requiring all PSUs of a commercial nature to transfer into enterprises with self-funded pay schemes.

One example is that of publishing organizations, an important part of the Chinese cultural sector, whose reform started in 2004, when the General Administration of Press Publications of the PRC announced that all PSUs in the publishing industry (except the People’s Publishing House, which would retain its PSU system due to it carries out the Party and state’s propaganda mission (“*houshe*”) and the public welfare nature of its publications) would be transformed into enterprises and no longer receive funding from the national budget. In contrast to the pay system reform among PSUs providing public welfare, it was mainly the responsibility of the commercial PSUs themselves to decide on the changes they would make to their pay systems when they became enterprises. Therefore, the pay system reform in a publishing organization was selected as the second case study. This acts as a comparative study to the study of the pay system reform in state schools. The sample publishing organization was chosen according to the following criteria:

- (1) a publishing organization belong to the category of PSUs which resemble production units and have little connection to public welfare;
- (2) a PSU which was pushed into the market, transferring from the traditional PSU system to one of an enterprise nature;
- (3) a PSU which conducted a spontaneous pay system reform, moving towards a PRP system.

A brief introduction to the two case studies included in this research is shown in Table 5-5. Due to the agreement of confidentiality between the researcher and the case organizations, the names of all sample PSUs are omitted throughout this thesis.

Table 5-5: Case Studies and Sampling Logic

	Case study A: Pay system reform for schoolteachers in state schools	Case study B: The pay system reform in a publishing organization
Sample PSU(s)	Six state schools in the Chinese compulsory education system	One publishing organization
PSU Category	PSUs with a close link to public welfare	PSUs with commercial characteristics
PSU Reform Orientation	Remain at the centre of the Chinese PSU sector, providing services for public welfare	Pushed into the market by transferring towards an enterprise-based system
Source of Finance	Fully-funded by government budget	Self-funded
Start of the pay system reform	Promoted by policy from central government	Spontaneous pay system reform proposed by the organization itself
Pay system reform start date	January 2009	January 2005
Location	One county in southeast China	Beijing

5.4.4 Data Collection Methods

A number of different sources of evidence are commonly used in case studies, including documentation, archival records, interviews, direct observation, participant-observation, and physical artifacts (Yin, 2003: 85). Each has

strengths and weaknesses, an overview of which is given in the following Table 5-6.

Table 5-6: Six Sources of Evidence: Strengths and Weaknesses

Source of Evidence	Strengths	Weaknesses
<i>Documentation</i>	<ul style="list-style-type: none"> • Stable – can be reviewed repeatedly • Unobtrusive – not created as a result of the case study • Exact – contains exact names, references and details of an event • Broad coverage – long span of time, many events and many settings 	<ul style="list-style-type: none"> • Retrievability – can be low • Biased selectivity, if collection is incomplete • Reporting bias – reflects (unknown) bias of author • Access – may be deliberately blocked
<i>Archival Records</i>	<ul style="list-style-type: none"> • [As for documentation] • Precise and quantitative 	<ul style="list-style-type: none"> • [As for documentation] • Accessibility – can be low for reasons of privacy
<i>Interviews</i>	<ul style="list-style-type: none"> • Targeted – focuses directly on case study topic • Insightful – provides perceived causal inferences 	<ul style="list-style-type: none"> • Bias due to poorly constructed questions • Response bias • Inaccuracies due to poor recall • Reflexivity – interviewee says what interviewer wants to hear
<i>Direct Observations</i>	<ul style="list-style-type: none"> • Reality – covers events in real time • Contextual – covers context of event 	<ul style="list-style-type: none"> • Time-consuming • Selectivity – unless broad coverage • Reflexivity – event may proceed differently because it is being observed • Cost – hours needed by human observers
<i>Participant observation</i>	<ul style="list-style-type: none"> • [As for direct observations] • Insight into interpersonal behaviour and motives 	<ul style="list-style-type: none"> • [As for direct observations] • Bias due to investigator’s manipulation of events
<i>Physical Artifacts</i>	<ul style="list-style-type: none"> • Insight into cultural features • Insight into technical operations 	<ul style="list-style-type: none"> • Selectivity • Availability

Source: adapted from Yin (2003: 86)

As one of the main tools used in social science research (Snow and Thomas, 1994), interviews provide an opportunity for researchers to probe deeply to

undercover new clues, open up new dimensions of a problem and secure vivid, accurate and inclusive accounts that are based on personal experience (Burgess, 1984). According to Easter-Smith et al. (2008), the interview method is particularly useful when the research topic is highly confidential or commercially sensitive, because it allows interviewees to be relatively relaxed about sharing confidential information. Given that this research aims to explore changes in payment systems, which is one of the most sensitive and confidential topics in most organizations in China, the interview approach seems most appropriate. Semi-structured interviews were adopted because they allow the flexibility to ask questions about issues that emerge during the interview, while keeping the researcher focused within the research boundary (Bernard, 1995). The research method of back-translation for cross-cultural research by means of all interview questions (Brislin, 1970; 1980) was conducted, with the original questions in English, first translated into Chinese by the author and given to another translator who is also fluent in both Chinese and English to translate back into English. This new English version was then compared to the original English version and the items retranslated until the new English version, came to be grammatically and semantically equivalent to the original Chinese version.

Interviews in the state schools

For the case study involving state schools, before entering the field, a pilot study was conducted, by interviewing two teachers separately. Each of the two teachers had been teaching at the same school for over ten years, one a primary school and the other a junior high school¹⁷. Each interview in the pilot study lasted around two hours, and mainly used open-ended questions around the broad theme of “what do you think of the pay system reform and the introduction of performance related pay in your school?” A more structured interview format and a list of interview questions were developed after these two

¹⁷ Although excluded from the sample schools used in the case study, both of these schools fulfilled all of the sampling criteria.

pilot interviews, providing a clear guideline for the semi-structured interviews that followed.

After the pilot research, interviewees were selected from the different sample state schools, on the basis of their knowledge and experience of the pay system reform. In general, the headteacher or a senior teacher with over ten years of teaching experience in the school was chosen. They were believed to have the most knowledge regarding the changes to the pay system at their school. All interviews were arranged through personal relationships, usually through introductions by close friends who had good relationships with the interviewees. The nature and purpose of the research was explained to the interviewees by the person making the introduction, before an appointment for an interview was made. An appointment was always made before each site visit to a school, to ensure that the interviewee(s) had enough time to complete the interview. In each interview, the interviewee was briefed about the nature and purpose of the research, by the researcher, and a confidentiality agreement was made verbally at the start of each interview.

All interview data were recorded by taking notes during the interview. Digital recorders were not used because it was decided that some respondents might feel less able to talk freely and candidly, especially given that the change of pay system has been one of the most sensitive topics for organizations in China. Moreover, writing down the interviewees answers gave the researcher time to reflect on them and pursue items of interest by formulating tailored questions.

As well as the key informant(s) in each sample school, government officials in the local personnel bureau and education bureau were also interviewed. This enabled the researcher to obtain adequate information regarding the implementation of the pay system reform in state schools across the local area. A similar approach was adopted for these interviews: a pre-interview appointment made through an appropriate referee, a confidentiality agreement, and a semi-structure interview recorded by hand. This helped the researcher to gain access

to confidential internal government reports as well as to obtain feedback from the government officials who were involved in the policy making behind the pay system reforms for schoolteachers in the county.

Interviews in the publishing organization

In the case of the publishing organization, thanks to the very good relationship between the researcher and the head of the HR department of the organization, the researcher was able to visit it four times between 2005 and 2010 (site visits were made in 2005, 2006, 2009 and 2010). The researcher interviewed all staff within the HR department who had full knowledge of the changes made to the organization's pay system. The researcher also gained access to all confidential data regarding the pay system, and individual payment sheets from different stages of the pay system reform. A confidentiality agreement was put in place before the first visit. The four separate visits enabled the researcher to conduct a longitudinal case study and gain a deep insight into the development of the organization's pay system. During each visit, the researcher spent a week within the HR department, interviewing staff and reviewing all related internal documents, with the full support of the HR team.

Secondary Sources

A major strength of case study data collection is the opportunity it gives to use many different sources of evidence (Yin, 2003: 97). In this research, data were collected from multiple sources and using different methods, so as to achieve better results from converging lines of inquiry. For example, as well as the semi-structured interviews mentioned above, secondary sources such as organizational internal reports, policies and regulations, and organizational and individual payment sheets, were also used. Multiple data collection methods provide a stronger substantiation of constructs (Eisenhardt, 1989), and such triangulation of data sources is believed to be necessary in order to avoid respondent and interview bias, to clarify details, and to cross-check responses.

Table 5-7: Data Sources in each case

Case Category	Case	Interviews	Documentation
State schools in the National Compulsory System	School A	<ul style="list-style-type: none"> Head teacher (2.5 hours) 	N/A
	School B	<ul style="list-style-type: none"> Head teacher (2 hours) Deputy head teacher (1.5 hours) 2 senior teachers (1.5 hours each) 	N/A
	School C	<ul style="list-style-type: none"> Head teacher (2 hours) 1 senior teacher (2 hours) 	<ul style="list-style-type: none"> Details of school PRP regulation (see Appendix 5 Sample A)
	School D	<ul style="list-style-type: none"> Head teacher (1.5 hours) 2 Senior teachers (1.5 hours each) 	<ul style="list-style-type: none"> Details of school PRP regulations (see Appendix 5 Sample B)
	School E	<ul style="list-style-type: none"> Head teacher (3 hours) 	<ul style="list-style-type: none"> Details of school PRP regulations Pay sheets for all schoolteachers (before vs. after)
	School F	<ul style="list-style-type: none"> Head teacher (3 hours) 	<ul style="list-style-type: none"> Details of school PRP regulations Individual pay sheets of the head teacher
	Local Government	<ul style="list-style-type: none"> Head of personnel bureau (2.5 hours) Head of education bureau (3 hours) Official of education bureau (2 hours) 	<ul style="list-style-type: none"> Government policy regarding the schoolteachers' PRP reform (national, provincial, and local government policies/guidelines) Government annual report (from city education bureau)
	National Government	<ul style="list-style-type: none"> Department head, Employment and Wage Research Centre, Ministry of Human Resources and Social Security of the PRC 	N/A
PSU of a commercial nature	Publishing organization	<ul style="list-style-type: none"> Vice director, HR director and 3 staff of the HR department (four site visits in 2005, 2006, 2009 and 2011; each visit lasted for a whole week) 	<ul style="list-style-type: none"> Internal pay system regulations (2005-2010) Pay sheets for all employees (before vs. after) Performance records of editors (2005-2010)

5.5 Data Analysis

This research uses both within-case analysis and cross-case analysis to provide a detailed investigation; a combination of the two approaches can help to counteract information-processing biases and keep research away from “premature and even false conclusions” (Eisenhardt, 1989: 540).

Within-case analysis

Within-case analysis usually involves detailed case study write-ups for each site (Eisenhardt, 1989). For each case in this research, all semi-structured interviews were recorded by the researcher, who took detailed notes during the interviews. The transcripts along with secondary data were the main sources used to obtain the case study findings. The data collected from the interviews were analyzed through a coding process with different levels. First, the individual interview text was read to gain a sense of the entire system of meaning constructed in the conversation. Second, each interview text was divided into broad categories (e.g., the decision making during the pay system reform, the implementation of the pay system reform, the influence of the new pay system etc.), and these categories were analysed in accordance to their relationships to each other, so as to clarify the pay system reform process as well as the impacts of PRP in each organization. Then, these broad categories were subdivided into finer categories, following the research objectives proposed in the research framework (findings identified, that went beyond the original research objectives, were also categorized). This process clarified the specific research questions to be explored in each sample organization. As there were several interviewees from each organization, a comparison across different respondents from the same organization was conducted, which helped the researcher to better understand the implementation and influence of the pay system reforms in each organization investigated. Thus, targeting the central research question and the research objectives (Section 4.1.2), the within-case analysis focused on how the sample PSUs had implemented the pay system reform, and how the new PRP system had affected the employees, in terms of motivation and performance. This not

only reflected the focus of this research, but also provided a foundation for the cross-case analysis that followed.

Cross-case analysis

According to Eisenhardt (1989: 540), one tactic in cross-case analysis is to “select pairs of cases and then to list the similarities and differences between each pair”. Therefore, after reviewing each case individually, a second phase of data analysis was carried out, allocating cases into groups and then comparing the findings for the different groups. Such a juxtaposition of seemingly similar cases by a researcher looking for differences can break simplistic frames, while the search for similarity in a seemingly different pair of cases may also lead to a more sophisticated understanding of the research question (Eisenhardt, 1989: 541). The grouping of the presented cases is indicated in Figure 5-1.

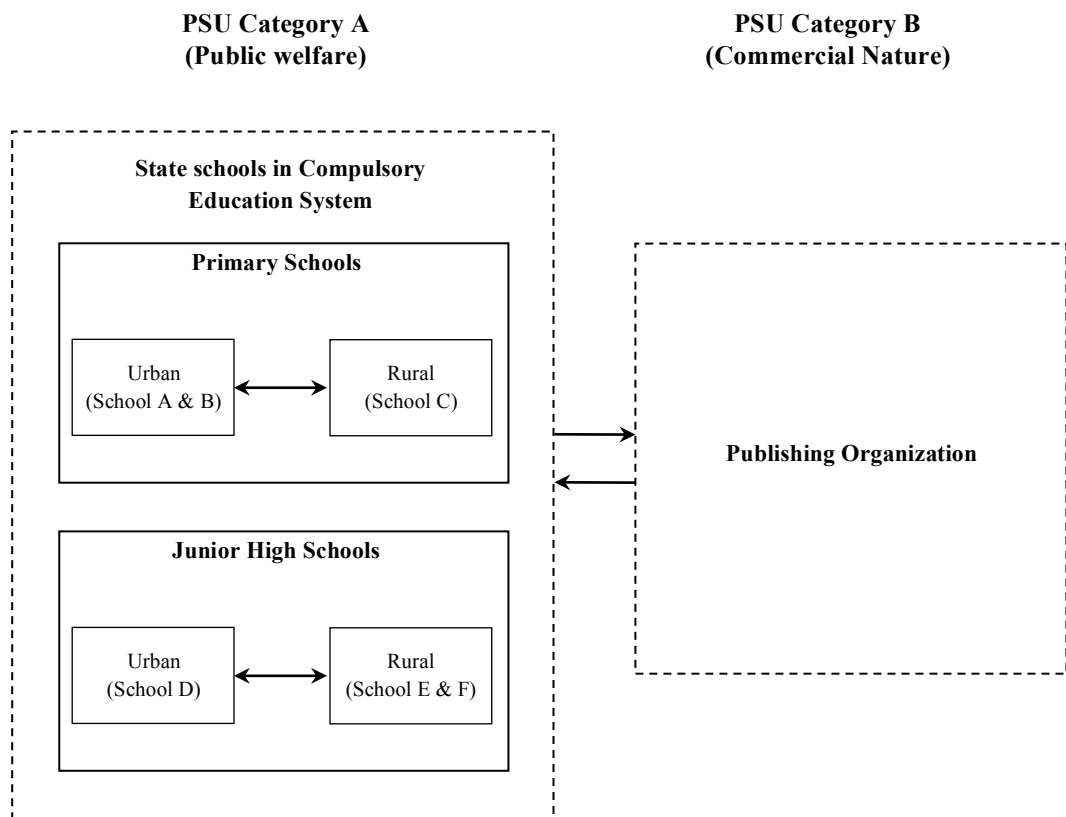


Figure 5-1: Case Analysis Frameworks

5.6 Research Quality

When evaluating the quality of any empirical social research, including case studies, four aspects need to be maximized: construct validity, internal validity, external validity, and reliability (Yin, 2003). Since this research leans toward exploratory and descriptive enquiry, and does not intend to investigate casual relationships, internal validity referring to the “causal relationships between variables and results” (Gibbert et al., 2008: 1466) will not be discussed in this section. The other three criteria, and how this research fulfilled them, are described below.

Construct validity regards the establishment of “correct operational measures for the concepts being studied” (Yin, 2003: 34). According to Gibbert et al. (2008: 1466), construct validity “refers to the extent to which a study investigates what it claims to investigate, that is, to the extent to which a procedure leads to an accurate observation of reality”. Therefore, when conducting case studies, construct validity needs to be considered during the data collection and composition phases (Yin, 2003). In order to establish construct validity, two tactics were applied to the process of data collection. First, multiple sources of evidence were used. Besides interviews with key informants, confidential document, such as the internal payment regulations and employees’ payment sheets, were also collected from the sample PSUs, under a confidentiality agreement. Second, after obtaining data from the individual PSUs, government officials from different departments who were involved in the PSU PRP reform were also interviewed. Some more obscure issues were confirmed through these discussions.

External validity, also called ‘generalizability’, requires that a study’s findings should be generalizable beyond the immediate case study (Yin, 2003: 37). According to Gibber et al. (2008: 1468), neither single nor multiple-case studies allow for statistical generalization, but this does not mean that case studies are devoid of generalizability. It is usually understood that a cross-case analysis

involving four to ten case studies can provide a good basis for analytical generalizations (Eisenhardt, 1989; Gibbert et al., 2008), and thus a multiple-case study method was adopted in this research to strength external validity. Seven sample PSUs were selected, based on clear rationales (see Section 4.4.3).

Finally, the goal of reliability is to minimize the errors and bias in a study (Yin, 2003); the establishment of the reliability of a piece of research depends upon its transparency and replication (Gibbert et al., 2008). In order to accomplish reliability, transparency should be assured “through measures such as careful documentation and clarification of the research procedures” (Gibbert et al., 2008: 1468). In this research, each case study was carefully recorded and presented. Although the names of the case organizations cannot be revealed because of the confidentiality agreements, organization names have been shared with the academic supervisor and will be available in confidence to the examiners. Also, it is suggested that replication can be achieved by putting together a case study database, which is established in this research through triangulation of the data collected, including case study notes, case study documents, and the narratives collected during the study (Gibbert et al., 2008: 1468).

Table 5-8: Case Study Tactics for Research Design Tests

Tests	Case Study Tactic	Phase of research in which tactic occurs	How these criteria were followed in the study
<i>Construct Validity</i>	<ul style="list-style-type: none"> • Use multiple sources of evidence • Establish chain of evidence • Have key informants review draft case study report 	<ul style="list-style-type: none"> • Data collection • Data collection • Composition 	<ul style="list-style-type: none"> • Multiple sources of evidence: interviews; organizational internal documents (e.g., internal payment regulations, employees’ payment sheets etc.) • Interviews with government officials (supplemented with government policies and reports)
<i>External Validity</i>	<ul style="list-style-type: none"> • Use replication logic in multiple-case studies 	<ul style="list-style-type: none"> • Research Design • Research Design 	<ul style="list-style-type: none"> • Multiple-case study method adopted, with seven cases selected according to a clear rationale of case sampling

Reliability	<ul style="list-style-type: none"> • Use case study protocol • Develop case study database 	<ul style="list-style-type: none"> • Data collection • Data collection 	<ul style="list-style-type: none"> • Careful documentation and clarification of the research procedures, following the case study protocol established • Case study database, including case study notes, interview transcripts, case study documents (government policy, organizations' internal regulations, payment sheets etc.)
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Source: adapted from Yin (2003: 34)

5.7 Challenges when conducting the case studies, and how they were overcome

As this is a pioneer study about the pay system reform and its impacts on the PSU sector in China, the difficulty of obtaining key informants' trust was a serious challenge. According to Cooke (2009: 17), one of the most important reasons for the lack of studies on public sector and government organizations in China is the difficulty of gaining access, and many of those conducting research in China have noted that access to research informants and organizations is often the biggest hurdle. Most companies in China are unwilling to cooperate with academic research, and those from the public sector and government organizations are even more sensitive to external investigation (Cooke, 2009). Due to this research barrier, when conducting research on HRM issues, especially exploring pay systems, which is the most sensitive and confidential topic for most organizations in China, a researcher must employ "good personal networks, additional resources and skills, and the adoption of an informal approach including interviews and observations instead of large scale survey", and whether they can urge the "gatekeepers to these organizations to adopt a more open-minded approach to their people management and invite external scrutiny" also plays a critical role in whether or not they can obtain research data (Cooke, 2009: 17). In this research, all sample organizations were accessed through personal networking, and the researcher always put in place

confidentiality agreements at the very beginning of each piece of field research. Given the sensitivity and confidentiality of pay system issues, all of the key informants interviewed in each organization were senior employees with no threat to their jobs or other risks. This meant there were likely to be the most willing to participate and to express their true opinions. Usually, a request for supporting documentation was proposed after finishing a successful interview, but in two cases (school A and school B, shown in Table 4-7), the head teachers refused to provide any detailed documents.

Compared to the individual PSUs, carrying out research within the government was even more difficult, especially given that the local government officials were very cautious about releasing any detailed documents regarding the schoolteachers' PRP reform in their local area. For example, after a very successful three-hour interview with the head of the Education Bureau, the researcher was told to come back the next day to pick up a relevant document, because the official in charge of documentation was out of the office that day. When the researcher returned the next day and went to see the official in charge of documentation, he initially refused to release any information to the researcher. Not only did he call the head of the bureau to verify the researcher's identity, he also asked the head whether he (the head) would bear the risk of releasing the document. It was only after he had confirmed everything in detail with his supervisor that he released part of the document the researcher had requested.

Another similar experience involved the failed proposed research with the local financial bureau. Since that bureau was also partially involved in the budget allocation, the researcher had intended to interview officials there, in order to explore the influence the PRP reform had had on the local budget. However, since the research topic was related to local financial issues, which are treated as highly confidential, the research request was turned down firmly, despite introductions from several senior government officials who had very close relationships with both the targeted interviewee and the researcher.

In sum, when conducting research into a pay system which has been a most sensitive and confidential topic in PSUs in China and involved a great deal of government intervention, it was extremely challenging to gain access to individual organizations and an insight into their internal pay systems. The researcher has tried her best to broaden the research scope, including the views of a wide range of stakeholders, such as decision-makers, employees, and government officials involved in the PSU pay reform. Although some data were not available in certain cases, it is believed that the two case studies, involving six state schools and one publishing organization, presented in the following two chapters, provide a thorough insight into the topic under study.

5.8 Chapter Summary

This chapter defines the framework and methodology of the research. Given the research question and objectives identified from the literature and theory review, this research leans towards the philosophical position of social constructionism, and thus a two-case study approach was adopted, including a sample of seven PSUs, aiming to explore the pay system reforms undergone by different Chinese PSUs. A detailed exposition of the entire research design, its case study methodology, the rationale behind the case selection, and the challenges involved, are also presented. To sum up, this chapter has established the complete research framework and methodology appropriate for this research, and it is expected that they will provide results that are valid and reliable. The case description, the findings from each case, and the cross-case analysis will be presented in the following chapters.

Chapter 6 Case Study A:

Pay reform in state schools in the compulsory education system in County H

In December 2008, the General Office of the State Council of the PRC announced a three-step project to implement a new PRP scheme in the PSU sector in China. According to this national PSU pay system reform project, from January 1st 2009, all employees of state schools in the Chinese compulsory education system would be paid according to a new PRP system, which would be made up of two parts: fixed pay (termed “basic performance related pay under the national project), accounting for 70 per cent of the individual’s pay, and flexible pay (termed “encouraging performance related pay”), which would be linked to the individual’s performance and would account for 30 per cent of their pay. Following the first step of pay system reform in state schools, the scheme would also be introduced to all public hospitals and other PSUs within the national medical service (the second step of the reform). According to the central government, the ultimate goal of the reform was to implement a PRP system in all PSUs across China, with the focus on those providing public welfare. In this chapter, a case study of how the pay system reform was carried out in six state schools within the Chinese compulsory education system in County H will be presented, providing an insight into the implementation of PRP and the impact the reform has had on the schoolteachers in the schools investigated.

6.1 A review of the national policy

The first step in the national PSU pay reform involved the release, on December 23rd 2008 of “*The guide for the implementation of performance related pay in all schools in compulsory education*” (hereafter “the guide”) in a State Council executive meeting, which officially announced the launch of the pay system

reform for all state schools within the compulsory education system in China. According to the guide, the reason for introducing PRP in state schools was to address the need to better reward teachers for excellence, especially those working in remote rural areas who had previously been paid much less than those in urban areas. Since the reform would cover all PSU employees within the Chinese compulsory education sector, the guide specified key principles that all local governments and individual schools should follow when implementing the new PRP system. A brief summary of these principles is given below.

First, all public primary and junior high schools belonging to the national PSU system were required to adopt a performance pay system from January 1st 2009, making the average wage of schoolteachers in the local county/city equivalent to the average wage across all levels of civil servants in the local area.

Second, a schoolteacher's pay would be divided into two parts, "basic performance pay" (*jichuxing jixiao gongzi*) and "encouraging performance pay" (*jianglixing jixiao gongzi*), as described above. "Basic performance pay" would be fixed, allocated by local government, and linked to the individual's job level and responsibility, and the local price index which reflects the state of the local economy. This would account for 70 per cent of the employees' total pay, and would be paid monthly. Although the whole pay system was referred to as PRP, it would be the remaining 30 per cent, "encouraging performance pay" that would be linked to employees' actual performance. Unlike "basic performance pay" which would be allocated by the government, it would be mainly the responsibility of the individual school to decide how to allocate "encouraging performance pay" within the school. Furthermore, it was stated that it should be flexible and allocated according to the individual's performance. However, even though the individual schools were supposed to make the final decision regarding the allocation, the guide also specified some allowances that should be included in this part of the pay. For example, there was an allowance for class teachers ("*ban zhuren*") an allowance for teachers in rural areas, and an allowance for overtime teaching, which both the local government and the

schools were supposed to take into consideration. The main components of an individual employee's pay, according to the new system described in the guide, is shown below:

$$\begin{array}{l} \text{An individual's pay} \\ (100 \text{ per cent}) \end{array} = \begin{array}{l} \text{“basic performance pay”} \\ (70 \text{ per cent, fixed, allocated} \\ \text{according to the criteria set by local} \\ \text{government}) \end{array} + \begin{array}{l} \text{“encouraging performance pay”} \\ (30 \text{ per cent, flexible, decided by} \\ \text{individual school with partial} \\ \text{allowances required by} \\ \text{government}) \end{array}$$

Third, the implementation of proper performance appraisals was also emphasized in the guide. For instance, it was recommended that schools should categorize different positions and responsibilities internally, such as teaching positions, management positions and back office positions. Then, individual employees should be evaluated according to their position and responsibility, and the results of the evaluation should be linked to their “encouraging performance pay”. The purpose of this was to make sure those with higher performance get better pay. Although it would be the responsibility of the school to conduct internal performance appraisals, according to the guide, the local bureau of education was also required to review the appraisals and the setting of pay in each school.

Fourth, employee participation was also emphasized in the guide, especially regarding the decision-making process for the “encouraging performance pay”. For example, it was stated that, after the PRP system had been proposed by the school reform committee—which should include representatives of different groups of employees—details of the new pay system should be published, and passed by a staff meeting vote. In order to ensure a fair reform, the “encouraging performance pay” of the head teachers, who would be in charge of the pay reform within the school, would be separate from that of the other employees. In other words, the whole package of pay for the head teacher would be decided by local government, with performance evaluated directly by the local bureau of education and “encouraging performance pay” allocated accordingly.

Last but not least, the guide addressed the issue of the allocation of extra bonuses that had previously occurred in some schools. According to the guide, once the new PRP system was launched, no extra allowances or bonus would be allowed, other than the subsidies included in the official PRP system approved by the local government. This was one of the most substantial changes the reform brought about in state schools, especially affecting those schools in leading positions in their local areas. Due to the large student population and the fierce competition of the college entry examination system in China, although students were supposed to attend school in their local district, every year some schools with better facilities and teaching quality would have many more applications than they could accept. Popular schools with a good reputation for teaching would often charge students from other school districts a “sponsor fee”. This would vary, depending on the local economy, the competition for places, and sometimes even the social status of the student’s referee. Generally speaking, the more popular the school, the higher the “sponsor fee” would be. Traditionally, part of the fee would be handed to the local government responsible for education, but usually the majority would be kept by the school, and used as a construction fund and to provide extra bonuses for employees. This system widened the pay gaps between teachers from different schools, and also drove good teachers to teach in schools with higher reputations and thus higher pay. The ban on all extra subsidies in state schools, specified in the guide, thus sought to balance the teaching quality among schools, by reducing turnover rates for teachers, especially in poorer areas where teachers’ pay was usually lower. In other words, once the new PRP system was introduced, schools may still have been able to charge a “sponsor fee” for students from other school districts, but this could no longer be allocated to employees in the form of pay or allowances, as all employees in state schools would receive their pay from government funding only. Hence, there would be only very minor pay differences between teachers from different schools within an area, as no extra bonuses would be permitted, even for those teaching in top schools.

In sum, according to the guide, a national PRP system would be launched in all schools in the compulsory education system in China at the beginning of 2009. In the next section, the effect of the reform on six state schools belonging to the compulsory education system in one county in southeast China (“*County H*” hereafter) will be discussed, providing an insight into the changes made to the pay system at the school level, as well as the impacts on different groups of employees.

6.2 The PRP reform for schoolteachers in County H

After the release of the guide, the new pay system began to be implemented for all employees within the compulsory education system, from January 1st 2009. However, the guide was released only one week before the actual starting date of the new system, which gave very short notice to the parties involved. The question of how to implement the reform was a very challenging task for local government, which was required to act as supervisor for the local area. According to the guide, the average pay level of all schoolteachers should be equivalent to that of all civil servants in the local county, and should be fully funded by the local government (county level or above). It was the local government that had to determine the “basic performance related pay”, accounting for 70 per cent of the total wage. Also, although the schools would decide on the distribution of the “encouraging performance pay” internally, the local government would also be involved as a supervisor (i.e., the final pay system in each school would need to be approved by the local bureau of education). Therefore, the regulations or instructions produced by local government played a critical role, acting as a more specific guide for all schools within the area.

In order to get an insight into how the pay reform was implemented, and explore its impact on different schools, an in-depth case study was conducted. It included six state schools within the compulsory education system, from County

H, a medium-sized county located in Southeast China, whose economy is one of the best in the country. When the reform started, the government of County H was in charge of its implementation in all of the schools involved—25 primary schools and 15 junior high schools. According to data from the Education Bureau of County H (2010), a total of 3,182 employees were affected, including 41 head teachers, 369 employees in management positions, and 2,772 schoolteachers. When the system was introduced in January 2009, the average pay across all employees of public primary and junior high schools was adjusted to the average pay for civil servants in County H, bringing about a significant increase in the average wage in the county’s compulsory education system (Table 6-1).

Table 6-1: Average pay for PSU employees in the compulsory education system in County H¹⁸ (unit: yuan/year)

	Before the PRP reform	After the PRP reform	Change	Percentage Change (per cent)
Average wage of all employees	44,712	61,095	16,383	36.6
Average wage of head teachers	48,716	69,301	20,585	42.2
Average wage of employees in management positions	46,793	62,078	15,285	32.7
Average wage of schoolteachers	44,336	60,806	16,470	37.1
Allowance for schoolteachers in rural areas	2,550	2,550	0	0
Allowance for class teachers	1,440	3,600	2,160	150

Source: Internal report from Education Bureau of County H, 2010

Besides the adjustment of the level of pay, there were also notable amendments in the components of pay that the teachers received. Before the PRP reform,

¹⁸ Based on the official statistical report from the local Education Bureau of County H. However, employees in popular schools may have received extra bonuses outside of government funding before the pay system reform. This tended to be a grey area and would never have been calculated in government statistical reports.

various allowances were included in teachers' pay, which usually differed across schools. Since a standardization of allowances was required by the national guide, when the new PRP system was introduced some of the previous allowances were removed; only five remained and were included in the "basic performance related pay" allocated by the local government (see Tables 6-2 and Table 6-3).

Table 6-2: Components of individuals' fixed pay in the compulsory education system before and after the PRP reform in County H.

Components of individuals' fixed pay	Before PRP reform	After PRP reform
Basic pay	<ul style="list-style-type: none"> • Position pay • Benchmark pay • 10 per cent of basic pay 	<ul style="list-style-type: none"> • Position pay • Benchmark pay • 10 per cent of basic pay • Adjustment for teachers in rural areas
Seniority pay for teachers	<ul style="list-style-type: none"> • Allowance based on teaching experience and ranking of teaching certificate 	<ul style="list-style-type: none"> • Allowance based on teaching experience and ranking of teaching certificate
Allowances	<ul style="list-style-type: none"> • Province-standard allowance • Welfare allowance • Price-index allowance • Meal-delay allowance • Cost of living allowance • Head teacher allowance • Rural teacher allowance • Position allowance • Appraisal allowance • Attendance allowance 	<ul style="list-style-type: none"> • Position allowance • Cost of living allowance • Seniority allowance • Class teacher allowance • Rural teacher allowance

Source: Internal report from Education Bureau of County H, 2010

Table 6-3: Sample pay slip showing the monthly fixed pay after the reform for a head teacher in a junior high school in County H (unit: yuan)

Name	***
Position pay	930
Benchmark pay	555
10 per cent of basic pay	148.5

Seniority pay for teachers		10
Position allowance		1,854
Cost of living allowance		1,750
Seniority allowance		300
Class teacher allowance		0
Rural teacher allowance		340
Total pay		5,887.5
Deduction of pay	Housing fund	557
	Unemployment insurance	12.96
	Medical insurance	48.2
	Individual income tax	365.4
Actual pay		4,903.94
Signature		(Bank transfer)

Source: Confidential pay slip of head teacher of School F in County H, 2010

Compared to the standardization of “basic performance pay” in the new system, the distribution of “encouraging performance pay” was much more complicated, as it was supposed to be flexible and linked to the actual performance of the individual. According to the national guide, the “encouraging performance pay” of all employees within the compulsory education system would be decided by the individual schools themselves, except for the “encouraging performance pay” of head teachers, whose pay would be allocated by the local education bureau. In County H, the total amount of “encouraging performance pay” allocated to each school was decided by the education bureau, mainly based on the number of full-time employees within the school. According to “*The guide for the allocation of encouraging performance related pay in compulsory education schools in County H*” (2009), the amount allocated to each school was to be calculated as follows:

$$\begin{aligned}
 & \Sigma \text{ (Encouraging performance related pay of each school) =} \\
 & \quad [\Sigma \text{ (All teachers' pay in the county) } \times 30 \text{ per cent} \\
 & \quad - \Sigma \text{ (Encouraging performance related pay of all head teachers in the county)} \\
 & \quad - \Sigma \text{ (Bonus for all award-winning schoolteachers in the county)} \\
 & \quad - \Sigma \text{ (Bonus for schools that fulfill the annual appraisal target) }] \\
 & \quad \div [\text{Total number of employees involved in the PRP reform in the county} \\
 & \quad \quad - \text{Total number of head teachers in the county}] \\
 & \quad \times [\text{Total number of employees involved in the PRP reform in the school} - 1]
 \end{aligned}$$

According to County H’s policy, the sum of head teachers’ “encouraging performance pay”, bonuses for award-winning teachers (teachers who achieved outstanding performance in various competitions at either the county level or above), and bonuses for schools that fulfilled the annual appraisal target (these included, for example, health and safety standards, the tidiness of the campus and others) should count for 5 per cent of the total “encouraging performance pay” allocated by the county (with head teachers’ pay accounting for 0.75per cent). Although it was up to the school to decide how to allocate the “encouraging performance pay” internally, four categories were recommended by the county government: “bonus for performance appraisal”, “bonus for attendance”, “bonus for overtime working” and “bonus for teaching achievement”. According to the County H guide (see Table 6.4), the “bonus for performance appraisal” should account for 40per cent of the school’s total allocation of “encouraging performance pay”, and the “bonus for attendance” should account for 10per cent. The amounts allocated to the remaining two categories could be decided by the schools themselves. Besides the four categories specified by the county government, schools were able to add up to three further categories.

Table 6-4: Components of the “encouraging performance pay” of individual employees, as indicated in the government policy of County H

Category	Appraisal frequency	Percentage of school’s total “encouraging” PRP
Bonus for individual performance appraisal	Once per academic year	40 per cent
Bonus for attendance	Once per academic term	10 per cent
Bonus for overtime working ¹⁹	Once per academic term	Specified by school
Bonus for teaching achievement	Once per academic term	Specified by school
Other school-specific categories (no more than three)	Once per academic term	Specified by school

Source: The guide for the allocation of encouraging performance related pay in schools in compulsory education in County H, 2009

¹⁹ The working hours of staff in management positions would be transferred into teaching hours based on an index set by the school (for further details, see the sample pay systems in Appendix 5).

For the allocation of the bonus for individual performance, four evaluation benchmarks were indicated in the county guide: “excellence”, “eligibility”, “just qualified”, and “fail”. There was no quota for the employees’ evaluation results, except for the number of employees awarded the level of “excellence”, which could be no more than 15 per cent of the school’s employees. Bonuses for individual performance would be allocated according to these four levels and a benchmark bonus. Employees belonging to the management team would receive 150 per cent of the benchmark bonus if they were awarded the level “excellence”, while those awarded “eligibility” would receive 130 per cent of the benchmark bonus. Employees outside of the management team who were awarded “excellence” would receive 120 per cent of the benchmark bonus, and those who were awarded “eligibility” would receive 100 per cent of the benchmark bonus. Employees evaluated as “just qualified” would receive no bonus, while those who failed the evaluation, would have their whole package of “encouraging performance” pay canceled. To sum up, the part of the pay linked to the result of the individual performance evaluation would be calculated as follows (according to “*The guide for the allocation of encouraging performance related pay in compulsory education schools in County H*”, 2009):

Actual bonus for individual performance appraisal

- = **A (benchmark bonus for individual performance)**
- × **B (index benchmark of the school)**
- × **C (individual index according to his/her performance evaluation result)**
- **D (deduction of bonus due to sick/personal leave)**

where A = (total encouraging PRP allocated to the school) × 40 per cent

÷ (total number of employees involved in the PRP reform in the school)

and B = (total number of employees involved in the PRP reform in the school)

÷ [(number of employees in management position ranked “excellence”) × 150 per cent

+ (number of employees in management position ranked “eligibility”) × 130 per cent

+ (number of other employees ranked “excellence”) × 120 per cent

+ (number of other employees ranked “eligibility”) × 100 per cent]

Since “encouraging performance pay” was to be flexible and linked to the individual’s performance, pay differences would occur among employees in different positions or those achieving different performance levels. An overview of the distribution of “encouraging performance pay” across employees within the compulsory education system in County H is shown in Table 6-5.

Table 6-5: “Encouraging performance related pay” in schools within the compulsory education system in County H in 2009 (unit: yuan/year)

	Highest	Lowest	Average
Head teachers	30,395	24,025	25,667
Vice head teachers	26,001	20,731	21,979
Employees (including teachers) in management positions	25,179	18,423	19,381
Schoolteachers	29,608	17,321	18,181

Source: Internal report from Education Bureau of County H, 2010

6.3 The pay system reform in six sample schools in County H

This section will discuss the pay system reform as it was applied in six state schools belonging to the compulsory education system in County H. This includes three primary schools (two in urban areas and one in a rural area) and three junior high schools (one in an urban area and two in rural areas). According to the policy of County H, the head teacher of each school would be in charge of implementing the system, while their own pay would be decided by the local education bureau in order to separate it from the distribution of “encouraging PRP” among the other employees of their school. Therefore, it was decided that head teachers would provide the best feedback, and allow the most effective investigation of how the pay system reform was implemented in different schools. Firstly, they were in charge of the reform in the school. Secondly, since their pay was separate from the internal distribution within the school, they could provide a more objective opinion. A semi-structured interview was conducted with each interviewee, based on a series of questions that the researcher prepared in advance (see Appendix 1). At the same time, a

small number of teachers were also interviewed, with similar semi-structured interviews conducted in the sample schools investigated.

6.3.1 The case of School A

School A is a primary school with 186 employees and 2,632 students divided into 46 classes, located in the “downtown” area of County H. As the school with the longest history in the county, School A is the most popular primary school in the local area because of its good reputation for teaching quality. Every year, many students from other school districts apply to the school. They would be charged varying amounts of “sponsor fee”, used to provide extra bonuses to employees of the school.

According to the national guide, all school-specific bonuses would have to be discontinued once the new pay system was launched in January 2009. Although the average pay for schoolteachers across the whole county increased significantly, for employees of School A who had previously received much higher bonuses than those given by other state schools, the average pay did not change very much. There was even a slight decrease in pay for employees in management positions and senior teachers who had received the highest bonuses.

According to the policies of both the national government and the county government, 70 per cent of each individual’s pay, the “basic performance pay”, was allocated monthly by the county government. A lump sum for the remainder, “encouraging performance pay”, was allocated to the school, based on its total number of full-time employees. In County H, this amount was calculated at the start of the reform (according to the formula presented in Section 5.1.3), and each school was told how much “encouraging performance pay” they would have available. However, this was kept by the local government, and only allocated to individual employees once the school’s new

PRP system had been officially confirmed by both the employees and the local education bureau.

As required by the education bureau in the county, a “PRP reform committee”, which included the head teacher, the deputy head teacher, and representatives of teachers, middle managers, and employees from the back office, was in charge of designing the new pay system used to distribute the “encouraging performance pay” among the school’s employees. Once the school’s new pay system had been proposed, it had to be discussed at a staff meeting of all employees, and agreed by over two-thirds of them. The main responsibility of the reform committee was to draft a pay system, linking pay to performance appropriately, which would satisfy the majority of employees within the school. Therefore, in the case of School A, although the initial intention of the pay reform was to motivate employees to perform better, due to the fixed amount the school received from the government, an egalitarian distribution system was chosen as the final solution, in order to gain the approval of the majority of employees in the school.

Moreover, due to the requirement of compulsory education in China from central government, the schools were discouraged from using students’ exam results as evaluation criteria for schoolteachers. Therefore, mainly teaching hours and other objective criteria (e.g., attendance and absenteeism, publishing of papers, achievements in competitions, etc.) were adopted. In the case of School A, there had previously been a large extra budget that the school could use to provide bonuses for teachers who performed better (e.g, publishing papers in journals or achieving awards in external teaching competitions) or who made specific contributions to the school (eg., working over-time, or supervising students who won public awards, etc.). However, once the total pay to be allocated within the school was fixed, although it was generally agreed that those who worked harder should receive higher pay, when it came to the distribution of a fixed pool, most of the teachers in School A preferred an equal distribution rather than a differential pay system. According to the head teacher of School A,

smaller pay differences among employees tended to minimize conflicts among different groups of employees, who objected to the idea that higher performing employees should receive bonuses, paid for by cutting the pay of other teachers.

It took three months for School A’s reform committee to determine an appropriate system for the distribution of “encouraging performance pay”; the proposed system was modified three times before being officially announced and voted upon in the staff meeting. According to the head teacher, the internal pay gaps were narrowed after each modification of the proposed pay system, and the final version confirmed at the staff meeting was a more egalitarian system compared to the pay system adopted in the school before the reform, with a much smaller bonus for high performers and prize-winners (e.g., the bonus for teachers of students who win province-level awards was cut from 1,000 to 100 *yuan* in the new system). In November 2009, the final version of the new PRP system in School A was passed at the first staff meeting with the agreement of 90 per cent of the employees. “Encouraging performance pay” was allocated to individual employees in December 2009, after the pay system had been validated by the local education bureau. A brief summary of the pay reform and new PRP system introduced in School A is presented in Table 6-6, based on the information collected during a three-hour interview with the head teacher of the school.

Table 6-6: Summary of interview feedback in School A (interviewee: the head teacher)

Research objective	Summary of interview question	Summary of feedback
Change of pay	Q1: What changes were made to the pay system in your school, compared to the system before the PRP reform?	Slight decrease in average pay, with a greater decrease in the pay of middle management and senior teachers. New system more egalitarian, with smaller pay differences between employees.
Questions regarding expectancy theory	Q2: Do you think employees in your school could improve their performance by working harder?	Yes

	Q3: If an employee works harder, will (s)he receive higher pay under the new PRP system?	There were higher bonuses for better performing employees in the previous pay system; very small bonuses are available in the new PRP system.
	Q4: How large is the pay difference between high-performing employees and others?	Very little difference between employees in the new PRP system.
Questions regarding goal-setting theory	Q5: How were the criteria for PRP chosen in your school?	Proposed by the PRP reform committee, which involved different groups of employees; most criteria were adapted from the previous pay system, but with cut-down bonuses; mainly objective criteria for evaluation; egalitarian orientation.
	Q6: Do the criteria included in the performance evaluation help to clarify the goals of the school?	Not much.
	Q7: Do the criteria included in the performance evaluation help to clarify the goals for individual teachers?	Not much.
Questions regarding agency theory	Q8: Has the implementation of the new PRP system reduced unwanted actions in the school?	No.
Questions regarding cognitive evaluation theory	Q9: What impact has the new PRP system had on employees' intrinsic motivation?	Negative impact with reduced motivation observed for most employees.
Questions regarding equity theory	Q10: What do you think of the idea of linking pay to performance in schools?	Agree with it.
	Q11: Do you think the current distribution of pay in your school is fair?	Hard to say. More equality than equity.
	Q12: Has the new PRP system caused any jealousy among the teachers?	Yes. Has had a negative impact on cooperation among teachers.
	Q13: Equity or equality, which do you think is more important in your school?	Equality. Only an equalitarian distribution system could be passed, due to the voting system required by the government.
Further comments	Q14: What do you think of the PRP reform for schoolteachers?	Good intentions by the national government, but the result has turned out to be more equalitarian with less pay linked to actual performance.

		The new pay system does help to keep good teachers in rural areas, but at the same time discourages good teachers in urban areas.
	Q15: How do you think the current PRP system in your school could be improved?	Certain differences in the average pay among teachers in different schools should be allowed, which could give the head teacher a bit more flexibility in motivating teachers to perform well. However, this idea will also be in conflict with the aims of the reform, which are to balance the teaching among different schools. The guide from the government could be more specific, which would reduce the conflict within the school when attempting to implement the reform.

6.3.2 The case of School B

School B is a primary school with 64 employees and 1,430 students divided into 24 classes. As a modern primary school, located in an urban area of County H, School B is also popular among students and parents in the local area. Again, every year many students from other school districts apply to School B, and a similar “sponsor fee” charging system to that adopted by School A was used before the reform, which again gave the school extra income.

Like in School A, a “PRP reform committee”, made up of the head teacher and representatives from different groups of employees, was in charge of allocating the “encouraging performance pay” in School B. According to the head teacher of School B, the biggest problem with the government-led pay reform for schoolteachers was that the 70:30 split between fixed and flexible pay was announced too early, leaving very little flexibility over the distribution of “encouraging performance pay” by the school. At the beginning of the reform, each employee received their fixed pay and was told that this would account for

70 per cent of total pay under the new system. Therefore, when individual schools came to discuss the distribution of the flexible part of the pay, the employees expected to receive the remaining 30 per cent, and were disappointed if they received less than this. Since the total amount of “encouraging performance related pay” allocated to each school was fixed, an egalitarian distribution was the most effective way to obtain a majority vote.

Compared to the pay level in School B before the reform, there was a small increase in the teachers’ average pay after the reform, while middle management average pay decreased slightly under the new system. According to the head teacher, one important conflict that occurred during the pay system reform in School B was a debate over pay differences between teachers and management. In the case of School B, due to the extra financial resources and flexibility in the pre-reform pay system, employees in management positions had received extra bonuses such as for working over-time in the holidays. However, since the total “encouraging performance pay” allocated to the school under the new pay system was fixed, balancing pay differences between teachers and management was a critical challenge for the reform committee. Unlike the experience in School A, the initial draft pay system proposed by the reform committee of School B was rejected at the first staff meeting, mainly because of disagreements over the pay differences between teachers and management. In order to obtain majority approval, members of the pay reform committee had to discuss the matter with the teachers, office by office, after the staff meeting, and then revised the draft, reducing the amount allocated to management bonuses. The new pay system was passed at the second staff meeting. Following the final distribution of “encouraging performance pay” at School B, the teachers’ average pay was 15,000 *yuan*/year, and average management pay was 19,000 *yuan*.

Taking into account both fixed and flexible pay, there was little difference in the teachers’ average annual pay in School B, while the employees in management positions experienced a small pay decrease, due to the reduced allowances in the

new pay system. Commenting on the result of the pay system reform in School B, one teacher said, “before the PRP reform, we never knew how much extra the leaders got. The reform process and the employees’ participation made the new pay system more transparent, and we realised how much extra the leaders could get; as the pay system reform was mainly implemented for us teachers, the pay advantages that employees in management positions receive should be minimized.” However, most of the employees in management positions in School B found the new pay system discouraging. For example, the deputy head teacher of the school, who was also a teacher of a Chinese course, said that the “encouraging performance” pay he received as a deputy head teacher was less than the subsidy a class teacher received, which made him a bit depressed.

According to the head teacher, a significant decrease in the motivation of the middle management employees was observed after the new pay system was implemented; employees were less willing to take on extra work as it would not increase their pay, due to the limited subsidies available under the new pay system. For instance, it became more difficult to organize school events under the new pay system, because such events are very time consuming for those involved and, under the new system, there were no extra bonuses available. Even the class teachers, who received higher subsidies under the new system, were less willing to organize extra after-class activities, because their subsidy was fixed, regardless. During the interview with the head teacher, he expressed great concern regarding the decrease in motivation among employees, as people started to pay more attention to whether their performance was linked to their pay. A summary of the findings regarding the pay system reform and implementation in School B are presented in Table 6-7, based on feedback from the head teacher, the deputy head teacher and two senior teachers within the school.

Table 6-7: Summary of the interview feedback in School B (interviewees: the head teacher, one deputy head teacher, two senior teachers)

Research objectives	Summary of interview question	Summary of feedback
Change of pay	Q1: What changes were made to the pay system in your school, compared to the system before the PRP reform?	Small increase in average pay of teachers, slightly decrease in the pay of employees in management positions.
Questions regarding expectancy theory	Q2: Do you think employees in your school could improve their performance by working harder?	Yes
	Q3: If an employee works harder, will (s)he receive higher pay under the new PRP system?	Very limited bonus for over-time teaching; very small portion of pay is available for those who perform better under the new PRP system.
	Q4: How large is the pay difference between high-performing employees and others?	Very little difference between employees in the new PRP system.
Questions regarding goal-setting theory	Q5: How were the criteria for PRP chosen in your school?	Proposed by the PRP reform committee; only objective criteria with an egalitarian orientation were passed by a majority vote. Initial proposal rejected in the first staff meeting; revised and passed in the second staff meeting
	Q6: Do the criteria included in the performance evaluation help to clarify the goals of the school?	No. The new PRP system has reduced employees' efforts regarding performance that is difficult to evaluate.
	Q7: Do the criteria included in the performance evaluation help to clarify the goals for individual teachers?	No. The new PRP has reduced teachers' efforts on any activities not included in the pay system.
Questions regarding agency theory	Q8: Has the implementation of the new PRP system reduced unwanted actions in the school?	No. The new PRP system has brought about some unwanted activities.
Questions regarding cognitive evaluation theory	Q9: What impact has the new PRP system had on employees' intrinsic motivation?	Not much change in efforts made towards class teaching, but a negative impact (in terms of reduced motivation) on employees in management positions and teachers have been observed
Questions regarding equity theory	Q10: What do you think of the idea of linking pay to performance in schools?	Agree

	Q11: Do you think the current distribution of pay in your school is fair?	No. Neither the teachers nor employees in management positions think it is fair.
	Q12: Has the new PRP system caused any jealousy among the teachers?	Yes, especially between the teachers and employees in other positions.
	Q13: Equity or equality, which do you think is more important in your school?	Equality
Further comments	Q14: What do you think of the PRP reform for schoolteachers?	Good intentions by the government, but the fixed amount of pay allocated to each school and the voting system make egalitarian distribution the only choice for a primary school.
	Q15: How do you think the current PRP system in your school could be improved?	The 70:30 ratio of fixed to flexible pay was announced too early in the national policy, so that every employee calculated the remaining 30 per cent once they received their 70 per cent fixed pay. The government should give more flexibility to individual schools to distribute the flexible part of the pay, and give schools more autonomy to link pay to actual performance.

6.3.3 The Case of School C

School C is a primary school located in a rural area of County H, with 94 employees and over 1,600 students divided into 28 classes. Unlike Schools A and B, School C had no “sponsor fee” charging system before the reform as most students are from the local area. Before the PRP reform, teachers’ pay at School C came mainly from the government budget as there was limited extra income the school could get. In the case of School C, once the new PRP system was launched, there was a significant increase in average pay. According to the scheme announced in the national guide, teachers in rural areas would be paid the same as teachers in urban areas within the same county, and full-time employees in rural schools would also receive an extra fixed allowance of 3,600 *yuan* per person per year (300 *yuan*/month). As a result, teachers’ average pay in

School C was higher than that in Schools A and B following the reform. One Chinese teacher interviewed in School C, for example, received an average total monthly pay of 2,300 *yuan* before the PRP reform. After the launch of the new system, the fixed part of her pay increased to 4,800 *yuan*/month (including 300 *yuan*/month rural teacher allowance and 300 *yuan*/month class teacher allowance), more than double her previous monthly pay, even before she received her flexible “encouraging performance” pay.

As in Schools A and B, the most important task for the reform committee in School C was to set criteria for the performance of different employees and then link their pay to these appropriately. Although every employee in School C was very happy with their doubled monthly pay, it was still not easy for the head teacher and the reform committee to decide how to distribute the “encouraging performance pay” within the school, and especially how to determine PRP for different management positions. According to the feedback from the head teacher of School C, after the reform, much more detailed descriptions were produced of different job positions and the workloads involved. In the new pay system, specific conversion rates between administration work and teaching hours were indicated, as well as detailed descriptions of allowances for different positions (e.g., deputy class teacher allowance, middle-management allowance, subject leader allowance etc.).

Although the new pay system was passed in the first staff meeting, the employees were not as satisfied with it as expected. For example, one of the teachers interviewed for this research complained that “in the staff meeting, we were given a very long document regarding the new PRP system, which looked very complicated. When asked whether we would agree or not, most of us chose to agree as we did not really understand what the system was about.” One thing the teacher complained about was that, under the new PRP system introduced in School C, the pay differences between teachers with different performance levels were much smaller than the pay difference between management teams and teachers. For example, due to the “encouraging performance pay”, top-

performing teachers could earn a maximum of 2,000 *yuan*/year more than other teachers in the school, while the average amount of pay for employees in management positions was 4,000 *yuan*/year more than the average pay of teachers. According to the national guide to the pay system reform, it was the teachers that this pay system reform aimed to motivate. However, according to the feedback from both this teacher and the head teacher of School C, although everyone in the school enjoyed a significant pay rise, many of the teachers were not happy about the internal distribution system, and especially the widened pay gaps between teachers and management under the new pay system.

Another important change observed in the case of School C is that, before the PRP reform, the school had outsourced some aspects such as the student canteen and the snack shop in order to gain extra income for employee bonuses. Since no extra bonuses outside those funded by the government would be allowed under the new pay system, the snack shop was closed down soon after the PRP reform started, and there was also a cut in food prices in the student canteen. This does not support the idea that PRP reform would cut unnecessary charges in the compulsory education system. A brief summary of the pay system reform and its implementation in School C is presented in Table 6-8, based on the feedback from the head teacher and one senior teacher in the school).

Table 6-8: Summary of the interview feedback in School C (interviewees: head teacher plus one other teacher)

Research objectives	Summary of interview question	Summary of feedback
Change of pay	Q1: What changes have been made to the pay system in your school, compared to the system before the PRP reform?	Significant increase in the pay of all employees after the PRP reform, with increased pay differences between teachers and management staff.
Questions regarding expectancy theory	Q2: Do you think employees in your school could improve their performance by working harder?	Yes.
	Q3: If an employee works harder, can (s)he get higher pay under the new PRP	Very limited bonuses available under the new PRP system.

	system?	
	Q4: How great is the pay difference between high-performing employees and others?	Limited pay differences.
Questions regarding goal-setting theory	Q5: How were the criteria for PRP chosen in your school?	Proposed by the PRP reform committee, mainly transferring different levels of performance/achievement into objective criteria
	Q6: Have the criteria helped to clarify the goals of the school?	Little help.
	Q7: Have they helped to clarify the goals for individual teachers?	Not much help.
Questions regarding agency theory	Q8: Has the implementation of the new PRP system reduced unwanted activities in school?	Yes. Reduced any unnecessary charges to students after the pay reform.
Questions regarding cognitive evaluation theory	Q9: What impact has the new PRP system had on employees' intrinsic motivation?	Not much difference.
Questions regarding equity theory	Q10: What do you think of the idea of linking pay to performance in schools?	Agree with it.
	Q11: Do you think the current distribution of pay in your school is fair?	Hard to say.
	Q12: Has the new PRP system caused any jealousy among the teachers?	Yes, especially more conflict between teachers and employees in management positions.
	Q13: Equity or equality, which do you think is more important in your school?	Both are important, but equality might be more important if we had to choose.
Further comments	Q14: What do you think of the PRP reform for schoolteachers?	Good policy that balances the pay and social status of schoolteachers in urban and rural areas, and also cuts unnecessary charges to students. However, it has brought more conflict in inter-school pay distribution at the same time.
	Q15: How do you think the current PRP system in your school could be improved?	It would be better if the government provided more detailed instructions, such as criteria for the performance evaluation of management teams within schools.

6.3.4 The case of School D

School D is an urban junior high school with 121 employees and more than 1,800 students divided into 34 classes. Before the junior high school entry exam system was canceled in County H in 2004, School D was consistently the top junior high school, attracting the best students in the county. Before 2004, each year, primary school graduates in County H took an entrance exam for junior high school, and then applied to schools according to the marks they achieved. Each junior high school in County H would decide how many students they wanted to enroll, and then announce the minimum entrance exam score they required. As it was the most popular junior high school in County H, each year, the students that enrolled in School D fell into two types. Most had achieved the required score in their entrance exam. However, there would also be a small number of students who had not achieved the minimum requirement, but paid an extra “sponsor fee” instead. Every year, along with the exam entry requirement, a price list would be announced for students who had not achieved the required mark. The price would depend on demand. For example, in the mid-1990s, 5,000 *yuan* was charged for each point a student’s mark was below the minimum requirement. Thus a student whose entrance exam score was three points below the entry level would have needed to pay 15,000 *yuan* in order to attend School D. The rate tended to increase gradually, year by year.

In order to balance teaching resources and students more evenly among schools in the compulsory education system, in 2004, the junior high school entrance examination was abandoned in County H. Since then, all students were supposed to be allocated to junior high schools according to the school district to which they belonged, as is the case for primary schools in the county. However, due to the previous student selection system and differences in facilities and teaching reputations, most students, especially those with good academic performance, wanted to attend top junior high schools such as School D, which would give them a better chance of getting into top high schools afterwards. Hence, in School D, even though the exam system had been canceled, the charging of a

“sponsor fee” remained. The main difference was that, before 2004, it those students who did not achieve the entrance requirement had to pay the “sponsor fee”, while, after 2004, students from outside School D’s allocated district were required to pay, even if they had performed very well in primary school. Without the entrance exam, the “sponsor fee” became a relatively fixed amount that was charged to all students from other school districts, and was mainly based on the total number of students who applied from other school districts, rather than students’ performance at primary school level.

As the most popular junior high school in County H, School D received a large income from “sponsor fees” before the reform. Thus, although government funding was increased, the average annual income of employees in School D fell significantly, due to the removal of all extra allowances outside of those provided by the government. For instance, one maths teacher in School D said that, under the new PRP system, the total pay she received for the year was approximately 20,000 *yuan* less than what she had received before the reform. A similar reduction in pay was experience by all full-time employees.

Unlike those in primary schools, students in junior high schools still have to participate in the senior high school examination, which acts as a very important standard in evaluating the teaching quality of a junior high school. Thus, the teaching load for junior high schoolteachers tends to be much heavier than for primary schoolteachers, and the distribution of “encouraging performance pay” in junior high schools was thus more challenging, as both equity and equality had to be considered. The junior high schools had to maintain their teaching quality by encouraging higher performance, but the pay system still needed to be accepted by the majority of employees.

Compared to the new pay systems implemented in the case primary schools investigated for this research, the plan for the distribution of “encouraging performance pay” proposed by the reform committee in School D was more structured. It included specific points systems for different positions, teachers of

different subjects, and those with different teaching loads (see Sample B in Appendix 5 for further details). According to the head teacher of School D, the main task for the committee during the pay system reform was to benchmark different performance levels, and convert different workloads into specific criteria which could be evaluated accurately. Hence, a marking system covering employees in different positions was introduced, with very specific instructions about how specific points should be awarded (e.g., conference attendance, students winning awards in specific competitions, publishing academic papers, and achieving various teaching certificates). A penalty system was also included, covering absenteeism, for example, or the breaking of school regulations by a student.

The total points awarded to an employee at the end of the year would be calculated during his/her performance evaluation. A corresponding amount of performance related pay would be allocated to the employee, accounting for 40 per cent of the school's total "encouraging performance related pay" (for details, see Sample B in Appendix 5). On top of this, a conversion rate was used to compare the working hours of teachers to those of administrators or management, and this was also included in the new pay system. For example, the workload of a middle manager would count as four hours of class teaching per week, using a conversion index of 30 per cent between the actual working hours of the employee and the teaching hours of a teacher.

The new pay system proposed in School D was very detailed and complicated. Although it was passed at the first staff meeting, the teachers interviewed in School D said they did not really understand the new pay system when they voted for it. Moreover, despite the mostly objective evaluations of performance, the conversion rate between different types of workload also caused a lot of debate among the teachers. For instance, one teacher interviewed for this research was in charge of one maths class and was the head of the teaching and research office. She complained that she would rather take another class of maths teaching instead of the administrative position, because the allowance for

middle management positions had been cut significantly under the new system, and she was not happy with the conversion rate between her administration workload and teaching hours, especially since no extra preparation time would be involved in taking on another maths class.

The conversion rates between back office employees and teachers thus caused a lot of debate, with employees from each group thinking they were underpaid under the new system. According to local government policy, any performance evaluation directly related to students' exam scores was supposed to be reduced to a minimum. However, due to the comparative graduation system in junior high schools, a small amount of allowance was retained for teachers in charge of graduating classes, although the amount was reduced due to the lower pay level in the new pay system.

Under the new system, the pay difference between high-performing teachers and others was reduced. The new system turned out to be quite egalitarian rather than being truly linked to individual performance. In reference to this change, both of the teachers interviewed said that they had not changed the amount of effort they put into class teaching, but they did feel less willing to take on extra responsibilities if such tasks were not included in performance evaluations under the new pay system. At the same time, the head teacher of School D also reported seeing reduced motivation among both teachers and management after the new pay system was introduced. Class teachers tended to be reluctant to take students on field trips, as the allowance they received was fixed, and helping with such activities would not count towards their performance contribution, and may even lead to penalties if a student was injured during the process. Both the head teacher and the teachers interviewed showed great concern about the effect the PRP system would have in the long run. A summary of the feedback from School D is presented in the following table.

Table 6-9: Summary of the interview feedback from School D (interviewees: the head teacher and two teachers)

Research objectives	Summary of interview question	Summary of feedback
Change of pay	Q1: What changes have been made to the pay system in your school, compared to the system before the PRP reform?	Significant decrease in the average annual income for employees of the school. More egalitarian in the new system with smaller pay differences between employees.
Questions regarding expectancy theory	Q2: Do you think employees in your school could improve their performance by working harder?	Yes
	Q3: If an employee works harder, can (s)he receive higher pay under the new PRP system?	More bonuses for high-performing employees in the previous pay system; reduced bonuses in new PRP system.
	Q4: How great is the pay difference between high-performing employees and others?	Reduced pay differences among teachers.
Questions regarding goal-setting theory	Q5: How were the criteria for PRP chosen in your school?	Proposed by the PRP committee, converting different performance levels into specific criteria, mainly with objective evaluation benchmarks.
	Q6: Have the criteria helped to clarify the goals of the school?	Not much.
	Q7: Have the criteria helped to clarify the goals for individual teachers?	Not much.
Questions regarding agency theory	Q8: Has the implementation of the new PRP system reduced unwanted actions in the school?	No. It has tended to make employees avoid some activities if they are not included in their PRP evaluations.
Questions regarding cognitive evaluation theory	Q9: What impact has the new PRP system had on employees' intrinsic motivation?	Reduced motivation for most employees.
Questions regarding equity theory	Q10: What do you think of the idea of linking pay to performance in schools?	Agree with it.
	Q11: Do you think the current distribution of pay in your school is fair?	No. There is more equality than equity.
	Q12: Has the new PRP system caused any jealousy among	Not among the teachers, but there is increased conflict between teachers

	the teachers?	and other groups of employees.
	Q13: Equity or equality, which do you think is more important in your school?	Equity, but we had to go for equality in order to get the system passed.
Further comments	Q14: What do you think of the PRP reform for schoolteachers?	Good intentions from the government, but it is difficult to achieve its aims due to the competition in the current Chinese education system.
	Q15: How do you think the current PRP system in your school could be improved?	As the total amount of pay is fixed within the school, and everyone tends to check whether his/her pay is above or below average, there is very little flexibility to link pay to actual performance and offer extra bonuses to those who perform better.

6.3.5 The case of School E

School E is a junior high school in a rural district, with 91 employees and more than 1,200 students divided into 25 classes. Under the previous junior high school entrance examination system, all top students in County H would go to School D, and most of the rest would choose from the remaining junior high schools according to personal choice. Most of the schools set their own entrance requirements, and as in the case of School D, “sponsor fees” would be charged by the better schools, to students who did not achieve their standards. As School E had a good reputation among schools in the area, every year a small number of students who did not reach its minimum requirements paid to gain entry. Although the extra income it received in this way was much lower than the amount received by top schools in urban areas (e.g., School D), the employees of School E enjoyed higher bonuses than teachers in other schools in rural areas.

When the PRP reform was implemented, although the average pay the employees of School E received through government funding increased significantly, all extra bonuses previously allocated by the school were

discontinued, so that the total annual pay was only slightly higher, with an average boost of 5,000 *yuan* per person per year. According to the head teacher of School E, PRP provided sufficient financial support to schools in the compulsory education system, especially rural schools, and as a result head teachers would no longer need to worry about finding extra sources of teachers' pay. Evening out pay among teachers in different schools would also help rural schools to retain good teachers; previously, teachers from rural schools had frequently sought transfers to urban schools where they would receive higher pay.

However, another concern for the head teacher of School E was that, although the main purpose of introducing the pay system reform was to link pay more strongly with individual performance, due to the voting system and the fixed amount of "encouraging performance pay" allocated to each school, the new PRP system turned out to be a flatter pay system, with equality becoming the dominant guideline. In School E, the internal pay system before the national PRP reform had aimed to motivate teachers to perform well, and top-performing teachers could gain 15,000 *yuan* more than lower-performing teachers and back office staff. However, in the discussions about the new pay system, most employees were not willing to offer a high bonus to those who achieved outstanding performance, as this would inevitably reduce the average "encouraging performance pay" for the majority of employees. Therefore, under the new pay system that was finally passed by the staff, bonuses for outstanding performance and the pay difference between different groups of employees were both reduced (e.g., in the new PRP system, the maximum annual pay gap between top-performing teachers who were also class teachers, and back office staff was 7,000 *yuan*, less than half the maximum pay gap under the school's old pay system).

As in other schools, the head teacher of School E found the management team were less willing under the new system to take on extra tasks if they were not included in their performance evaluation (e.g., extra workload in extreme

weather situations, such as typhoons). A negative impact on the motivation of teachers was also noticed by the head teacher, especially among senior teachers who had already achieved a high standard of teaching qualification, as there was very little opportunity for them to obtain higher pay, due to the reduction in the bonus for higher performance. Thus, in the case of School E, although the average pay increased under the new pay system, many employees became less motivated. Therefore, although the head teacher believed that the PRP reform for schoolteachers in the compulsory education system could bring greater benefits in the long run, he found that the egalitarian distribution under the new pay system made it much more difficult to motivate the staff. A summary of the interview feedback from the head teacher of School E is given in Table 6-10.

Table 6-10: Summary of the interview feedback from School E (interviewee: the head teacher)

Research objectives	Summary of interview questions	Summary of feedback
Change of pay	Q1: What changes have been made to the pay system in your school, compared to the system before the PRP reform?	Small pay increase for all employees, with minor pay decrease for some top-performing teachers and the management team.
Questions regarding expectancy theory	Q2: Do you think employees in your school could improve their performance by working harder?	Yes.
	Q3: If an employee works harder, can (s)he get higher pay under the new PRP system?	Yes, but only very limited opportunities.
	Q4: How great is the pay difference between high-performing employees and others?	Limited extra bonus available in the new PRP system.
Questions regarding goal-setting theory	Q5: How were the criteria for PRP chosen in your school?	Proposed by the PRP committee, converting different performance levels into specific criteria, mainly with objective evaluation benchmarks, discussed several times in staff meetings, finally passed in May 2010.
	Q6: Have the criteria included in the performance evaluation helped to clarify the goals of the school?	Not much.

	Q7: Have the criteria helped to clarify the goals for individual teachers?	Not much.
Questions regarding agency theory	Q8: Has the implementation of the new PRP system reduced unwanted actions in the school?	No. Both the middle management team and teachers are less willing to put extra effort in, if allocated tasks outside of the performance evaluation scheme.
Questions regarding cognitive evaluation theory	Q9: What impact has the new PRP system had on employees' intrinsic motivation?	Reduced motivation for most employees, especially those in management positions and some senior teachers.
Questions regarding equity theory	Q10: What do you think of the idea of linking pay to performance in schools?	Agree with it.
	Q11: Do you think the current distribution of pay in your school is fair?	No. Those who perform better should receive higher pay, but this is restricted in the new PRP system.
	Q12: Has the new PRP system caused any jealousy among the teachers?	Some conflict has been noticed, as there has been some debate regarding the pay difference between administrators and teachers.
	Q13: Equity or equality, which do you think is more important in your school?	Equity is very important, but equality was the only choice that could be made during the PRP reform.
Further comments	Q14: What do you think of the PRP reform for schoolteachers?	Good intentions from the government, helping to retain good teachers in rural schools. However, it has brought more problems than benefits so far during the transition period.
	Q15: How do you think the current PRP system in your school could be improved?	No matter how much employees improve their performance, the total amount of encouraging performance related pay to be allocated within the school cannot be increased. It will be very difficult to motivate employees unless this imperfection is resolved.

6.3.6 The case of School F

School F is a junior high school located in a rural district in County H, with 71 employees and more than 1,000 students divided into 21 classes. It is one of the least popular junior high schools in the county, and the pay of its employees was much lower than that of staff in other schools prior to the reform, due to the limited funding available (e.g., it did not receive any “sponsor fees”). Therefore, when the PRP reform was introduced in County H, the average pay of employees at School F increased by about one third.

Despite the considerable pay rise for all staff, it was still very challenging for the reform committee to design an appropriate pay system to allocate the “encouraging performance pay” within the school. When designing the new pay system, both the head teacher and most members of the reform committee believed that the school should take the opportunity to improve its teaching quality and reputation by motivating higher performance among the teachers. However, since the total amount of “encouraging performance pay” for the school was fixed, as in the other schools, the egalitarian approach was favoured as every employee wanted to receive at least their share of the total amount allocated to the school. Hence, there was a lot of debate over how to determine how much to allocate to different groups of employees, and the draft for the new pay system was changed seven times before it was presented at a staff meeting. The final version was a points calculation system, similar to that introduced in School D, with different positions and performance levels categorized according to objective criteria, using various indices and formulas. In the new system, both the allowance for the middle-management team and the bonus given to higher performing teachers have fallen as a percentage of total pay, but the actual amount of pay included in these bonuses has increased slightly, due to the significant rise in overall pay at the school.

According to the head teacher, the implementation of the new PRP system—including such a big pay rise—did make employees much happier and has helped the school to retain good teachers. Before the PRP reform, every year

some teachers would move to other schools where they could earn more. Once the new system had been implemented, employees became much more willing to stay in rural schools in general: the average pay was higher there than in urban schools due to the extra rural allowance provided under the new system; furthermore, the teaching load and stress in urban schools, especially the top junior high schools, tended to be much higher. However, the head teacher of School F found that the new system did not motivate employees as hoped, mainly because the total amount of pay the school had to offer was fixed, and employees began to calculate how much extra pay they would receive from taking on extra tasks. Due to the intensive discussion and consultation during the design process of the new pay system, it was passed with over 90 per cent agreement at the first staff meeting. A brief summary of the interview feedback from the head teacher of School F is shown in Table 6-11.

Table 6-11: Summary of interview feedback from School F (interviewee: the head teacher)

Research objectives	Summary of interview questions	Summary of feedback
Change of pay	Q1: How has the pay system in your school changed, compared to before the PRP reform?	Significant pay increase for all employees in the school after the pay system reform.
Questions regarding expectancy theory	Q2: Do you think employees in your school could improve their performance by working harder?	Yes.
	Q3: If an employee works harder, can (s)he receive higher pay under the new PRP system?	Yes.
	Q4: How great is the pay difference between high-performing employees and others?	Although bonus available for higher-performing employees has fallen as a percentage of overall pay, the difference between the actual amount paid to top-performing employees and others has increased due to the rise in overall pay.
Questions regarding goal-setting theory	Q5: How were the criteria for PRP chosen in your school?	Proposed by the PRP committee, converting different performance levels into specific criteria, mainly with objective evaluation

		benchmarks. The proposed pay system was revised seven times before being passed at the first staff meeting.
	Q6: Have the criteria included in the performance evaluation helped to clarify the goals of the school?	Yes.
	Q7: Have the criteria helped to clarify the goals for individual teachers?	Yes.
Questions regarding agency theory	Q8: Has the implementation of the new PRP system reduced unwanted actions in the school?	No.
Questions regarding cognitive evaluation theory	Q9: What impact has the new PRP system had on employees' intrinsic motivation?	Reduced the intrinsic motivation, especially among the management team.
Questions regarding equity theory	Q10: What do you think of the idea of linking pay to performance in school?	Agree with it.
	Q11: Do you think the current distribution of pay in your school is fair?	Hard to say. The pay increase for higher-performing teachers should be bigger than average.
	Q12: Has the new PRP system caused any jealousy among the teachers?	Not much impact.
	Q13: Equity or equality, which do you think is more important in your school?	Equity is more important, but the new pay system had to be egalitarian due to the voting system used in the reform.
Further comments	Q14: What do you think of the PRP reform for schoolteachers?	Very good policy which has brought more benefits to rural schools where the pay used to be much lower. Has helped to retain good teachers in rural areas.
	Q15: How do you think the current PRP system in your school could be improved?	More flexibility should be given to individual schools, or a greater percentage of overall pay should be linked to actual performance in the policy guide.

6.4 Important findings regarding the PRP reform in the six public case schools : A summary of the cross-school analysis

Through the exploration of the pay system reform and the impacts of the new PRP system on the six public case schools within the compulsory education system in County H, some important features became apparent.

First, the employee pay changed by different amounts in different schools following the reform. According to a report from the Education Bureau of County H (Table 6.1), the reform led to a significant increase in the average pay of all full-time employees in the compulsory education system in the county. However, when examining individual schools, significant differences could be seen, especially between those in urban and rural areas. All three schools located in rural areas experienced an increase in the average pay of their employees, especially in the cases of Schools C and F, where all employees' pay was boosted significantly. As a popular junior high school in a rural area that had charged "sponsor fees" prior to the reform, for School E the pay rise was not as large. Meanwhile, for the three urban schools, the situation was quite different. A small increase in average pay was observed in School B, although the pay for employees in management positions decreased slightly. In School A, the top primary school, and School D, the top junior high school in the county, however, all employees experienced pay cuts, due to the abolition of school-specific bonuses from extra income sources, which had been significant in both schools before the pay reform.

For schools in the compulsory education system in County H, before the new PRP scheme was implemented, due to imbalances in facilities and teaching quality, teachers in urban areas usually enjoyed higher pay. This was especially the case for those teaching in top schools, where various extra bonuses would be allocated within the school, funded, for example, by the large "sponsor fees" charged each year. Under the reform, the central government banned all school-specific bonuses, stating that from now on schoolteachers' pay could come from

government funding only. Hence, although the government budget allocated to employees of top schools may have increased compared to before the reform, their total annual pay actually decreased under the new system. Furthermore, employees of rural schools actually received higher pay than their counterparts in urban schools, due to the extra allowance of 2,550 *yuan* per year, provided to them. A summary of the changes in average pay in the six sample schools in County H is shown in Table 6-12.

Table 6-12: Changes in average pay in the six case schools in the compulsory education system in County H

	School A	School B	School C	School D	School E	School F
Category	Primary	Primary	Primary	Junior high	Junior high	Junior high
Location	Urban	Urban	Rural	Urban	Rural	Rural
Popularity of the school in local area	Most popular	Very popular	Less popular with no 'sponsor fee' charging	Most popular	Popular	Less popular with no 'sponsor fee' charging
Change in average pay	Small decrease	Small increase	Significant increase	Significant decrease	Small increase	Significant increase

The second notable point was that the new system changed the pay gaps between different groups of employees within schools, which especially affected employees in middle-management positions and high-performing teachers. It was found that, in most of the sample schools, the pay advantages for both top-performing teachers and management staff were reduced, as the new pay system tended to provide a more equal distribution than existed before the reform. As all school-specific funding was abolished in the new system, in Schools A, B, D and E, where extra bonuses had previously been available, the change to a fixed amount of “encouraging performance pay” for the whole school led to the pay gaps between teachers with different performance levels being reduced. In Schools C and F, although the percentage pay difference between top-performing and other teachers fell, the actual difference rose slightly because of the significant increase in average pay in the two schools.

Compared to the pay differences between teachers, those between employees in management positions and teachers were much more complicated, due to the opaque pay distribution in most schools before the reform. In County H, the increase in average annual pay for all employees in compulsory education schools was 16,383 *yuan*, while that for management positions was 15,285 *yuan* (see Table 6.1). As for the situation among teachers, the pay differences between management and teachers were significantly reduced in Schools A, B, D, and E, but slightly increased in Schools C and F. It could be observed that the more extra income the school received before the pay system reform, the smaller the pay gaps between different groups of employees under the new PRP system. In other words, in schools where employees previously enjoyed higher income due to non-government funding sources, bonuses for high performers and management were significantly reduced after the reform, especially in the urban schools (A and D), where their pay decreased most.

The third point of note is that, when asked about the potential for improving employees' performance, all of the interviewees, including both head teachers and teachers, believed that the performance of the employees in their schools could be improved, especially performance outside class teaching. However, despite the generally agreement that "those with higher performance should be rewarded by higher pay", they all felt that only very limited bonuses were available under the new system for higher performing staff in their schools. Pre-reform, most of the schools linked a much higher proportion of pay to individual performance. Although, one of the government's main purposes in introducing PRP was to encourage employees to achieve higher performance by linking it to individual pay, the actual result of the reform turned out to be the opposite, with a reduced proportion of the total available pay offered to those who performed well, in all of the schools investigated.

The fourth observation is that, in terms of the criteria used to evaluate performance, all of the interviewees said that they did not like the idea of including subjective measurement (e.g., appraisal by supervisors). It was agreed

by both the head teachers and the employees that personal bias should be reduced to a minimum in order to maintain harmony within the school. Thus, when setting their criteria, all six schools chose objective ones. For example, when evaluating the performance of employees in different positions, specific conversion rates would be adopted to compare the teaching hours for different subjects (e.g., different standards were set regarding the minimum weekly teaching hours for Chinese, Maths, English and Science versus those for PE, Arts and Music). The workload for management/administration positions also tended to be converted into standard teaching hours, using specific exchange rates for different positions.

Compared to the appraisal system in the junior high schools, that in the primary schools was less complicated, with the main focus being on the calculation of working hours. The criteria used to evaluate performance included overtime hours, special achievements, such as winning awards (the teachers or the students they supervised), as well as negative aspects such as lateness or absence from classes or meetings. Similar exchange rates between the working hours of different groups of employees could be found in the performance appraisal systems of all three junior high schools (School D, E and F), where a more complicated points calculation system was introduced to evaluate performance. Employees in the three junior high schools were evaluated by awarding points for different performance criteria (e.g., class and meeting attendance, number of published papers, number of family visits, achievements of students, etc.), and the total points determined the overall performance category awarded (e.g., “excellent”, “eligible”, “just qualified”, and “fail”). This performance category was then used to calculate the amount of encouraging performance pay allocated to the individual. Due to these objective criteria, employees could be evaluated with a minimum of supervisor bias. However, most of the interviewees said that the performance appraisal system introduced during the PRP reform were not very different to those used beforehand, with one exception. In School F, the significant increase in pay following the reform enabled a clarification of the performance criteria, which attached a greater bonus to high performance.

The fifth observation relates to the fact that, according to the national guide, all bonuses from sources other than official government funding would be abolished under the reform. This aimed to end all unofficial charging by compulsory education schools, and thus reduce costs for students and parents. However, due to the traditional imbalance in school facilities and teaching quality, the top schools in County H are still much more popular than other schools in the area. Even under the new pay system, the charging of “sponsor fees” cannot be avoided, due to the high demand for places at popular schools. Only in the case of School C, a rural primary school, were some business branches closed down which had previously been used to gain extra income for the school. The price of food in the student canteen was also reduced after the PRP reform, which did support the goal of reducing unnecessary charges in state schools that the national policy aimed to achieve.

The sixth point refers to the central aim of motivating teachers to perform well by linking pay to performance. However, when asked about the impact of the PRP reform on employees’ motivation, none of the interviewees provided positive feedback. Instead, both the head teachers and teachers interviewed in five of the schools in County H reported reduced motivation among employees, especially among high-performing teachers and management, whose pay had not increased as much as others’, and had even decreased in some schools. One common problem that many head teachers noted was that employees had started to pay more attention to the fact that their pay was linked to different aspects of their performance, and tended to be less willing to put in effort if there was no allowance attached to a task. This problem was more prevalent among management staff, as the overtime allowance had been reduced or abolished altogether in most schools under the new pay system.

The seventh point is that, in terms of the fairness of the new pay systems, intensive debates regarding the choice between equity and equality were observed. In all six schools investigated, the new pay system tended to be egalitarian, rather than encouraging higher performance. All of the head teachers

from the sample schools said that they would prefer an equity-based distribution, in order to motivate employees to perform well. However, due to the fixed amount of pay allocated to each school and the voting system which required agreement from a large majority of staff (over two thirds), in all six schools the new systems allocated only a limited portion of pay to be linked to individual performance. Interviewees from five of the schools said that the implementation of the PRP system had caused more jealousy among employees, as those from different groups had started to compare their pay, and the changes in their pay due to the reform, and none felt satisfied. Such conflict tended to be fiercer between senior teachers and middle management, as both believed they should achieve above-average pay within the school, but this could not be achieved due to the fixed pool of total pay allocated. The only exception was the case of School F, where all employees received significant pay increases. The head teacher of School F said that he had not observed extra conflicts caused by the pay system reform, as the pay advantages for both high-performing employees and management staff had increased, due to the substantial overall pay increase for everybody.

The final point is that the implementation of PRP has helped to retain teachers in rural areas. The head teachers of all three rural schools observed a significant reduction in the turnover rate of employees following the introduction of PRP. Before the reform, many teachers in rural areas wanted to move to urban schools, mainly due to the significantly higher pay they would receive there. Due to the more equal salaries under the new pay system, teachers in rural areas have been less inclined to move to urban schools. According to the head teachers of Schools C and F, this standardization of pay for both teachers and head teachers across schools in the county would also make teachers from top schools more willing to be appointed as head teachers at rural schools, which could improve the overall teaching quality of rural schools in the long run.

6.5 Conclusion

Based on the review of the implementation of PRP and its impact on different groups of employees in the six case schools in the compulsory education system in County H, a summary of the key findings is presented in Table 6-13. Further analysis of the findings will be given in Chapter 8.

Table 6-13: The cross-school analysis—a summary of the key findings of the pay system reform and the implementation of the new PRP system in six different schools in compulsory education in County H

	School A	School B	School C	School D	School E	School F
Category	Primary	Primary	Primary	Junior high	Junior high	Junior high
Location	Urban	Urban	Rural	Urban	Rural	Rural
Change in pay after the reform	Slight decrease in pay for all employees, more of a decrease for employees in management positions	Small increase in average pay, slight decrease in pay for the management team	Significant increase in the pay of all employees.	Significant decrease in the pay of all employees	Small increase for most employees, with minor decrease in the pay of top-performing teachers and management staff.	Significant pay increase for all employees
Change in pay differences between employees with different performance levels	Smaller pay differences	Smaller pay differences	Reduced bonus as a percentage of overall pay, but bigger absolute pay differences due to the increased average pay	Smaller pay differences	Smaller pay differences	Reduced bonus as a percentage of overall pay, but bigger absolute pay differences due to the increased average pay
Can employees improve performance?	Yes.	Yes.	Yes	Yes.	Yes.	Yes.
Is higher pay given for higher performance under the new pay system?	Yes, but very limited	Yes, but very limited.	Yes, but very limited.	Yes, but very limited.	Yes, but very limited.	Yes, but limited.
Setting of performance evaluation	Objective criteria dominated	Objective criteria dominated	Objective criteria dominated	Objective criteria with points system.	Objective criteria dominated	Objective criteria with points system.

criteria						
Has it helped to set goals for the school?	No.	No.	No.	No.	No.	Yes.
Has it helped to set goals for individuals	No.	No.	No.	No.	No.	Yes.
Has it reduced unwanted behaviour?	N/A	No.	Yes.	No.	No.	No.
Changes in intrinsic motivation of employees	Reduced motivation	Reduced motivation	Not much difference.	Reduced motivation	Reduced motivation	Reduced motivation.
Acceptance of the idea of linking pay to performance for schoolteachers	Yes	Yes	Yes	Yes	Yes	Yes
Fairness of the new PRP system	Hard to say.	No.	Hard to say.	No.	No.	Hard to say.
Jealousy caused by the new PRP system	Yes.	Yes.	Yes.	Yes.	Yes.	Not much impact.
Preference between equity and equality during the reform	Equality	Equality	Equality.	Both but had to sacrifice equity for equality.	Equity, but had to go for equality during the reform.	Both, but had to sacrifice equity for equality.
General comment about the PRP reform	More disadvantages than benefits.	More disadvantages than benefits.	Good, but has also brought more conflict.	More disadvantages than benefits.	Good policy in the long run, but has brought more conflict so far.	More advantages than disadvantages overall.

Chapter 7 Case Study B:

Pay system reform in a publishing organization in Beijing

The pay system reform aimed at producing higher performance in commercial PSUs started a little earlier than that among public welfare PSUs, in 2000, when a national financial and ownership reform was launched by the central government of the PRC, requiring all commerce-related PSUs in China to move towards a more enterprise-based nature, and self-funding. There is great diversity among the commercial PSUs; one segment is the publishing industry, which used to be an important component of the Chinese culture industry, and belonged to the traditional PSU system. In this chapter, an in-depth case study of the pay system reform in one publishing organization in Beijing will be discussed, providing an insight into how it changed from a traditional PSU pay system to a PRP scheme, and the influence the new scheme has had on the employees and the organization as a whole.

7.1 The publishing industry in China

The structural reform of publishing organizations, which were formerly a part of the traditional Chinese public service sector, started in 2004, when the General Administration of Press Publications, part of the central government of the PRC, announced that all publishing organizations belonging to the PSU sector would have to change into enterprises, and would be no longer be supported by government funding. The structural reform involved all of the 568 publishing organizations belonging to the PSU sector, except for the People's Publishing House, which remained in the PSU system and continued to be run by the government (General Administration of Press Publications of the PRC, 2004). Since then, all publishing organizations across China have been pushed into the market, and must fund themselves. At the same time, they were given the

flexibility to decide on their own personnel system, including pay. Therefore, publishing organizations represent a typical example of how Chinese commercial PSUs have been pushed into the market and as a result have adjusted their pay systems spontaneously in order to achieve higher performance.

7.2 An introduction to Publishing Organization M

Located in Beijing, Publishing Organization M (“Organization M” hereafter) is a medium-sized professional publishing institution, specializing in the field of humanities and social sciences, with 106 full-time employees. As a former PSU, previously supported by government funding, organizational reform in Organization M began in 2000, after the abovementioned announcement by the central government. Organization M was one of a group of PSUs that were pushed into the market, and forced to fund themselves. As a result, Organization M started to adjust its organizational structure, and changed from the traditional PSU system to a corporate orientation. Later, in 2004, it carried out a pay system reform of the old PSU-style system, with the main purpose of encouraging higher performance. Thus, the pay system reform in Organization M did not affect the company’s entire governance structure, because it had already reformed this aspect into a corporate system by the time the pay system reform was launched. Exploring the change of pay system in Organization M will provide us with an insight into how a commercial PSU dealt with this issue and the impact the PRP system has had on its employees.

7.3 The origin of the pay system reform in Organization M

The organizational structural reform in Organization M started in 2000. The management structure was changed and the organization adopted an independent employment and financial system. As a pioneer in organizational structural

reform in publishing industry, Organization M stopped receiving funding from the government in 2000, but from then on was allowed to keep all revenue and decide on its own recruitment budget. While it changed from the traditional PSU system to one that was enterprise-based, in order to smooth the process and minimize the direct impact on employees, the internal pay system was kept unchanged. However, as the organizational structural reform deepened, the traditional seniority-dominated pay system became inconsistent with the new corporate management style, raising two important problems, which brought pay system reform onto the agenda.

First, as a result of changing from the previous PSU system to the new corporate structure, different collective contracts existed among Organization M's employees, which made the pay system very complicated. For example, all employees who had joined the organization in or before 1996 held a PSU (*“shiyè”*) status, which enabled them to enjoy the same welfare system as government officials. For all new employees recruited after 1997, however, the PSU status was no longer available. All new employees held an “enterprise (*qiye*) status” and had to join the national public welfare system rather than receiving welfare directly from the government. Thus, before the pay system reform in Organization M, employees with different working statuses had their pay set according to different benchmarks. Employees with PSU status did not need to participate in the public welfare system as their medical treatment and pensions would be paid directly by the government, while for those with enterprise status, medical treatment and pensions would be provided under the public welfare system, meaning they depended on their tenure and monthly amount they paid into the public welfare fund. The different components of monthly pay that each individual received were mainly determined by their contract status and level in the organization. This seniority-dominated pay system did little to motivate young employees, as life-long employment was no longer available under “enterprise (*qiye*) status”. The two different statuses and different pay benchmarks also made the pay system too complex to be transparent.

The second problem, and the main reason behind the pay system reform, was that the old pay system became inconsistent with the development of the organization, due to the limited link between employees' pay and their actual performance. The traditional PSU-style pay system was mainly seniority-based, with limited bonuses available for those who performed well. This failed to motivate employees, especially those in production positions. Before the pay system reform, there was little difference between the pay of employees in administration departments and those in production departments, as seniority was the most important determinant of pay. Most administrative staff were paid as much as those in production positions, such as editors, even though the performance of the latter is the key driver of productivity for an organization in the publishing industry. As were all commercial PSUs under the new system, Organization M was facing a more competitive market following its independence—both financially and in terms of employment—from government invention. Hence, as its management team sought to improve organizational performance in order to better compete in the publishing market, it decided to change to a new pay system, which would better motivate employees by linking their pay to their performance. As a result, in October 2004, the top management of Organization M, proposed a pay system reform aiming to change the old, inflexible and seniority-based system into a new one, which they hoped would be more systematic and encourage higher performance. The next section demonstrates how the pay system reform was launched, highlighting the key features of the transition process.

7.4 The PRP reform process

In October 2004, the chief director of Organization M proposed introducing a pay system reform at a management meeting. He claimed that the old pay system was no longer consistent with the organization's development. The proposal was quickly accepted by the senior managers of Organization M and, after a short discussion period, in the same month a “pay system reform

committee” (henceforward “the reform committee”) was formed, made up of 18 senior managers and directors from different departments of the organization.

For the committee, the reform had three main goals: to design a new pay system which would be more transparent and easier to operate; to link pay under the new system appropriately to performance, especially for employees in production positions, whose performance played such a critical role in boosting the productivity of the whole organization; to introduce proper rewards and penalties into the new pay system in order to make the whole organization more flexible, and more capable of dealing with market competition, and maintaining its financial independence. In order to achieve these goals, a four-step strategy was developed by the reform committee, consisting of data collection, the design of the new pay system, its implementation, and its evaluation.

7.4.1 Data collection regarding the pre-reform pay system

The first step of the pay system reform was to collect data about the existing pay system, in order to clarify the pay each employee received and provide a statistical reference for designing the new system. The wage bill of September 2004 was chosen, and the human resource management department and financial and accounting department worked together to calculate each individual’s pay and each department’s expenditure. Samples of individual employees’ monthly wage bills are given in Table 7-1. These acted as a reference in the design of the new system.

Table 7-1: Samples of employees' monthly pay in the pre-reform pay system in Organization M ²⁰ (September 2004)

Amount (Yuan) Name	Item	Pay of full-time employees in Organization M (09-2004)				Position Status
		Fixed Pay	Position Allowance	Duty Allowance	Total pay	
Director		1,700	1,700	2,100	5,500	Senior manager (Level 1)
Chief editor		2,130	1,700	1,700	5,530	Senior manager (Level 1)
Vice director		1,580	1,400	1,300	4,280	Senior Manager (Level 2)
Consultant			1,400	1,300	2,700	Senior Manager (Level 2)
Editing department director		1,334	1,500	1,000	3,834	Designer (Level 1)
Publication department director		1,152	1,500	1,000	3,652	Sales (Level 1)
Chief editor department director		1,514	1,300	1,000	3,814	Senior manager (Level 3)
Office director		1,452	1,300	1,000	3,752	Senior manager (Level 3)
Social science department director		1,194	1,500	700	3,394	Designer Editor (Level 1)
Song **		849	800		1,649	Word Editor (Level 3)
Liu **			1,000		1,000	Word Editor (Level 2)
Summation		2,043	3,300	700	6,043	
Financial department director		1,518	1,500	700	3,718	Designer Editor (Level 1)
Deng **		853	1,200	400	2,453	Designer Editor (Level 2)
Zhang **		853	800		1,653	Word Editor (Level 3)
Wang **		853	800		1,653	Word Editor (Level 3)
Xue **		579	600		1,179	Word Editor (Level 4)
Summation		4,656	4,900	1,100	10,656	
...	
...	
Grand total		64,423	89,000	24,200	177,623	

Source: Internal report of the financial and accounting department in Organization M, October 2004

²⁰ This shows the actual monthly pay received by full-time employees in Organization M in September 2004. Employees' welfare is not included due to the extreme complexity of the calculation system. Furthermore, the employees' welfare fund was not included in the pay system reform as this depends on an individual's contract status, and is part of the national system, thus beyond the scope of the reform within the organization.

At the same time as examining individual employees' pay and the entire wage bill of the organization, the total annual expenditure of the organization was also reviewed. The HR department and the finance and accounting department calculated the total production costs and expenditure of each department in 2003. All costs were divided into two categories: human resource costs and departmental expenditure. Human resource costs denote the total pay of all employees within the department, including all pay and bonuses allocated over the year. Departmental expenditure included all other spending by the department over the year, such as business trip expenses and delegation costs. The total costs of each department in 2003 acted as an important benchmark for budgeting for department costs over the next year. In the meantime, the outputs of all departments with production functions were also reviewed. These would then be linked to the total departmental costs, in order to work out the unit cost of each procedure involved in the publishing process (e.g., the total annual human resource costs of the production department were divided by the total annual departmental production, providing the unit labour cost within the department).

Although the existing pay system acted as a basic reference point for the design of the new pay system in Organization M, information from other organizations was also considered, in order to make the new pay system more competitive in the local labour market. For example, the pay system for government officials in Beijing city was reviewed, acting as a benchmark for management pay in Organization M. The minimum wage in Beijing city was also taken into account in setting the basic wage. Information about the pay systems of other organizations within the publishing industry was not available, due to the large amount of sensitivity surrounding the pay system in the publishing sector in China.

7.4.2 The design of the new pay system

After reviewing the wage bills and departmental performance, the reform committee decided that the new pay system should fulfill three criteria. First, both individual employee and departmental annual targets should be introduced in the new system, to provide a clear picture of the production and revenue the organization aimed to achieve. Second, proper performance appraisals should be implemented, and the results should be linked to individuals' pay. Third, departments should take more responsibility for cost control, which would help to maintain the cost-revenue balance of the whole organization. Based on these criteria, the guidance of the reform committee and the information collected during the preparation stage, the HR department proposed a new pay system in November 2004, with the following main features.

The implementation of the internal annual goal-setting

First, an annual internal goal-setting process was introduced into the new pay system, with all employees signing an internal agreement indicating the performance target they committed to achieve within the year. According to the new system, every year, all department heads would sign an internal contract showing the performance targets for their department. A budget for the department's total annual expenses would also be included in the internal agreement. The setting of both performance targets and department costs would be based on the previous year's figures, taking inflation and changes in performance targets into account. For individual employees, the internal agreement would act as the main gauge of their performance at the end of the year. For all employees in production departments (e.g., editing and sales departments), specific performance targets would be indicated in the internal agreement. For other employees, in administration positions, for example, detailed job requirements would be indicated, which would be evaluated by their supervisor at the end of the year. Unlike before, the position levels in Organization M would be based on the performance targets that the employees

committed to meet in their annual agreements. Samples of the production assignments given to employees in the production departments are shown in Table 7.2. Each individual performance target was categorized as falling under a certain position level and then linked to the employee’s position pay under the new system.

Table 7-2: Position levels for employees in different production departments in Organization M (sample data)

Department	Job position	Assignment quota	
Design editing department	Editor (Level 1)	Number of editions produced: 27	Gross profit: ¥ 810,000
	Editor (Level 2)	Number of editions produced: 20	Gross profit: ¥ 600,000
	Editor (Level 3)	Number of editions produced: 15	Gross profit: ¥ 450,000
Text editing department	Editor (Level 1)	Number of words edited: 4,500,000	
	Editor (Level 2)	Number of words edited: 3,600,000	
	Editor (Level 3)	Number of words edited: 3,000,000	
	Editor (Level 4)	Number of words edited: 2,400,000	
	Editor (Level 5)	Number of words edited: 1,400,000	

Source: Internal pay system policy Organization M, 2005

Secondly, the new pay system redefined monthly pay for all employees, with the aim of achieving internal equity and ensuring that employees in identical positions received the same pay (“*tong gong tong chou*”). In the pre-reform pay system, there were three components of an individual employee’s monthly pay: “basic pay”, “position allowance” and “duty allowance”. Both “position allowance” and “duty allowance” were based on the employee’s position level, while “basic pay” was decided by various factors, such as the employee’s contract status (PSU or enterprise), education level or seniority. Before the pay system reform, there was no systematic definition of positions across the organization, and only a very vague link between a person’s pay and their position. Thus, the HR department redefined all of the positions throughout the organization so that the setting of position pay and duty allowances under the

new system would be more transparent. As mentioned earlier, employees in production roles were categorized into different position levels, based on the performance quota assigned in their internal annual contract, and this was then linked to their specific monthly position pay. Meanwhile, in non-production departments positions were redefined based on factors such as the individual's educational background, their work experience within the organization and the responsibilities involved in their job. In the pre-reform system, there was a wide range of positions in the non-production departments, and managers usually had specific position titles that were linked to different position or duty allowances. For example, prior to the pay reform, the director of the organization and the chief editor had received the same position allowance, but different duty allowances.

Under the new pay system, each management category (senior managers, middle managers and junior managers) was divided into five levels, each of which was defined clearly and linked to specific amounts of position pay and duty allowance; all employees at the same position level received the same position pay and the same duty allowance. In the new pay system, each employee had a specific position, on which their monthly position pay was based. For managers, a corresponding "duty allowance" was allocated based on their position level as well, using the salaries of government officials in Beijing city as a benchmark. Table 7.3 below shows the monthly wages for individual employees before and after the pay system reform. The previous "basic pay" was replaced with "fixed pay" under the new system, which was introduced in order to guarantee that all employees in Organization M would receive more than the local minimum wage of Beijing. The fixed pay was set at 600 *yuan* per month for production staff, and 500 *yuan* per month for other employees.

Table 7-3: Individual employees' monthly pay before and after the pay system reform²¹

Name	Monthly pay before the reform					Monthly pay after the reform					Pay increase	Percentage increase (per cent)
	Basic Pay	Position Allowance	Duty Allowance	Sum	Position Title	Position level	Fixed Pay	Position Pay	Duty Allowance	Sum		
Director	1,700	1,700	2,100	5,500	Director	Senior manager (Level 1)	500	6,500	1,000	8,000	2,500	45.45
Chief editor	2,130	1,700	1,700	5,530	Chief editor	Senior manager (Level 2)	500	6,000	1,000	7,500	1,970	35.62
Vice director	1,580	1,400	1,300	4,280	Vice director	Senior manager (Level 4)	500	5,000	800	6,300	2,020	47.20
Consultant		1,400	1,300	2,700	Consultant	Senior manager (Level 5)	500	3,500	800	4,800	2,100	77.78
Editing department director	1,334	1,500	1,000	3,834	Editing department director	Middle manager (Level 1)	500	4,000	600	5,100	1,266	33.02
Publication department director	1,152	1,500	1,000	3,652	Publication department director	Middle manager (Level 1)	500	4,000	600	5,100	1,448	39.65
Chief editing department director	1,514	1,300	1,000	3,814	Chief editing department director	Middle manager (Level 1)	500	3,300	600	4,400	586	15.36
Office director	1,452	1,300	1,000	3,752	Office director	Middle manager (Level 1)	500	3,300	600	4,400	648	17.27
Social science department director	1,194	1,500	700	3,394	Designing Editor (Level 1)	Middle manager (Level 1)	500	4,000	400	4,900	1,506	44.37
Song **	849	800		1,649	Word Editor (Level 3)	Text Editor (Level 2)	600	2,500		3,100	1,451	87.99
Liu **		1,000		1,000	Word Editor (Level 2)	Text Editor (Level 2)	600	2,500		3,100	2,100	210.00
Financial department director	1,518	1,500	700	3,718	Designer Editor (Level 1)	Middle manager (Level 1)	500	4,000	400	4,900	1,182	31.79
Deng **	853	1,200	400	2,453	Designer Editor	Text Editor	600	2,500		3,100	647	26.38

²¹ The change in pay for all employees in Organization M as a result of the pay reform was reviewed by the HR department in Organization M, and this table is drawn from the full list.

					(Level 2)	(Level 2)							
Zhang **	853	800		1,653	Word Editor (Level 3)	Text Editor (Level 2)	600	2,500		3,100	1,447	87.54	
Wang **	853	800		1,653	Word Editor (Level 3)	Text Editor (Level 2)	600	2,500		3,100	1,447	87.54	
Xue **	579	600		1,179	Word Editor (Level 4)	Text Editor (Level 2)	600	2,500		3,100	1,921	162.93	
...													
...													
Sum	64,423	89,000	24,200	17,7623						255,450	79,277	44.63	

Source: Internal pay sheet in Organization M, 2005

Thirdly, the most important change for the employees in Organization M was the introduction of a link between pay and performance, which aimed to encourage higher productivity among individuals and departments. Along with the annual internal agreement introduced by the reform, each individual would commit to achieving an annual performance target, agreed by both the employee and the organization. For production staff, the performance target was the main benchmark used to set their position pay for the year. The internal contract would be renewed every year, and if the performance target changed, the position level would be adjusted along with the corresponding position pay. More importantly, a standard unit labour cost was introduced, based on the data obtained during the preparation stage. Thus, at the end of the year, if employees had achieved better performance than indicated in their internal agreement, an extra bonus would be provided based on the unit labour cost and the outstanding performance they had achieved. At the same time, specific percentage of revenue were set for each department, and department heads were authorized to distribute an extra bonus within their department if it had exceeded the overall performance indicated in the department's internal agreement. Meanwhile, the end of year bonus for administrators and managers was based on the overall performance of the whole organization: it was calculated according to the total revenue growth and the employee's individual position level.

As well as the extra bonuses offered to those who performed well, the new system introduced pay deductions as a means of punishment. If an employee failed to fulfill his/her annual performance targets, a pay deduction would be made from his/her end of year bonus, and his/her position level could also be downgraded in the following year. If a department failed to fulfill its target, the HR costs allocated to it would be reduced as would the pay of the department director. Additionally, as the quality of publications plays a critical role in the organization's long-term development, any substandard production would not be included in the review of total performance, and deductions of pay could also be made for below-standard products.

To sum up, the new pay system proposed by the HR department restructured the way pay was set for employees in different positions, and introduced an internal annual agreement system, which set performance targets for each individual and linked their pay to these targets. In order to implement the system appropriately, performance appraisals would be used to review both individual and department performance, so as to provide a fair benchmark for the pay distribution. The next section discusses how the new system was implemented in the organization, including how the proposed pay system was adjusted during the reform.

7.4.3 Introduction of the new pay system

After the new pay system had been designed, it was first reviewed by the reform committee, and then released at a staff meeting. Although the HR department had followed the reform committee's guidelines and based the new system on the performance and financial data collected during the preparation stage, there was still some debate among the committee members about the proposed new system. One issue concerned the department's responsibility for their cost control. A fixed department budget would be allocated, based on the department's predicted performance and the historical financial report. These

department budgets would have to be agreed by both the reform committee and the department heads, who would then be in charge of the costs and revenues within their own departments. Although the new pay system would give department heads more flexibility over the distribution of pay if the department achieved a higher performance, the department heads would also have a lot more responsibility. They would need to stay within a fixed budget while achieving the specific goals included in their internal agreement. Therefore, it was crucial to set appropriate targets that both the top managers and the department heads were happy with.

Under the new system proposed by the HR department, the setting of department budgets and targets would mainly be based on the results of the previous year, as well as factors such as inflation or predictions of annual performance growth. However, since this was the first time such internal agreements had been used in Organization M, and directly linked to individual pay, the discussion within the reform committee mainly took the form of a bargaining process between the organization director and individual department heads. The chief director of Organization M was very experienced in the publishing industry, and using formal and informal communication and historical data as a guide, mutual agreements over budgets and performance targets were eventually made with each department director.

Following the review and confirmation by the reform committee, the new pay system was released at an internal staff meeting, during which the details were explained to all of the employees of Organization M. In December 2004, two staff meetings were arranged; at the first, the new system was introduced and employees' comments were encouraged. At the second, employees were asked to vote for either the new system or the existing one. Since there was a significant pay rise for each employee under the new pay system, all employees voted for it. Then, in January 2005, each employee signed their internal agreements indicating their annual performance targets, and the new pay system

took effect in the same month. The next section discusses the different impacts the new pay system has had on Organization M, along with a review of the research objectives of this thesis.

7.5 The situation after the implementation of the new pay system

The new pay system introduced in Organization M was significantly different from the previous one. It was the first time that an individual's pay had been linked to their actual performance and to the development of the whole organization. The new system brought about a lot of changes. Some of the main findings regarding its impact are summarized below.

First of all, there was a significant pay rise for the employees of Organization M under the new pay system, and especially for those working in production who committed to achieve higher performance targets. When the system was first implemented in 2005, the pay of most administrators and managers increased slightly, while some editors' pay more than doubled (see Table 7.3). In the pre-reform pay system, employees in production positions (e.g. editors) received position pay based mainly on seniority, and there were no specific performance requirements for employees in different positions. When the pay system reform was introduced, the position pay of each individual was redefined, and based mainly on their performance targets. Therefore, those in production roles were encouraged to aim for higher performance standards. The monthly pay for a junior editor who committed to achieve a high performance target, for example, would have increased significantly.

Secondly, the new pay system was linked to both individual and organizational performance, and employees in Organization M showed great potential for improving their performance, especially those in production positions, who started to set higher performance targets in order to obtain higher pay. According to the HR department's historical performance records, in the first two years

after the new pay system was implemented (2005 and 2006), annual productivity and revenue in Organization M grew by 20 per cent per year, and after that, an average of 5 to 10 per cent annual revenue growth was maintained. The growth was mainly a result of the improvement in employees' performance, especially the boost in productivity among those working in the production departments, according to the feedback of the vice director of the organization.

Table 7-4: First mid-year evaluation of individual performance versus targets in the production departments of Organization M

Department	Name	Mid-year assignments accomplished (thousand words)	Annual assignment (thousand words)	Percentage of annual assignment accomplished (per cent)	Notes
Social Science Department	Liu **	184.8	240	77.00	
	Xu **	104.4	140	74.57	
	Xu 88	338.7	360	94.08	
	Song **	143.9	300	47.97	Half-year target unfulfilled
Sales Department	Xue **	219.3	300	73.10	
	Wang **	165.1	300	55.03	
	Zhang **	185.4	300	61.80	
	Yu **	138.6	140	99.00	
Series books department	Chen **	306	360	85.00	
	Ding **	182.9	300	60.97	
	Ren **	183.6	360	51.00	
Text book department	Zhou **	185.45	360	51.51	
	Qu **	163.8	300	54.60	
	Li **	162.3	300	54.10	
Editing centre	Liang **	295	300	98.33	
	Zhao **	143.8	450	31.96	Half-year target unfulfilled
	Zhu **	159	300	53.00	

	Li **	252.1	300	84.03	
	Fan **	391	450	86.89	
	Zhang **	433.2	450	96.27	
	Zhou **	388.1	450	86.24	
	Chen **				
	Song **	185.5	300	61.83	
	Li **	237.5	360	65.97	
	Zhang **	124.5	300	41.50	Half-year target unfulfilled
Translating centre	Qiu **	130.75	100	130.75	19 projects fulfilled
	Zhong **	200	Self-learning English: 20,500; Editing: 2,230; Joint-editing: 4,350 (thousand words)		

Source: Mid-year performance evaluation in Organization M, July 2005

Thirdly, the introduction of the annual internal agreement helped to clarify the performance targets of individual employees, and to predict the organization's output through the year. In setting the performance criteria for both individuals and departments, the previous year's performance was taken into consideration, allowing for the expected growth rate. For each employee, the performance target they aimed for was linked to their position pay, and the fulfillment of the target was linked to the end of year bonus they received. Since a failure to meet their target would lead to a pay deduction, employees tended to put realistic targets in their internal agreements. Thus, at the beginning of each year, the management team of Organization M would have an overview of the predicted organizational performance, based on the performance targets of the individual employees.

At the same time, the setting of performance targets helped to align the interests of the employees with those of the organization, and also reduced conflict by allocating performance tasks through two-way communication. For example, both the revenue and quality of published products play an important role in an

organization's development in the publishing market. Under a PRP scheme, employees will tend to choose more popular books as they will produce higher revenue and thus higher salaries. However, some books, such as certain academic titles, while perhaps not very popular in the commercial market, will help to build an organization's brand. As a result, Organization M would still want to include such titles in its performance targets. Thus when finalizing internal annual agreements, tasks would need to be properly allocated, so as to align the interests of the individual employees and the organization. According to the director of the HR department of Organization M, for some non-revenue-bringing productions, the revenue requirements and pay distribution would be adjusted during the setting of performance targets, so as to balance employees' targets and achieve the overall aims of the organization.

As well as the changes in employees' performance levels, the pay system reform also affected their motivation. The effects on production staff differed from those on administrative staff. According to the director of the HR department, production staff had more opportunities to earn higher pay by working harder under the new system. Therefore, most of them were highly motivated after it was implemented, and a large increase in their intrinsic motivation was observed, especially at first. Compared to this, the motivation of administrative staff increased only moderately, as the potential pay increases for them were not as significant. Before the introduction of the new system, administrative staff usually received similar pay to production staff. After the pay system reform, however, the average pay for administrative staff was set to 85 per cent of the average pay for production staff. Thus, although everyone enjoyed a pay increase as a result of the reform, administrative staff were not as excited about the change as their colleagues in production departments. However, the end of year bonus for employees in both management and administrative positions were based on the overall achievements of the organization, which was mainly the result of the productivity of the production departments. Therefore, although there were some complaints about the enlarged pay gaps under the new system, a moderate increase in the motivation and performance levels of non-production

employees was also observed when the new pay system was implemented. A brief summary of the different impacts of the new pay system on Organization M is presented in Table 7-5.

Table 7-5: Summary of the pay system reform in Organization M (Interviewees: the vice director of Organization M, the HR director and three employees in the HR department)

Research objectives	Summary of interview questions	Summary of findings
Change of pay	Q1: What was the change in the pay system following the reform?	Redefined pay system with higher average pay for all individuals. More significant pay increase for employees in production positions who achieved higher performance levels.
Questions regarding expectancy theory	Q2: Do you think employees in your organization could improve their performance by working harder?	Yes.
	Q3: If an employee works harder, can (s)he obtain higher pay under the new PRP system?	Yes.
	Q4: How great is the pay difference between high-performing employees and others?	Significant pay advantages for employees who perform well under the new system.
Questions regarding goal-setting theory	Q5: How were the criteria for PRP chosen during the reform?	Proposed by the HR department, based on reference data drawn from internal historical records and the pay systems of local government officials. They consulted with all department deputies and the proposed system was reviewed by the pay reform committee before it was released.
	Q6: Do the criteria included in the performance evaluation help to clarify the goals of the organization?	Yes.
	Q7: Do the criteria help to clarify the goals of individual employees?	Yes.
Questions regarding agency theory	Q8: Has the implementation of the new PRP system reduced unwanted actions	Yes.

	within the organization?	
Questions regarding cognitive evaluation theory	Q9: What impact has the new PRP system had on employees' intrinsic motivation?	Employees are better motivated, especially those in production positions.
Questions regarding equity theory	Q10: What do you think of the idea of linking pay to performance in this organization?	Agree with it.
	Q11: Do you think the current distribution of pay in your organization is fair?	Fairer than the previous pay system.
	Q12: Has the new PRP system caused any jealousy among the employees?	Yes. There has been more debate regarding the different pay increases for employees in different positions.
	Q13: Equity or equality, which do you think is more important?	Equity.
Further comments	Q14: What do you think of the PRP reform for employees in the publishing sector?	More PRP is the trend.
	Q15: How do you think the current PRP system in your organization could be improved?	How to balance the responsibility and flexibility of department heads is an important challenge that needs to be addressed.

7.6 Chapter Summary

Generally speaking, the pay system reform launched in Organization M was quite successful. After it was implemented, a significant increase in individuals' productivity levels was observed, especially among employees in production positions (see Table 7-3). It was the first time that a structured PRP system has been used in Organization M, where not only was the pay of employees in production positions linked to their individual performance, but also the end of year bonuses of employees in administrative and management positions, were related to the performance of the whole organization. The next chapter presents a cross-case analysis of the pay system reform in the state schools in the compulsory education system in County H, and that in Organization M, the aim being to provide a comparative investigation into how the pay systems in different PSUs in China have been changed.

Chapter 8 Discussion

Chapters 6 and 7 presented the results of two in-depth case studies that were carried out to determine the impact the recent pay system reform has had on different PSUs in China. These included a sample of six state schools in County H that went through the national PRP system reform of the compulsory education sector, and an organization-initiated reform towards a performance-oriented pay system in a publishing organization in Beijing (Organization M). In this chapter, the findings of a cross-case analysis will be presented, and linked to the aims of this study.

First, the changes of pay system in the sample PSUs will be reviewed, including the process of how PRP was introduced in different organizations. Second, the findings will be discussed under the framework of the NEP, comparing the similarities and differences between the implementation of PRP in PSUs with different characteristics. Thirdly, the chapter will look at how the employees in different PSUs reacted to these changes in the pay system. In this, a range of research objectives are explored, and we draw on different motivational theories, such as expectancy theory, goal-setting theory, agency theory, cognitive evaluation theory and equity theory. Finally, some unexpected findings regarding the pay system reforms in different PSUs will be presented, and this will be followed by a table summarizing the cross-case comparative analysis of all of the PSUs investigated.

8.1 An overview of the pay system reforms in different PSUs in China

In order to investigate the pay system reforms introduced in the PSU sector in China, two in-depth case studies—six state schools in County H and one publishing organization in Beijing—were carried out. Although the pay system

reform in both cases aimed to better motivate employees by linking their pay to actual performance, significant differences were observed across the organizations.

First, the **origins** of the pay system reform were different in the two cases, within the compulsory education sector, the national government required schools to implement the PRP system reform. Meanwhile, the publishing organization launched its pay system reform itself. As explained in the first case study, due to the public welfare characteristics of the Chinese compulsory education system, the PRP system for schoolteachers in the compulsory education sector was intended to solve the twofold problem of motivating high teaching performance while attracting and retaining good teachers in less developed areas, where they had previously received low pay. A general guideline was announced by the national government, with the local government acting as a supervisor—introducing the pay system reform into individual schools and providing full financial support at the same time. In the second case study, as a PSU of a commercial nature, the publishing organization mainly targeted its pay system reform at encouraging higher performance. Here, the organization was aiming to compete better in the publishing market, after being forced to transform into an enterprise following the removal of government financial support.

Second, the **implementation** of the new pay systems brought different changes to employees' pay depending on the characteristics of the PSUs, especially in the case of the schoolteachers, where both “winners” and “losers” could be identified across schools as a result of the reform. Due to the previously unequal distribution of teaching resources among schools in County H and the traditional system of charging a “sponsorship fee”, employees in popular schools tended to be “losers” following the PRP reform, as it meant that their pay would be allocated from the government budget, with no extra bonuses coming from other financial sources. Due to the standardization of pay levels across schools, pay gaps between teachers from different schools disappeared: the salaries of

teachers in some rural schools increased considerably while those of teachers in some of the popular schools decreased. Compared to the government-led pay system reform, the organization-initiated reform in the publishing organization allowed much more flexibility. In Organization M, although employees were given the choice to stay with the pre-reform pay system, all employees chose to follow the new pay scheme as this brought about a pay increase for each individual, ensuring there were no “losers” as a result of the reform.

Another difference between the two cases is the implementation **process** of the reforms at the organizational level. In the compulsory education sector, the first official government policy setting out the pay system reform for all schoolteachers within the compulsory education system (“the guide”, introduced in Chapter 6) was released on December 23rd 2008. This announced that the new PRP system would start from January 1st 2009, nationwide. Due to the short time period between the official announcement by the central government and the actual start time of the reform, there was no time for either local governments or individual schools to prepare for the reform. According to the deputy director of the Bureau of Education in County H, although the total amount of pay for all employees in the local county involved in the reform was calculated at the start of the process, it took the Bureau of Education in County H more than eight months to release a detailed guide to implementation for the compulsory education schools in the local area. This was due to the fact that the county government spent six months waiting for further instructions from the provincial government. Then, after this policy guide was released, it took individual schools a few months more to decide how the “encouraging performance pay” should be distributed within their school. According to one official in the Bureau of Education in County H, the encouraging performance related pay systems in most state schools in the county were confirmed by the end of 2009. The

decision about the internal pay distribution system in some schools was finally approved in February 2010, just before the Chinese new year of 2010²².

In contrast to this, a structured pre-reform preparation stage was implemented during the pay system reform in the publishing organization, and the data collected during the preparation stage helped to provide a solid reference point for the design and introduction of the new pay system within the organization. The idea of introducing a pay system to encourage higher performance was proposed by the chief director in October 2004, and the new pay system was approved by December 2004 and took effect from January 2005. In other words, the whole preparation and decision-making process regarding the changes to the pay system in Organization M was completed within three months—much more efficient than the implementation of the government-led PRP reform in the schools.

As discussed in previous chapters, introducing an effective performance pay system was the central aim of the pay system reform in both cases. During the field research, when asked the question “what do you think of the idea of linking pay to performance?”, all of the interviewees, including both managers (head teachers) and employees in the different PSUs, as well as government officials involved in the pay system reform, agreed with the idea that pay should be linked to actual performance. However, due to the great diversity in the organizational characteristics of different PSUs, significant differences in the implementation of the new PRP systems, and in the impacts of the reforms, were noticed in different sample organizations. In the next section, findings related to the predictions of the NEP will be presented, followed by a discussion of how employees in different PSUs reacted to the changes, as well as further findings that go beyond the proposed research objectives.

²² According to the policy for the PRP reform in the compulsory education system in County H, the “encouraging performance pay” for the whole school would be kept by the government, and employees would only receive this part of their salary once the distribution system had been agreed within the school. In other words, if the school’s pay system could not be agreed upon at a staff meeting, none of the employees of the school would receive their “encouraging performance related pay”.

8.2 PRP in different PSUs and the predictions of the NEP

The NEP yields numerous testable predictions concerning the choice and implementation of pay systems. It “incorporates the measurement of performance and output, monitoring behaviour and effort and various product and labour market characteristics like quality/quantity trade-offs and the extent of technical change” (Fernie and Metcalf, 1998: 1). As an important theory in the field of pay system research, the NEP explains why some workers are paid on the basis of their output while others are paid according to their inputs. As explained in Chapter 3, according to the guidelines produced by the central government, one of the main targets of the recent pay system reform across the PSU sector in China was to link pay to performance. However, although it is believed that the idea of linking pay to performance was well accepted by employees in China (Chow, 1992; De Cieri et al. 1998; Chiu et al., 2002), due to the wide range of organizations in the Chinese PSU sector, there may be some occupations for which PRP is inappropriate. For example, teaching is in theory among the least suitable professions for linking pay to performance (Marsden and Belfield, 2006). In light of this diversity, one of the most important questions this research aims to explore is whether the implementation of PRP in different PSUs is consistent with the predictions of the NEP.

Comparing the reforms in the two categories of PSU, it was observed that, although in both cases they were aimed at more effectively linking pay to performance, different changes were made to the amount of pay attached to employees’ performance. In the case of the compulsory education schools in County H, all of the sample schools had in fact reduced the proportion of pay available to those who performed well. For example, bonuses for unexpected tasks were available prior to the reform but not under the new pay system, and bonuses for those who achieved outstanding performance (e.g., supervising students who went on to win special awards) were reduced in most schools, especially in popular schools where inadequate funds were allocated. On the other hand, compared to the previous seniority-based pay system, the new pay

system adopted in the publishing organization became highly related to individual performance. The salaries of employees in production departments were mainly based on their annual performance, while the pay of administrative staff or those in management positions was based on their level of responsibility as well as the performance of the whole organization. Considering the predictions of the NEP, there could be several reasons for such differences in the implementation of PRP.

According to the NEP, the most common factors behind the choice between basic pay and PRP are measurement and monitoring costs. When the monitoring of behaviour and effort is costly, an organization is less likely to use time-based rates and will prefer to use an output or performance-based pay measure, while when the cost of measuring output is high, the organization will use time-based rates (Ferne and Metcalf, 1998). According to the predictions of the NEP, linking pay to performance is likely to be less suitable for schoolteachers, mainly because the nature of their work is imprecise and characterized by multiple tasks, which makes their performance difficult to monitor and control (Murnane and Cohen, 1986; Marsden and Belfield, 2006). Such characteristics of teachers' work were observed in all of the sample schools within the compulsory education system in County H, and the so-called PRP introduced in the schools actually had limited measurable performance criteria in all cases; in particular, both national and local government policies advised reducing the use of students' exam results to gauge teachers' performance to a minimum within the compulsory education system. Therefore, although the pay system reform was meant to link pay to performance, the new pay systems implemented in the schools were mainly based on employees' working hours and the attendance rate became the dominant measure of performance when distributing encouraging performance pay. This choice of performance evaluation criteria was mainly due to the imprecise nature of teachers' work and the multiple tasks involved, which make it very difficult to measure their actual performance. Working hours was simply the easiest criterion to measure.

Compared to the situation in the schools, it is more difficult to monitor the input of employees in the publishing organization. For example, editors may have flexible working hours as they may work at home beyond normal work hours. At the same time, performance evaluation in the publishing organization also tends to be easier, especially for employees in production positions, whose performance can be measured according to their actual productivity (e.g., total words edited or published etc.) or the amount of revenue/profit achieved. Therefore, Organization M found it easier to link individuals' pay to their actual performance, and such objective performance criteria were happily accepted by employees in different positions. For employees in non-production positions, meanwhile, flexible pay was linked to the overall performance of the organization, particularly the organization's annual production and revenue growth, again, measurable objective data that convinced the employees.

Thus, despite the original purpose of implementing PRP being similar in both cases, the actual systems employed were quite different. Due to the lack of measurable criteria among the teachers' outputs in the compulsory education schools, the new pay systems were actually linked more to input than output, with employees' working hours the dominant criteria in the distribution of encouraging performance pay, in all six schools investigated. The new pay system introduced in Organization M, on the other hand, successfully linked pay to performance; individuals' annual targets and their fulfillment were taken to be the most important benchmark in setting their pay after the reform. Such divergence in the choice of pay-setting criteria between the two cases is consistent with the predictions of the NEP, which suggests that organizations for which the cost of measuring output is low will tend to adopt PRP (Organization M), while those with high output measurement costs but a relatively low cost of monitoring input will prefer a system of pay-by-basic (schools in the compulsory education sector).

As well as looking at the relative costs of monitoring input and measuring output, the NEP also provides many predictions regarding the choice of pay

system, and other organizational characteristics such as features of the labour market and the product market (for details, see Table 4.1, Chapter 4). These were also found to be consistent with the findings observed in the sample PSUs in both cases.

First, the NEP indicates that, if an employee can earn a relatively high wage in an alternative firm, the firm will be likely to use PRP since this allows the employee to boost his or her earnings via extra effort, thereby preventing him or her from moving to another firm (Fernie and Metcalf, 1998). This prediction was found to be consistent with the evidence observed in the schools and the publishing organization. In the case of the compulsory education system, previous pay gaps between schools were removed during the reform, and standardized average pay was adopted across the county, fully funded by the local government. Before the reform, due to the different funding resources available to schools—especially popular ones which tended to receive a large amount of “sponsor fees”—extra allowances would be provided for high-performing employees at most schools. After the pay system reform, due to the ban on any non-government funding, an egalitarian distribution of pay turned out to be the preferred choice for the majority of employees in the schools. Each employee expected to receive their fair share (i.e., the average) of the total pay allocated to the school, which led to a significant reduction in the percentage of pay that was linked to employees’ performance. The same situation was reported by the head teachers of all of the sample schools investigated.

On the other hand, as Organization M belongs to the category of PSUs that have been pushed into the market and forced to fund themselves, its employees have more opportunities to seek a higher wage in a competing publishing firm. Therefore, the new performance-based pay system was introduced in order to attract and maintain high-performing employees. Employees can boost their earnings via extra effort under the new pay system, and high-performing staff are less likely to leave in search of higher wages elsewhere. Hence, the differences observed between the two cases are consistent with the prediction of

the NEP that the opportunity wage—the pay the employee could earn elsewhere—is positively related to the use of PRP (Ferne and Metcalf, 1998).

Second, in the case of the schools, although jobs are similar across different types of schools, it was observed that, for teachers in junior high schools, more of the performance criteria were linked to students' performance in the new pay system, compared to those introduced for their counterparts in primary schools. According to the feedback from the head teachers of both the primary and the junior high schools, the difference was mainly due to the different graduation systems of the two levels of school. Graduates of junior high schools must take the high school entrance exam while primary school graduates do not need to take an exam due to the requirement of compulsory education. These differences in the competition between graduates led to the differences in the weight given to performance criteria based on students' performance. This is consistent with the prediction of the NEP that an intensification of competition promotes the adoption of some form of PRP (Ferne and Metcalf, 1998). Thus, although the proportion of pay linked to students' performance was found to be reduced in all of the sample schools, the exam performance of the students remained an essential criterion when evaluating teachers' performance in all three of the junior high schools, while no such criteria were included in the performance measurement used in the primary schools.

Some further predictions of NEP theory were also supported by the case studies. For example, NEP theory predicts that organizations whose staff have longer tenures (e.g., schools within the compulsory education sector belonging to the traditional PSU system) will tend to use time-based rates, whereas those with short tenures (e.g., Organization M, which has been pushed into the market with an increased turnover of staff) are usually associated with PRP.

To sum up, the original goal of linking pay to performance being the same in the two cases, the new pay systems implemented in these two different groups of PSUs varied in the method used to judge performance and set pay. For schools

within the compulsory education system in County H, where the costs of measuring output are high, there is a wide range of job tasks, little difference in the wages paid by different schools, and on average a long tenure among the employees, the new pay system turned out to be more input-based than performance based. The working hours of different groups of employees were found to be the most dominant criteria used to distribute pay, and the percentage of pay available for employees who achieved higher performance was reduced in all of the sample schools during the reform.

In contrast, the new pay system introduced in Organization M successfully linked the employees' pay to their performance. In the case of this publishing organization, which has been pushed into the market, the job tasks are easier to define, employees' performance is less costly to measure, competition in both the labour market and the product market is higher, with potentially higher wages available in other firms and increased turnover among the employees. All of these characteristics are consistent with the type of organization predicted by the NEP to implement PRP. Therefore, when we come to the question of "How does performance related pay fit into different PSUs in China?" (Q1), the actual implementation of PRP systems observed in the case studies were found to be highly consistent with the NEP's predictions. This suggests that the NEP could be a powerful theory for predicting the effectiveness of introducing PRP into different PSUs in China. Linking pay to performance may not be a suitable choice in some PSUs, such as compulsory education schools, where the nature of the jobs and the labour and product markets could make pay-by-basic a better option than pay-by-performance.

8.3 Pay system reform and its impact

To explore the application of PRP in the PSU sector in China, different motivational theories, including expectancy theory, goal-setting theory, agency theory, cognitive evaluation theory and equity theory, were discussed earlier in

this thesis. Based on the theory and the literature review, a list of research objectives was proposed, aiming to investigate the changes in employees' motivation during the pay system reform in different PSUs. In the next section, findings drawn from different motivational theories will be presented, relating to both cases and revealing the impact the change in pay systems has had on the employees' motivation in the sample PSUs investigated.

8.3.1 The assumptions of expectancy theory

According to expectancy theory, employees' willingness to supply the required effort will depend on their perception of the link between performance and reward (Marsden and Belfield, 2009). In other words, if employees do not think they will get the reward even if they perform well, they will have no incentive to do anything other than supply a low level of effort (Marsden, French et al., 2001). Therefore, based on the assumptions of expectancy theory, three questions were explored when investigating the pay system reform in the two cases.

The first question asks whether employees can improve their performance by working harder (Q2a). In each sample organization, all of the interviewees (both managers/head teachers and regular employees) agreed that employees could improve their performance by working harder. Both the teachers and the head teachers of the schools believed that the performance of the employees in their schools could be improved, especially regarding tasks which went beyond the obligation to teach class. In the case of the publishing organization, according to the feedback from the HR department based on the information collected in preparation for the reform, employees from different departments showed a willingness to improve their performance. Those in production positions especially admitted that they could improve their performance if they were offered better motivation through the linking of pay to performance.

The second question was: “If the employee works harder, will he/she get higher pay?” (Q2b). Although all of the interviewees agreed that employees could get higher pay through working harder under the new pay system, the amount of bonus available for higher performance differed significantly between the two cases. In the compulsory education sector, due to the fixed amount of total pay allocated to each school under the new pay system, the proportion of pay attached to higher performance was found to have fallen in all sample schools, and by a considerable amount in the popular schools. Meanwhile, the principle of “those who work harder should get higher pay” (*duo lao duo de*) was reported to be better implemented after the pay system reform in the publishing organization, where individuals’ performance became the most important benchmark when setting wages under the new system.

The third question asks whether the employees perceive the bonus they would receive by working harder to be valuable (Q2c). In contrast to the general agreement on the first two questions, there was significant divergence in the interviewees’ responses to this question, depending on the PSU for which they worked. For example, due to the previously imbalanced distribution of teaching resources, some schools were more popular than others before the reform because of their reputation for good teaching (e.g., a high percentage of experienced teachers or better teaching facilities). As discussed in Chapter 6, the traditional “sponsor fee” charging system in the education sector provided extra funding for popular schools, and part of this income was used to provide extra bonuses to employees before the pay system reform. According to both the head teachers and the teachers interviewed, before the reform, schools could be more flexible when setting internal bonuses, and teachers who achieved higher performance or employees who took on extra workloads (e.g., organizing events, being on-duty during vacations) usually received bonuses for the extra effort they had made. However, following the reform, no non-government funding was allowed, causing a significant drop in the amount of pay attached to higher performance or extra workloads in many schools, especially in popular schools that had previously granted large bonuses. In the case study, although only

Schools A and D experienced a reduction in their total wage bill, four schools reported a decrease in the amount of extra pay available for high-performing employees (Schools A, B, D and E). In Schools B and E, although average pay increased, due to the removal of the bonus for higher/extra performance, the amount of pay attached to higher performance or extra workload decreased; pay distribution became more egalitarian, with smaller pay gaps between employees with different performance levels. The two exceptions were Schools C and F, where the total wage bill was boosted most significantly when the PRP reform was implemented. Nevertheless, according to the head teachers of these schools, although the actual bonus available to high performers rose due to the substantial increase in average pay, as a percentage of total pay it fell, compared to before the reform. As a result, many employees, especially from the popular schools (e.g., School A, B, D and E), found the bonuses less attractive under the new system. In the less popular schools, where the average pay increased significantly and brought slightly wider pay gaps between employees (School C and F), although the amount of pay attached to higher performance increased slightly, it brought only a very limited change in employees' attitudes.

On the other hand, in the case of the publishing organization, due to the significant increase in the amount of pay available to employees who committed to achieving higher performance levels under the new pay system, employees were observed to value the bonus attached to higher performance much more, as reported by the HR department. For example, under the new pay system, employees were allowed to set their own annual performance targets, which would decide the amount of pay they received. Once the new pay system was launched, the pay of employees in the production departments increased most significantly. The pay of some of the more experienced employees more than doubled. Thus, once the pay system reform was implemented, a much wider pay gap was observed in Organization M. Most of the employees, and especially those in the production departments, found the bonus for working hard much more valuable under the new pay system, according to the HR manager of the organization.

To sum up, regarding the fulfillment of expectancy theory in the two cases, our results suggest that all three conditions (Q2a, Q2b, and Q2c) were fulfilled in the publishing organization, but not all were met in the sample schools, mainly due to the limited amount of pay available to those who perform well.

8.3.2 The application of goal-setting theory

Goal-setting theory emphasizes the virtues of setting clear, acceptable and achievable work goals within an organization (e.g., Locke, 1968; Marsden and Richardson, 1994, etc.). It claims that the way appraisals and goal-setting divide employees into different performance grades is usually critical to the success of PRP, especially in the public sector where services may be multifaceted (Marsden et al., 2001). Therefore, the next important question in this research was how the criteria for PRP were chosen in the PSUs (Q3).

In the literature on PRP for schoolteachers, it is stated that one of the biggest problems in designing a workable model of performance pay for schools has been the operationalization of suitable performance criteria, because teachers' work is 'imprecise', and frequently involves a range of different kinds of activities, some of which are more amenable to measurement than others, for example students' test results versus educating future citizens (Marsden and Belfield, 2004, 2006). Education may have many goals, but the "public's most immediate concern in educating its children is to provide the skills necessary to ensure a productive populace" (Lazear, 2003: 183). This is the goal that the compulsory education sector in China aims to achieve. However, in the case study, differences in goal setting between the primary and junior high schools were noticed, which were mainly due to the different graduation systems for primary and junior high school students.

As mentioned in Chapter 6, under the compulsory education system in China, graduates from primary schools are automatically allocated to a junior high school in their local area, while graduates from junior high schools must take the high school entrance exam in their county/city and then apply to certain high schools according to their exam results. This difference was found to influence the goal setting in the two types of school significantly. No performance criteria based on students' exam results were included by the primary schools, while a much more complicated performance evaluation system was implemented in the junior high schools, with bonuses linked to students' exam results. Six sample schools were investigated: three primary schools (A, B and C) and three junior high schools (D, E and F). During the interviews, it was observed that, despite fundamental agreement on the schools' responsibility to provide high quality teaching, only the head teachers of the three junior high schools emphasized improving students' academic performance as one of their most important goals. This is because the number of students from a given junior high school who get into top high schools, based on the graduation exam, acts as the main benchmark by which students and parents judge that junior high school's teaching quality.

This difference in the goal setting of the two types of school seemed to play an important role in the implementation of the new PRP system. For example, very few criteria were linked to pupils' academic performance in the new pay systems in the three primary schools. The only one was a small bonus granted to teachers of students who received certain awards. In other words, the new pay systems adopted in all three primary schools were mainly input-based, focusing on workload and attendance rate. The new pay systems in the junior high schools were much more complicated, with all three schools adopting a points-calculation system (for a sample system, see Appendix 5). Under these systems, an employee's performance would be evaluated according to different criteria, with specific points awarded or deducted for each category of performance (e.g, a detailed conversion rate was introduced between the working hours of teachers of different subjects, with points awarded for different workloads, or deducted if a teacher failed to attend certain activities/meetings). Although employees'

working hours were used as the main criteria in all three junior high schools, students' academic performance (e.g., exam results) were also considered important benchmarks for evaluating teachers' performance. Detailed calculation methods/formulas were listed in the new pay systems of each of the junior high schools investigated (see Appendix 5).

In the interviews, when asked to review the decision process used to determine the performance criteria in the new system, all of the head teachers agreed that deciding how to set the criteria, and how much pay to attach to different performance levels, was the most challenging part of the pay system reform. As required by the education bureau in County H, in each school a "PRP reform committee" was in charge of the reform. The committee was in charge of setting specific performance criteria and determining how employees' "encouraging performance pay" would be linked to such criteria. According to the government regulations, the new pay system had to be approved by more than two thirds of the school's employees. Then, a "performance appraisal committee" was formed in each school, in charge of the performance evaluation when the new PRP system was implemented. The "performance appraisal committee" in each school included the head teacher, deputy head teacher, and representatives from different groups of employees, such as middle managers and class teachers. However, although there were differences in the performance criteria used in different schools, all of the interviewees (including both head teachers and teachers) across the different schools agreed that personal bias had to be excluded during performance appraisals, to ensure the system was fair. It was observed that the performance evaluation systems introduced in all the sample schools were mainly based on objective criteria, with subjective measurement reduced to a minimum. Thus, although the "performance appraisal committee" was in charge of employees' performance evaluations, the employees' performance would mainly be evaluated according to specific objective measurements, and the supervisor would have limited involvement in the appraisal process.

Compared to the multiple goals used in the compulsory education sector, the goal setting by the publishing firm tended to be less complicated. When asked about the goals of Organization M, the deputy director confirmed that productivity, quality and profit were the main goals, and that these were also included in the performance measurement of each individual under the new pay system. During the reform, a reform committee, which was made up of 18 members including senior managers and directors from different departments in the organization, was in charge of setting the performance criteria for each position. According to the feedback from the deputy director of Organization M, the goal setting of each department was negotiated between the senior managers and the department head, with historical data on departmental costs and revenue used as the main reference during the process. As introduced in Chapter 7, once the new pay system was proposed, it was released and discussed at a staff meeting involving all employees. Once the new pay system was confirmed by a majority vote among the employees, each employee in Organization M had to sign an annual internal contract, clarifying the specific performance target they committed to achieve. The process of setting out this individual annual contract was again a two-way communication process, mainly between the individual employee and the department head (e.g., employees could choose a high performance target, or simply use the previous year's performance record to set the next year's target). Once the individual's internal contract was confirmed, a corresponding monthly wage would be allocated based on the annual performance target. Then, at the end of each year, the performance of each employee would be evaluated by his or her supervisor (usually the department head), mainly comparing this to their performance target agreed at the beginning of the year. Then, an annual bonus would be allocated, based on the fulfillment of their annual performance target. In the system, although supervisors play an important role in evaluating employees' performance, it can be seen that the overall performance appraisal is again mainly based on objective criteria. All of the members of the reform committee of Organization M agreed that personal bias should be reduced to a minimum in performance evaluation.

To sum up, the performance criteria for the new PRP systems introduced in both cases were proposed by a “reform committee” in each organization, and the new pay system was approved by the majority of employees at a staff meeting. In the case of the schools, due to the different competitive environments faced by the primary and junior high schools, performance measurement in the junior high schools was found to be more structured, with detailed points systems involving specific criteria relating to students’ academic performance adopted in all three junior high schools investigated. In the case of the publishing organization, a negotiation process was used to set individual performance targets, ensuring they were acceptable to both the employee and his/her supervisor. However, despite the differences between the goals of the schools and the publishing organization, one important feature of both cases is that the performance criteria tend to be objective measurements. Both the managers and the employees across the different PSUs agreed that subjective measurement should be avoided in order to reduce personal bias to a minimum in the performance appraisal process.

8.3.3 Agency theory and moral hazard

According to Marsden and Belfield (2009), the application of PRP enables management to attach rewards to certain discretionary activities and not others. Thus it gives a signal as to which activities the management values most, and so guides work priorities. By rewarding particular aspects of a job, PRP sends out messages about what is valued and the sort of behaviour that is desired (Chamberlin et al., 2002). Scholars have warned that using simplistic measures of performance can easily bias performance towards tasks which are more easily measured and away from the, equally important but harder to measure, qualitative aspects of a person’s job (Holmstrom and Milgrom, 1991; Marsden and Belfield, 2009, etc.). As discussed above, in both case studies, the new performance criteria set in all of the sample PSUs were mainly objective, which might be counter-productive, leading to employees being too focused on hitting

their measurable targets while ignoring other important elements. In light of this discussion of goal-setting theory, the next question investigated in this research is whether the introduction of PRP in different PSUs has helped to align the interests of different parties and reduce moral hazard among their employees (Q4).

In the case of the pay system reform in Organization M, according to the feedback from the HR director, the introduction of annual contracts in the new pay system has helped to align the interests of the organization with those of individual employees. For instance, under the new pay system, when each department head signs their annual internal contract, they discuss it with the senior managers and clarify the annual budget and performance targets for the department. Through this negotiation process, the departmental performance targets are made consistent with the interests of the whole organization. Then, the employees' annual contracts are discussed between the department head and the individual employees, with the aim of aligning the interests of the individual employee with the goals of the department. Since the new performance appraisal scheme is mainly based on the volume of books published and the profits achieved, it was expected that employees might choose books they believed would be most profitable. However, for development purposes, the publishing organization has to publish some books each year, such as academic books, that may not be very popular in the commercial market but will help to build the organization' branding. These books are therefore included in the organization's performance target. Thus, when setting the employees' annual agreements, tasks are allocated so as to align the interests of the individual employees with those of the whole organization. For some non-revenue-purpose products, the revenue requirement is adjusted in the allocation of performance targets, to encourage the employees to engage in such tasks, and reduce conflicts of interests.

Compared to the situation in Organization M, the principal-agent relationship seems to be more complicated in the case of the pay system reform in the compulsory education system. During the reform in County H, the Bureau of

Education was the principal in relation to the local authorities, as the county government set the guidelines for all schools in the area, and would provide full funding for each school under the new system; the local schools were agents of the local government and were held accountable by them, while individual schools also acted as principals when managing their employees internally. According to many researchers, one possible problem with applying PRP in schools is that employees may “put their effort into maximizing the measurable one [task] at the expense of the unmeasured one” (Lazear, 2003: 194; also, Marsden and Belfield, 2009, etc.). In fact, this moral hazard problem has happened as a result of the PRP reform in the schools in County H. All of the head teachers in the sample schools remarked that staff had started to focus more on the measurable criteria in their performance, while reducing their effort in areas that are not included in the appraisal criteria under the new scheme. According to the head teachers, this is due to the fact that a fixed total amount of pay is allocated to each school and because of the objective criteria used to measure performance under the new system. For example, in all three primary schools, the head teachers reported that class teachers had become less willing to organize after-class activities, as their salary would be the same regardless of whether or not they did so. Similar problems occurred in the junior high schools; for example, the head teacher of School D reported that, under the new pay system, class teachers had become reluctant to take students on field trips because such activities do not count towards performance and may even bring penalties if students are injured. The feedback from the teachers themselves confirmed these changes in employees’ behaviour. Most agreed that, during the discussions held during the pay system reform, they had tended to pay more attention to clarifying whether or not certain activities would be linked to their pay, and this now influences how willing they are to organize activities outside class teaching. At the same time, teachers from both the primary and the junior high schools said that, although they would not reduce the effort they put into teaching classes, they do feel less willing to put in extra effort if they know it will not alter how much they are paid.

In sum, in the case of the pay system reform in the publishing organization, the implementation of performance pay and the annual internal contract have helped to align the goals between different groups of principals and agents. The interests of senior managers and department heads, and of departments and individual employees are aligned during the negotiation process used to set performance targets. This process has helped to solve the problem of moral hazard, by significantly reducing conflicts between the interests of principals and agents through two-way communication. On the other hand, in the case of the schools, due to the variety of tasks involved in education and the objective measurement of performance used in the new pay system, it has actually increased the risk of moral hazard. Employees have been observed avoiding tasks which are harder to measure and/or reducing the effort they put into tasks that are not included in the official performance appraisal.

8.3.4 Intrinsic motivation and cognitive evaluation theory

It is suggested that many public service jobs offer great opportunities for intrinsic motivation (Marsden, French, et al., 2000), which is the motivation to perform a task or activity for no apparent reward except that directly involved with the task itself (Ryan and Deci, 2000). According to cognitive evaluation theory (CET), intrinsic motivation, under certain conditions, can be undermined by the implementation of PRP, because the extrinsic motivation provided by the contingent rewards offered in PRP may sometimes conflict with employees' intrinsic motivation, such as the individual's desire to perform the task for its own sake (Bénabou and Tirole, 2003). According to CET, if a person receives a performance-contingent monetary incentive to do something they already enjoy, their motivation to do it will fall, as they view the task as externally-driven rather than internally appealing (Weibel, Rost, et al., 2009). Therefore, the next question investigated in this research is whether the implementation of the new

PRP system in different PSUs in China has reduced employees' intrinsic motivation (Q5).

Intrinsic motivation is usually believed to play an important role in state schools, as good teachers not only deliver high quality teaching, but also exhibit strong intrinsic motivation due to the value they place on interacting with students and seeing them succeed (Lavy, 2007). At the same time, teachers' working hours can be divided into two broad categories: "directed hours", when they are obligated to be available to teach and undertake other duties as directed by their employer or head teacher, and "extra hours", beyond the "directed hours", in which they do marking, write reports and prepare lessons. The number of hours teachers spend on the latter are usually not defined by the employer but depends on how long it takes the teacher to complete their duties (Marsden and Belfield, 2009). According to Marsden and Belfield's (2009) survey of teachers in England, the reasons why teachers spend extra hours on their jobs have little to do with financial or promotion-related incentives. The most common reason given by the teachers was that they felt it was 'the only way to continue to give a high quality of education to their pupils' (Marsden, 2000: 5).

To explore changes in intrinsic motivation due to the reform, the interviewees were asked whether money is an important determinant of how hard employees work, and what is the main driver that causes employees to go beyond the requirements of their job. Most of the teachers claimed that money was not the main consideration in teaching, but admitted that they had started to pay more attention to the amount of pay they received for extra tasks since the new PRP system had been implemented. Before the reform, individual schools had had greater flexibility over allocating internal allowances, and some money was specifically set aside for those who took on extra tasks (e.g., teachers who organized sports meetings). However, both head teachers and class teachers complained that, under the new system, although schools have flexibility over distributing "encouraging performance pay", the total pay allocated to the school is fixed, regardless of how much extra effort it makes. This means that the more

extra tasks staff take on, the smaller is the bonus available for each task. Moreover, the nature of teaching is imprecise and frequently involves a range of activities, some of which are more amenable to measurement than others. Thus, as mentioned earlier, under the new PRP system with its standardized objective performance measurement, teachers have started to pay more attention to whether or not the tasks they perform will be linked to their pay.

According to the feedback of teachers across the schools, before the pay system reform, they were more willing to work harder in order to gain respect from colleagues, students and parents, and pay was not the main consideration when putting extra effort into teaching. However, due to the aspects mentioned above, money has become a more important issue. Teachers are now less willing to work beyond the requirements of their job, especially when such efforts will not count towards their salaries. This finding is consistent with the prediction of CET (Deci, Koestner et al., 1999) that unexpected tangible rewards, awarded after performing a task, tend not to affect intrinsic motivation towards the task (before the reform, teachers paid less attention to the money they would gain for performing extra tasks due to the flexibility of the pay system), while expected tangible rewards significantly undermine the intrinsic motivation based on free choice in most situations (teachers have started to pay more attention to whether extra tasks would be linked to their pay under the new system, as wages are more fixed). Therefore, although the reform was aimed at better motivating employees, it can be observed that, across the schools sampled, the emphasis on linking pay to performance has only made teachers pay more attention to the money they receive. Although gaining the respect of students and parents is still a major consideration for many teachers, especially those in the top schools (e.g., School D), most of the teachers interviewed agreed that they had started to pay more attention to money.

In the publishing organization, according to the feedback from the HR department, money is an important issue for most employees, especially among the younger ones, who view salary as a major factor. In Organization M, once

the new PRP system was introduced, it was reported that employees were showing more initiative in their work as they could obtain higher pay by improving their performance. According to the HR department, under the new pay system and internal annual contract system, editors in production departments were motivated to achieve above-target performance, while administrative staff were also working harder, providing more voluntary overtime than before the reform.

To sum up, the findings in the schools are consistent with CET. The setting of financial rewards based on performance sent a signal that the relationship between the employees and the school had moved towards a market relationship, which diluted teachers' intrinsic motivation, giving them a "distaste for the required effort" (Kreps, 1997). On the other hand, the publishing organization's annually-adjusted internal performance targets and organizational performance-based annual bonus allocations were found to have a positive impact on its employees' willingness to work beyond their job requirements. This confirms the importance of material incentives among the employees, suggesting that money could be an effective element in attracting, retaining and motivating staff in PSUs of a commercial nature in China.

8.3.5 Equity or equality?

Equity and equality are two of the central principles used to allocate pay. The equity principle suggests that rewards should be allocated according to individual contribution, while equality means that all individuals are offered equal rewards, regardless of their comparative contributions (Chiang and Birtch, 2007; Bozionelos and Wang, 2007). It has been suggested that the maintenance of social harmony is promoted through the use of equal reward allocations, whereas the maximization of performance is promoted by systems, such as PRP schemes, which allocate outcomes equitably, in proportion to relative

performance (Deutsch, 1985; Greenberg, 1990; Leventhal et al., 1980; Chen, 1995, etc.).

According to the literature, equity theory generally plays a critical role in introducing PRP into an organization, as rewarding employees according to their performance basically translates into a differential allocation of the available rewards according to individual contribution (Erez, 1997). However, although some recent studies have found Chinese employees to be more positive towards equity than equality (e.g., Chen, 1995; Bozionelos and Wang, 2007), it is also argued that Chinese people are still very sensitive to incomes gaps and prefer egalitarian distributions (Cooke, 2004). Therefore, the next question investigated in the two case studies was how the new systems balanced equity and equality. The interviewees were asked “equity or equality, which do you think played a more important role in the pay system reform in your organization?” (Q6)

For the schools, the pay system reform was intended to balance teachers’ pay across schools, while paying employees according to their actual performance within schools. However, the case studies showed that the new pay systems launched in all of the sample schools turned out to follow an egalitarian distribution. According to the head teachers, this was mainly because of the voting process and the “harmonious” transaction process required by the local government. For example, the head teachers of all three primary schools agreed that internal harmony was their priority in implementing the reform, due to the non-competitive graduation system from primary schools to junior high schools. Egalitarian distribution was the best choice for reducing internal conflicts (regarding pay differences between different groups of employees). The situation in the junior high schools was slightly different. All of their head teachers said they would have preferred an equity-based pay system, to better motivate high-performing employees, because the reputation of their school was strongly linked to their students’ performance in high school entrance exams. However, they all said that, due to the fixed total amount of pay allocated to each school, and the voting process requiring that two thirds of the staff

approved the scheme, they had to choose an egalitarian distribution in the end, with much smaller pay gaps than originally proposed.

As a result, despite the differing views between the head teachers of the primary schools and the junior high schools, the pay systems eventually introduced in all of the sample schools tended to be more egalitarian, mainly so as to maintain harmony during the reform process. Comparing the pay systems before and after the reform, both head teachers and teachers reported that employees were more tolerant towards pay gaps before the reform because schools had more flexibility in allocating bonuses and paying high-performing employees more did not reduce the average pay of the other staff. However, once the new standardized pay system was introduced, if some employees received higher bonuses, other teachers would receive less pay overall, due to the fixed amount of total “encouraging performance pay” allocated to each school. In the primary schools, egalitarianism tended to be the agreed principle from the beginning. However, in the junior high schools there was more debate. The original pay systems proposed by the reform committees in all three junior high schools included wider pay gaps between employees with different performance levels but these systems were not accepted by the majority of employees. According to the head teachers, the proposed pay system had to be adjusted several times, each time narrowing the pay gaps and pushing towards an egalitarian distribution. For example, in School F, although average pay more than doubled due to the extra funding provided by the government, the proposed pay system had to be changed seven times. The initial priority under the pay distribution proposed by the reform committee was to encourage higher performance by introducing wider pay gaps between employees. According to the head teacher of School F, these increased pay differences were opposed by the majority of employees. The final pay system approved by the employees included much narrower pay gaps.

In contrast to the fixed amount of pay available to the schools, the self-funding system of Organization M gave the reform committee much more flexibility when designing its new pay system. According to the director of the HR

department, an equity principle, whereby each employee should be rewarded according to his/her actual performance, was confirmed at the very start of the reform process, and this brought about wider pay gaps following the reform. On the other hand, similarly to the situation in the schools, the employees of Organization M were given the choice between staying with the previous pay system or participating in the new one. This policy was aimed at maintaining internal harmony during the reform. However, due to the organization's control over its total wage bill, every employee received a pay increase under the new system, meaning there were no losers in the process. Hence, although the pay system was guided by the equity principle and brought about wider pay gaps in the organization, it was accepted without conflict by the majority of employees.

To sum up, the importance of internal harmony was confirmed in both cases and all of the sample PSUs. In the schools, due to the fixed amount of pay available, the application of the equity principle—causing wider pay gaps—was found to conflict with the priority of maintaining internal harmony. Thus, an egalitarian distribution was chosen so as to gain approval from the majority of employees. In Organization M, which had greater flexibility due to its independent funding, equity theory was implemented more successfully, and approved by the majority of employees, helped by the fact that everyone enjoyed a pay increase under the new system.

8.4 Some further findings

As well as addressing the proposed research objectives, the case studies revealed some further changes brought about by the pay system reform in the PSUs.

8.4.1 Changes in workplace relations

Compared to many organizations in the private sector, a high degree of cooperation is needed between employees in the public service, to ensure

organizations perform efficiently (Marsden et al., 2001). Researchers have argued that the implementation of PRP may have a negative impact on workplace relations, because although some employees may be motivated to perform better, especially those getting above average pay (Marsden et al., 2000), jealousy and divisiveness may undermine teamwork (Makinson, 2000; Marsden, French et al., 2000). In this study, in both cases, the priority of maintaining internal harmony was confirmed by all of the interviewees from the sample PSUs, raising the question of whether the implementation of PRP has changed workplace relations among PSUs in China.

According to equity theory, employees will compare the ratio of their own perceived work outcomes (i.e., rewards) to their own perceived work inputs (i.e., contributions), to the corresponding ratio of a “comparison other” (e.g., a coworker) (Greenberg, 1990). This equity theory of motivation is based on the principle that, since there are no absolute criteria for fairness, employees generally assess fairness by making comparisons with others who are in a similar situation (Beardwell and Claydon, 2007). Therefore, the divergence in beliefs about the priorities of the new PRP system became the most controversial when judging the fairness of the new system for teachers and managers. The comparison between the effects on the two groups was observed to have had a negative impact on workplace relations in some of the schools. According to the head teachers, in all of the sample schools, the bonuses available to employees in management positions as a proportion of their total pay reduced significantly following the reform, due to the attempt to narrow the pay gaps between average employees and those in management positions. However, there were observed to more complaints from both teachers and employees in management positions following the reform, as both groups felt they were underpaid under the new system. For instance, in the case of School B, where average pay increased following the reform, the deputy head teacher complained that his pay had reduced significantly under the new system, and he would earn higher performance pay if he gave up his management position and took on an extra class of teaching (instead of teaching one class and performing the deputy head

teacher role). On the other hand, the teachers interviewed from School B believed that the managers at their school were still being paid too much under the new system, as improving school teachers' pay was supposed to be the priority of the reform. Similar complaints from both management staff and teachers were observed in all of the sample schools investigated, with more complaints from both groups in the popular schools, where employees in middle management positions had enjoyed much larger bonuses prior to the reform.

Although the implementation of the new PRP system increased the conflict between teachers and management staff, no deterioration of cooperation among teachers was observed in the sample schools. However, a negative impact was observed on the cooperation among teachers when dealing with after class tasks, especially regarding the duties performed by class teachers, whose pay increased significantly following the reform. According to the policy of the local Bureau of Education in County H, in each school class teachers would receive 300 *yuan* per month, which was much higher than the wages they received before the reform (usually between 50 and 100 *yuan* per month). Following the reform, class teachers' average annual pay was 3,600 *yuan* more than that of other teachers, a significant pay gap in the generally egalitarian pay system. Although the extra allowance paid to class teachers was categorized as part of fixed pay, and allocated by the government directly under the new pay system, it was a significant amount, and was reported to cause jealousy among the teachers. Many teachers are now less willing to support the class teachers (e.g., after-class activities which are mainly the responsibility of class teachers), according to the head teachers of all the sample schools.

In the publishing organization, according to the HR department, although everyone enjoyed a pay increase, when the new pay system was first implemented, administrative staff complained about the much wider pay gaps between themselves and employees in the production departments. However, the end of year bonuses for administrative staff are based on the revenue of the whole organization, under the new scheme, and this is mainly a result of the

achievements of the production departments. Thus, despite the complaints, the HR department confirmed that there has been no deterioration in workplace relations following the reform, and no decrease in cooperation between administration and production departments.

To sum up, in the case study schools, increased conflict regarding the pay differences between teachers and employees in management positions, and deterioration in the cooperation between class teachers and other teachers have been observed, and these have had a negative impact on workplace relations in the sample schools investigated. In the publishing organization, however, little change has been observed in workplace relationships.

8.4.2 The role of employee participation

Another important feature of the two case studies was the participation of employees, as a channel for exchanging information during the pay system reform. The employees were observed to play a significant role in determining the new pay systems, especially in the case of the schools, where an internal voting process was required by the government.

According to the national guide and County H's policy, two thirds of employees had to approve the distribution of "encouraging performance pay" in each school. As mentioned in Section 8.3.5, this voting system was observed to have a critical impact on the internal pay gaps between different groups of employees. Pay distributions with large pay gaps were rejected by the majority of employees, according to the head teachers of all the sample schools investigated. For example, although all of the schools decided to base their performance appraisal systems on objective measures, they all found setting an appropriate conversion rate between the workloads and performance pay of management staff and teachers to be an extremely controversial topic. Many of the schools reported that an internal bargaining process took place, focusing on the setting of

internal pay gaps between different groups of employees (e.g., bonuses for high performance, or allowances for management staff).

According to many of the head teachers, the fixed amount of total pay available to each school, and the voting process described above, made an egalitarian distribution the best solution for maintaining internal harmony. Following the announcement of the reform by the government, the average salaries of employees in the compulsory education sector in the local county were also published. This gave the employees a benchmark against which to judge the salaries they were offered under the new system. At the same time, under the government funding process, the total amount of pay allocated to each school was fixed, meaning that if higher salaries were paid to some, the average pay for the rest would fall. Therefore, most employees voted for a pay system with small pay differences, significantly reducing the amount of pay available for bonuses or allowances.

Significant differences in the employees' voting process were observed across schools. In four of the schools, the new system was passed at the first staff meeting (School A, C, D, E), but in two of the schools (School B and F) it had to be adjusted several times before it passed. In School B, members of the reform committee had to talk to teachers office by office, and eventually reduced the allowances attached to management positions. The new pay system was only approved at the beginning of 2010, just before the Chinese new year, and probably only because the employees would not have received 30 percent of their pay that year otherwise. However, although it was passed by a majority of employees, a significant deterioration in workplace relations was observed, and neither teachers nor management staff were convinced by how their pay was determined under the new system (as discussed in Section 8.1 above). In two other schools (Schools C and D), where the new pay system was passed at the first staff meeting, teachers reported that they were provided with only a limited explanation of the new system before they voted, and did not really understand it.

However, although the head teachers complained that the voting process led to an egalitarian distribution of pay, this is the first time that a standardized system of pay has been implemented in the compulsory education sector involving employees' participation. Before the reform, due to the diverse sources of funding obtained by different schools, official pay systems were not published for individual schools. Part of the employees' pay came from the government budget, while the rest came from external sources obtained by individual schools (e.g., sponsor fees for popular schools), which varied across schools each year. Many of the teachers had never really understood the pay system in their schools before the recent reform. The teachers interviewed from School B stated that, before the reform, they simply checked their bank account balance monthly and did not pay any attention to the details of how pay was set in their school. As a result, employee participation during the pay system reform did make the new pay systems more transparent, and also helped employees to understand how internal pay is set.

In the case of the publishing organization, although it was mainly the HR department that was responsible for developing the new pay system, channels were set up so that information could be exchanged between different groups of employees. Representatives from different departments were consulted before the reform. Then, the new pay system proposed by the HR department was reviewed by a reform committee, which involved all of the senior managers and department heads. After adjustments had been made by the reform committee, the new system was announced at a staff meeting, during which the details of the new system, along with the reference data collected during the pre-reform process (e.g., pay-setting under the old system, the benchmark pay in the local job market, etc.), were explained to the entire workforce. Employees were invited to make comments, and then, two weeks later, a second staff meeting was arranged, at which employees were asked to vote on the new system. In the interim, employees with questions could consult the HR department, and the reference data used for setting the pay both before and after the reform were made available. Employees were given the choice to stay with the previous pay

system. However, since all employees received a significant pay rise under the new pay system, they all chose the new system, and this was confirmed by a large majority at the first official vote. Moreover, since individual employees' pay under the new system was highly related to the performance targets they committed to achieving, a negotiation process of two-way communication between the employees and their department heads was used, which helped to align the interests of the two parties when setting goals (as discussed in Section 8.3.2).

To sum up, the employees' participation in the voting system, as required by the government, was found to be a major reason for the introduction of egalitarian pay distributions under the new systems in all of the sample schools. Although internal arguments were observed as a result of the employees' participation, which have had a negative impact on workplace relationships in some of the schools, employees' involvement in the reform process also helped to clarify the internal pay systems of the schools and make the pay distribution more transparent. Compared to the fixed-budget pay systems introduced into the schools, the reform in the publishing organization was found to be more flexible, and appropriate employee participation was observed during the reform process, making the transition to the new pay system smoother.

8.4.3 Pay and employees' social status

As addressed in the national guide, one of the most important aims of the pay system reform in the compulsory education sector across China was to improve the social status of employees in the sector, especially for teachers in rural areas, who had previously received low salaries. According to an internal report by the Bureau of Education for County H, the new PRP system increased the average pay for employees in the compulsory education sector in the county by 36.6 percent, a significant amount. However, not all employees in the sector received

higher salaries under the new system, due to the removal of extra funding sources. Given the different changes in pay across schools, various impacts can be observed on the self-perceived social statuses of different groups of employees.

Firstly, for most of the employees of the rural schools (Schools C, E and F), total annual pay increased significantly, especially in the schools that did not charge “sponsor fees” before the reform (C and F). Teachers in these schools were previously paid much less than those in popular urban schools, but after the reform, the pay differences between schools were largely removed, with employees of rural schools paid more than those in top urban schools due to the extra allowance allocated to them. Although there were complaints about the pay distribution within these schools, all of the interviewees agreed that the standardization of pay across schools, and the significant increase in their total annual pay, made them proud to be school teachers, and more willing to stay at rural schools due to their improved social status.

Secondly, however, compared to the overall pay increase for those in rural schools, many teachers at the popular schools in County H felt they were “losers” in the pay system reform, as their pay shrank. According to the teachers from these schools (A, B and D), the teaching load tends to be much heavier in popular schools, as both the school and the teachers tend to put more effort into maintaining their leading position in the local area. When the new pay system was implemented, there was no change in the teaching load, but their pay decreased significantly due to the removal of all school-specific allowances/bonuses. For example, one teacher from School D—the top junior high school in the county—said that her total annual pay had decreased by 20,000 *yuan* (approximately 25 percent of her pre-reform pay) following the reform. The decrease was partly due to the decrease in average pay across the whole school (by approximately 15,000 *yuan*/year), due to the loss of extra funding from “sponsor fees”, and partly because of the more egalitarian pay distribution under the new system, which significantly reduced the bonuses

allocated to high-performing teachers (a reduction of around 5,000 *yuan*/year in her case). Therefore, it was observed that most of the employees of popular schools felt that they had lost their superior social status from teaching in popular schools. Meanwhile, the head teachers of these schools worried that their schools would lose their advantage in the local education market, due to the reduction in salaries.

The third impact is as follows. As discussed earlier, one noteworthy change in the way pay is set under the new system in the compulsory education sector is the significantly reduced bonuses allocated to teachers who perform well and to employees in management positions. Thus high-performing teachers and management staff from top schools lost out the most in the reform. For these employees, a significant feeling of loss was observed, especially among management staff in the top schools. However, when asked whether they would consider giving up their management positions because of the pay cut, most said they would not, as they believed that there was still significant social recognition attached to such positions. This is known as “face” (“*mianzi*”), which acts as an important form of intrinsic motivation, and is consistent with the traditional image that “face” is especially important for Chinese managers because employees expect their managers to have great integrity and sound moral judgment (e.g., Bond and Hwang, 1986; Zhou and Martocchio, 2001).

Fourth, according to officials at the Bureau of Education in County H, not only did the average pay of employees in the compulsory education sector increase, but also the pensions of retired employees, which significantly improved their social status in the local area. One retired teacher from School A, for example, saw her pension grow from 2,100 *yuan*/month to 4,300 *yuan*/month. She reported that the increase in her pension made her much happier and made her proud to be a retired primary school teacher.

To sum up, significant increases in the self-perceived social status were reported among employees who received significant pay increases due to the reform, and

among retired teachers, for whom pensions increased significantly. For employees in popular schools, whose pay did not increase and sometimes decreased significantly, the previously superior status gained from working in top schools was significantly reduced, especially among high-performing teachers and management staff. Such findings suggest that self-perceived social status is highly related to pay, confirming that the increase in average pay for the employees in the compulsory education sector has helped to improve the social status of school teachers in general.

In the publishing organization, all employees received a pay increase under the new pay system, which ensured there were no “losers” in the reform. According to the HR department of Organization M, employees in the production departments were found to be most strongly motivated under the new system. For them, higher performance would not only bring about a pay increase but also a higher position in the firm. This would enable them to gain and maintain “face”, through the respect of other employees, and they would perceive their social status as higher.

8.5 Summary of the pay system reform in the two cases

This section presents a discussion of the achievements and limitations of the pay system reforms implemented in the compulsory education sector and the publishing organization. The aim is to provide an empirical review of the two reforms studied.

8.5.1 The PRP reform in the compulsory education sector in County H: achievements and limitations

At the end of the interviews, the head teachers of the sample schools were asked to give an overall comment on the reform as it had affected their own school.

The head teachers from all three urban schools (Schools A, B and D) felt that the pay system reform had caused more problems than it had solved, while those from the three rural schools (Schools C, E and F) tended to be more supportive towards the reform, believing that the new system would bring more benefits in the long run. Based on the feedback from all of the interviewees, including the head teachers, teachers, and government officials who were involved in the reform in County H, the following paragraphs present a practical review of the reform's achievements.

First, one of the main aims of this government-led reform was to improve the social status of employees in the compulsory education sector in China, especially those teaching in rural areas. Although the reform has had diverse impacts on different groups of employees (as discussed in Section 8.4.3), overall, the case study showed that there has been an improvement in the social status of these employees in County H, confirming that the original purpose of the reform has been achieved.

Second, the reform has helped to reduce some unnecessary charging in the compulsory education sector in China, although "sponsor fees"²³ are still charged due to the unbalanced distribution of resources across schools. In the new PRP system, the total wage bill of all employees in the compulsory education sector is fully funded by the government, and all extra allowances paid by individual schools out of non-government sources have been banned. This policy, announced in the national guide, aimed to prevent all unofficial charges for compulsory education, reducing the costs for students and parents. Although the system of "sponsor fees" has remained due to differences in the teaching reputations of different schools in County H, the new pay system has helped to reduce some unnecessary charges, for example, by closing down profit-orientated departments and reducing the price of food in student canteens.

²³ Schools in County H still charge a "sponsor fee" for students from another district, but such income would be restricted for school construction only.

Third, due to the employees' participation and the voting system required by the county government, all of the teachers interviewed agreed that the new pay system is more transparent and standardized than the previous one. Most of the teachers stated that they did not pay much attention to the specific details of the old pay system before the national guide to the PRP reform was announced by the central government. Although various internal arguments were observed during the reform process (as discussed in Section 8.4.3), it was generally agreed by the interviewees across all of the sample schools that the reform, and the employees' voting system, had made them more aware of the internal pay system, and made the internal pay distribution more transparent than previously.

Fourth, one of the most important changes that the reform has brought about in County H is the reduction in the turnover of employees in rural schools. The retention of teachers has been a growing concern in China, especially those in rural areas. The transition to a market economy and the opening up of the labour markets has created alternative career paths for current and potential teachers (Sargent and Hannum, 2005). It is generally agreed that competitive salaries and benefits are crucial to attracting and retaining high-quality teachers (Dolton and Marcenaro-Gutierrez, 2011), consistent with the findings of this case study. All of the head teachers from rural schools reported that their teachers are now less keen to be transferred to urban schools due to the disappearance of the pay gap between urban and rural schools since the reform. For example, according to the head teacher of School F, for the first time in the history of the school, no employee had applied for a transfer to another school for a whole year, confirming the significant impact of the reform in retaining teachers in rural areas. All of the head teachers of the rural schools also believed that the new pay system would encourage experienced teachers from urban schools to transfer to rural schools to work as head teachers, which would improve the management and teaching quality of rural schools and balance teaching resources across the country in the long run.

Nevertheless, despite the achievements listed above, a number of problems with the pay system reform came to light during the case study. For example, it was observed that employees tend to be less motivated under the new system due to the fixed amount of pay available and the egalitarian distribution system implemented. A deterioration in workplace relations has also occurred as employees now compare their pay to other people's pay, which has caused jealousy and had a negative impact on the internal cooperation in some of the schools.

To sum up, the findings of the case study suggest that the new PRP system has fulfilled the original goals of the national policy, by improving schoolteachers' pay and social status, clarifying the setting of pay in individual schools, reducing some of the unnecessary charges for compulsory education, and retaining teachers in rural schools where turnover was previously high. However, the target of linking pay to performance has not been achieved, as the new pay systems introduced in all six sample schools have turned out to be more egalitarian than previously, with smaller bonuses/allowances attached to high performance and extra workloads. The reform has thus failed to achieve its initial aim of motivating employees to perform better and has also had a negative impact on workplace relations and cooperation.

8.5.2 PRP in the publishing organization: a successful story

Compared to the controversial results of the pay system reform in the compulsory education sector in County H, the pay system reform introduced in Organization M seems to have been more successful. It links employees' pay to both individual and organizational performance, and both employees' productivity and motivation have been found to have increased, fulfilling the aims of the reform. Several points should be noted.

First, in the reform, Organization M clarified its internal pay system by redefining monthly pay for all employees, aiming to achieve internal equity and ensure that employees in identical positions received equal pay (“*tong gong tong chou*”). For employees in production positions, performance is now the most important criteria when setting monthly pay, instead of seniority or contract status which was used before the reform. Meanwhile, positions in non-production departments were redefined based on factors such as the individual’s education, their work experience within the organization and the responsibility included in the position. This redefinition of positions and the clarification of the pay attached to each position has made the new pay system more transparent and easier to operate.

Second, an annual internal goal-setting process has been introduced. All employees sign an internal agreement indicating the performance targets they are aiming to achieve during the year. This goal-setting process has helped to align the interests of individuals with those of the organization, and has also provided an accurate prediction of the organization’s performance for the year, which has helped the organization to be more flexible when competing in the publishing market.

Third, by linking employees’ pay to the achievement of their performance targets, Organization M has significantly increased its employees’ productivity and motivation. Employees in production positions, in particular, have started to set themselves higher performance targets, as this can lead to higher pay under the new pay system. Most of the employees had achieved more than 60 percent of their annual performance target at the first mid-year evaluation following the pay system reform (Table 7.4, Chapter 7), and overall, a 20 percent growth in annual productivity was achieved by the organization in the first year after the pay system reform, which has been followed by an average of 5 to 10 percent growth since then.

Fourth, as a former PSU that has been pushed into the market and made to fund itself, Organization M has experienced an increase in employee turnover since the change in pay system from a seniority-based to a performance-based one. According to the HR department, annual turnover increased from 5 percent before the reform to 10 percent after the reform. Among senior employees with traditional PSU (“*shiye*”) status, turnover has remained very low, mainly due to the more advantageous public welfare system that is attached to their employment status when they retire. However, among new employees with enterprise (“*qiye*”) status was found to increase, especially among those who found it difficult to achieve their performance targets under the new pay system. This change in turnover is consistent with the sorting function predicted by the study of Lazear (2000), however, which suggests that average output per worker and average worker ability should rise when a firm switches from hourly wages to performance pay. Despite the increase in turnover in Organization M, the average output per employee in the production departments has increased.

Finally, although there have been some complaints about the wider pay gaps among employees, there has been no deterioration of workplace relations in Organization M since the pay system reform, and no decrease in cooperation between administrative and production staff.

8.6 A summary of the cross-case analysis

A summary of the cross-case analysis including the key findings observed in each sample PSU is presented in Table 8-1.

Table 8-1: Summary of the cross-case analysis

PSU Category	PSUs with a public welfare function						PSU of a commercial nature
	School A	School B	School C	School D	School E	School F	
	Primary School	Primary School	Primary School	Junior High School	Junior High School	Junior High School	Organization M
Sector	Primary School	Primary School	Primary School	Junior High School	Junior High School	Junior High School	Publishing Industry
Location	County H (Urban)	County H (Urban)	County H (Rural)	County H (Urban)	County H (Rural)	County H (Rural)	Beijing City

Reason for the pay reform	National PRP reform	National PRP reform	National PRP reform	National PRP reform	National PRP reform	National PRP reform	Organizational PRP reform
Official start of the reform	01/01/2009	01/01/2009	01/01/2009	01/01/2009	01/01/2009	01/01/2009	10/2004
Final confirmation date of the new system	12/2009	02/2010	12/2009	12/2009	12/2009	01/2010	01/2005
Changes to pay	Slight decrease in the pay of all employees; greater decrease in the pay of high-performing teachers and management staff	Small increase in average pay; slight decrease in pay for high-performing teachers and management staff	Significant increase in pay for all employees	Significant decrease in average pay across the school; greater decrease for high-performing teachers and management staff	Small increase for all, with minor decrease for top-performing teachers and management staff	Significant pay increase for everyone	Increased pay for all employees, more significant pay increases for employees in production positions
The implementation of PRP and consistency with the NEP	Very limited PRP after the reform; consistent with the NEP	Very limited PRP after the reform; consistent with the NEP	Very limited PRP after the reform; consistent with the NEP	Very limited PRP after the reform; consistent with the NEP	Very limited PRP after the reform; consistent with the NEP	Very limited PRP after the reform; consistent with the NEP	Effective PRP introduced by the reform; consistent with the NEP
Acceptance of the idea of linking pay to performance	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Extra pay for employees with higher performance	Reduced	Reduced	Smaller as a proportion of total pay, but larger absolute amount due to the significant average pay increase	Reduced	Reduced	Smaller as a proportion of total pay, but larger absolute amount due to the significant average pay increase	Larger proportion of total pay with significantly more performance pay available in the new system
Can employees improve their performance?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Is higher pay given for higher performance in the new	Yes, but very limited	Yes, but very limited	Yes, but very limited	Yes, but very limited	Yes, but very limited	Yes, but limited	Yes, much higher pay for those with high performance

system?							
Setting of performance evaluation criteria	Objective criteria dominate	Objective criteria dominate	Objective criteria dominate	Objective criteria with points system	Objective criteria with points system	Objective criteria with points system	Objective performance targets set down in an annual agreement
Does it help with the goal setting of the organization ?	No	No	No	No	No	Yes	Yes
Does it help with goal setting for individuals?	No	No	No	No	No	Yes	Yes
Has it reduced unwanted behaviour among the employees?	No	No	No	No	No	No	Yes
Change in intrinsic motivation of employees	Reduced	Reduced	Reduced	Reduced	Reduced	Reduced	Increased
Preference between equity and equality (by head teacher/seni or manager during the reform)	Equality	Equality	Equality	Both but have to sacrifice equity for equality	Equity, but have to go for equality during the reform	Both, but have to sacrifice equity for equality	Equity
Jealousy caused by the new PRP system	Yes	Yes	Yes	Yes	Yes	Yes	Yes, but very limited and has not affected workplace relations
Is the new PRP system fair according to head teachers/HR manager?	Hard to say	No	Hard to say	No	No	Hard to say	Generally speaking, yes.
General comment about the PRP reform (by head teachers/HR managers)	More disadvantages than benefits	More disadvantages than benefits	Good policy in the long term, but has also introduced more conflicts within the school	More disadvantages than benefits	Good policy in the long term but has brought about more conflicts within the school	More advantages than disadvantages overall	Has improved individual and organizational productivity significantly

Chapter 9 Conclusion

This research has looked at changes in pay systems in the PSU sector in China, where, in the last decade, pay system reforms have aimed to link employees' pay to performance. This pioneering research has explored the new pay systems and the suitability of PRP at an organizational level. Two in-depth case studies were discussed, one consisting of six state schools in the compulsory education sector and the other looking at a publishing organization, with the aim of providing an insight into how the new pay systems have affected different PSUs in China.

This final chapter summarizes the research. First of all, key findings identified from the two case studies will be revisited, and the research questions will be answered. Secondly, empirical implications will be presented, in terms of both the achievements and limitations of the pay system reforms in the sample PSUs, and suggestions will be provided for future pay system reforms in other types of PSU in China. Then, the contributions and limitations of this research will be discussed. Finally, possible directions for future research will be suggested.

9.1 Pay system reforms in PSUs in China: A review of the key findings

Compared to the extensive discussion of public sector pay in western countries, there has been a lack of in-depth research into pay systems in the PSU sector in China, leaving a significant gap in the understanding of the key changes that have occurred in different Chinese PSUs and the challenges faced by their human resources departments. In recent years, the main theme of the pay system reforms instigated across the PSU sector in China has been to link pay to performance. However, no-one has answered the question of how such PRP systems actually work in different PSUs. Aiming to contribute to this research gap, the main research question of this study was as follows: "How well has performance related pay performed in different PSUs in China, since the recent

pay system reform?” To answer this question, different theories about PRP have been reviewed and six research objectives have been proposed, based on the assumptions of the NEP and a range of motivational theories, including expectancy theory, goal-setting theory, agency theory, CET and equity theory.

In order to explore the processes and outcomes of the pay systems at an organizational level, among PSUs with different characteristics, two in-depth case studies were conducted. The first included six state schools from the group of PSUs with a public welfare function, which are fully funded by the government. The second consisted of a publishing organization, representing the group of PSUs of a commercial nature, which have been pushed into the market and forced to fund themselves. Each research objective was investigated in relation to both cases. The key findings relating to the research objectives, as well as some further findings, are summarized below.

Table 9-1: Summary of PRP theories and proposed research objectives

Theory Category	Theories in PRP	Research objective proposed	Findings identified
Economic Theory	The NEP	Q1: How does PRP fit into different PSUs in China?	PRP was found to have been better implemented in the publishing organization, where job tasks are easier to define, employees' performance is less costly to measure, and competition in both the labour and product markets is higher, with potentially higher wages available in other firms. For schools in the compulsory education sector, where the costs of measuring output are high, a wide range of tasks are performed, there are only minimal differences between the wages offered in each school and employees tend to have long tenures, the new pay system was found to be input-based, with working hours used as the dominant criteria when distributing pay.
Motivational Theory	Expectancy Theory	Q2a: Can the employees improve their performance by working harder?	All of the employees and managers in both cases believed that employees could improve their performance through hard work.
		Q2b: If an employee works harder, will he/she be paid more?	In the compulsory education sector, due to the fixed amount of total pay allocated to each school under the new system, the proportion of pay attached to higher performance was found to have been reduced

		<p>in all of the sample schools, and especially in popular schools where bonuses for higher performance were reduced considerably.</p> <p>The principle of “those who work harder should get higher pay” (<i>duo lao duo de</i>) was reported to be better implemented after the pay system reform in the publishing organization. Here, individuals’ achievements became the most important benchmark used to set pay under the new system.</p>
	<p>Question2c: Do the employees perceive the bonuses they can receive by working harder to be valuable?</p>	<p>There were some differences in the interviewees’ responses in the case of the schools. Employees in popular schools perceived the bonuses under the new system to be less valuable, as the bonuses available previously were much larger in these schools. Employees in less popular schools saw average pay increase significantly, with slightly wider pay gaps among employees (Schools C and F). However, although the amount of pay attached to higher performance increased slightly, as a proportion of total pay, they went down as in other schools. Thus, employees attitudes towards the bonuses changed very little.</p> <p>In the publishing organization, due to the significant increase in the amount of pay available to those who achieved a high performance under the new system, employees were observed to value the bonuses more highly than previously.</p>
Goal-setting Theory	<p>Q3: How were the criteria for the PRP decided?</p>	<p>In both cases, the new system, including the performance measurement, was proposed by a “reform committee” within the organization, and then discussed and verified at staff meetings.</p> <p>In the junior high schools, performance criteria included students’ exam results, but in the primary schools, they were not. This was mainly due to differences in the graduation systems of primary and junior high schools.</p> <p>In the publishing organization, a goal-setting process is used. Each employee signs an internal contract with their supervisor, which sets a specific performance target for the year.</p> <p>All performance criteria in both cases are objective-based under the new system, with the aim of reducing personal bias to a minimum.</p>
Agency Theory	<p>Q4: Has the introduction of PRP helped to reduce moral hazard among employees?</p>	<p>There seems to be an increased risk of moral hazard in the schools investigated since the reform. This may be due to the multiple tasks involved in education. Employees have been found to avoid tasks that are harder to measure or are not included in the performance measurement under the new system.</p> <p>The introduction of PRP has helped to reduce moral</p>

			hazard in the publishing organization, however, as the interests of the organization and its employees are better aligned as a result of the negotiation process used to set performance targets under the new system.
	CET	Q5: What influence has PRP had on the employees' intrinsic motivation?	Decreased intrinsic motivation has been observed in all of the sample schools since the implementation of the new PRP system. Increased intrinsic motivation has been observed in the publishing organization, due to individuals' greater autonomy over goal setting.
	Equity Theory	Q6: Equity or equality? Which has had a more significant impact in the design of the PRP systems?	In the schools, due to the fixed amount of pay allocated to each school, the equity principle (which would lead to wider pay gaps) was found to conflict with the priority of maintaining internal harmony. As a result, an egalitarian distribution was chosen by all of the schools investigated. In the publishing organization, the equity principle was better implemented, thanks to the greater flexibility it had over setting pay, due to its independent funding system.
Some further findings	Changes in workplace relations	Has there been any change in workplace relations since the pay system reform?	Increased conflict has been observed between teachers and management staff, as well as a deterioration in the cooperation between teachers and other teachers, across all schools in the compulsory education sector since the pay system reform. No change in workplace relationships was reported in the publishing organization.
	Employee participation	How were the employees involved in the pay system reform?	In the schools, employee participation through a voting procedure was required by the government, which made the pay distribution in the schools more transparent and egalitarian-based. In the publishing organization, channels for exchanging information between different groups of employees were included in the reform process, which helped to better implement the new pay system.
	Pay and employees' social status	How is pay linked to employees' social status in different PSUs in China?	In the case of the compulsory education sector, self-perceived social status was found to be highly related to changes in pay among different groups of employees. A significant increase in self-perceived social status was observed among the employees of less popular schools and among retired teachers whose pay/pensions were significantly increased. For employees in popular schools, who experienced a decrease in pay, a general feeling of demotivation was reported, especially among high-performing teachers and employees in management positions, whose pay was cut most significantly. In the publishing organization, employees were found to be better motivated following the reform,

			as higher performance would not only bring a pay increase, but also a higher position in the organization, which would enable high-performing employees to gain and maintain “face” by obtaining respect within the organization.
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9.2 Implications for future PSU pay system reforms in China

As described in Chapters 5 and 6, a national pay system reform, aiming to introduce PRP into all PSUs providing public welfare, was announced by the General Office of the State Council of the PRC in 2008. According to this three-step reform project, a new pay system, made up of seventy percent fixed wages and thirty percent performance pay, would be introduced first to all state schools in the compulsory education sector, then to all public hospitals and PSUs within the national medical care system, and finally to all other PSUs providing public welfare across China. As they made up the first wave of this national PSU pay system reform, the case study of schools in the compulsory education sector provided a first insight into the impacts of the reform at an organizational level. Mixed results were observed in the schools investigated.

Table 9-2: Summary of the key findings from the case study of the pay system reform in the compulsory education sector in County H

Original aims of the pay system reform for employees in the compulsory education sector	Achievements of the pay system reform	Problems that occurred during the pay system reform
<ul style="list-style-type: none"> • To improve the social status of employees in the compulsory education sector, especially teachers in remote/rural areas (<i>Achieved</i>) • To attract and retain teachers in the compulsory education sector (<i>Achieved</i>) • To implement a PRP system by linking employees’ pay to 	<ul style="list-style-type: none"> • Improved social status for employees in the compulsory education sector, especially for teachers in rural areas • Reduced some of the unnecessary charging in the compulsory education sector • Employee participation in the reform, which 	<ul style="list-style-type: none"> • The charging of “sponsor fees” remained after the reform, due to the imbalanced distribution of resources across schools • Limited links between employees’ pay and performance under the new system • Reduced the proportion of pay available for high-

<p>performance in all state schools in the compulsory education sector in China (<i>Limited achievement</i>)</p> <ul style="list-style-type: none"> • To better motivate teachers to achieve higher performance through the implementation of PRP in the compulsory education sector (<i>Failed</i>) • To remove all unnecessary charges for compulsory education for the general public, by banning any extra allowances/bonuses drawn from outside the government budget (<i>Limited achievement</i>) • To balance the teaching quality across schools by reducing the turnover of teachers, especially in less developed/rural areas. (<i>To be achieved in the longer run</i>) 	<p>made the new pay system more transparent</p> <ul style="list-style-type: none"> • Significantly reduced the turnover of employees in rural schools • May balance teaching resources across schools in the compulsory education sector in the longer run 	<p>performing teachers and management staff</p> <ul style="list-style-type: none"> • Employees tend to be less motivated under the new PRP system due to the fact that it is based on an egalitarian distribution • Deterioration in workplace relations, with reduced internal cooperation observed across schools after the reform
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Table 9-2 compares the achievements of the pay system reform in the compulsory education sector with the original aims of the government policy. It shows that the full funding provided by the government, the use of civil servants' pay as a benchmark, the removal of pay differences between schools, and the requirement for employees to approve the new system helped to fulfil several of the government's original goals. For example, schoolteachers' pay level and social status have improved, the way pay is set in individual schools has been clarified, some of the unnecessary charges within the compulsory education system have been removed, and teachers are being retained in rural schools where turnover was previously high. However, the target of linking pay to performance has not been accomplished. The new pay systems introduced in all of the sample schools used an egalitarian distribution, with smaller bonuses available for higher performance or taking on extra workloads. The result is more input-based than the PRP first proposed by the government policy.

According to the feedback from both the head teachers and employees of the schools and the government officials who were involved in the reform, it has failed to achieve the original goal of motivating employees to achieve higher performance, and has also had some negative impacts on workplace relations and reduced cooperation between employees in some of the schools investigated.

However, despite the only partial success of the implementation of PRP in the compulsory education sector, the government is still aiming to introduce PRP systems in other PSUs, as set out in the three-step PSU pay system reform project announced by the General Office of the State Council of the PRC. Compared to the mixed results observed in the compulsory education sector, the pay system reform in the publishing organization was found to be more successful. Its previous seniority-based pay has been replaced by a new performance-based pay system, which strongly encourages employees to aim for higher performance as it links their pay to both their own individual and the entire organization's performance. At the same time, it has avoided having a negative impact on workplace relationships and cooperation. As one of the first studies of the pay system reform in the PSU sector in contemporary China, the two case studies in this research have demonstrated a process of experimentation and learning, leading to successive improvement. As a result, we now present some suggestions for future pay system reforms in other PSUs in China.

First, although the principle of linking employees' pay to their performance was found to be well accepted by all employees across the PSUs investigated, it needs to be acknowledged that there are some occupations in the PSU sector where PRP may be less appropriate, such as teaching, which involves a wide range of tasks and where measuring output is costly. In the schools investigated, due to the nature of compulsory education, the initial system of implementing PRP was almost bound to be flawed due to the multiple aims of the reform. Thus, in similar situations in the future, it may be better for both the government and the individual PSUs themselves to approach the reform more gradually. For example, pre-reform research should be carried out before the pay system reform

is introduced and the interests of different groups of employees should be aligned through effective communication throughout the reform process.

Second, adequate preparation should be made before adjusting the pay systems in PSUs. This may help to avoid problems with the initial implementation. For example, in the publishing organization, a structured preparation process was followed, which involved collecting relevant data such as employees' wage bills, department expenditure and historical performance, all of which acted as an important reference for linking pay to performance under the new system. No preparation process was possible in the compulsory education sector, due to the very short time period between the announce of the reform by the central government (December, 2008) and its start date (January 1st 2009). This meant no preparations could be made by the local government or the individual schools and caused significant delays in the implementation of the new systems in all of the schools investigated.

Third, there needs to be efficient communication within the organization and transparency regarding performance measurement and pay setting , which will help to align the interests of different groups of employees. In this research, one of the main conflicts observed in the schools was caused by a lack of trust between the teachers and the management staff. Employees from both groups believed that their performance was being underestimated, and this also caused a deterioration in workplace relationships after the reform. Employees are less likely to be motivated by PRP if they believe they are being unfairly appraised, that their performance is hard to measure, or that there is no appropriate standard of performance for their job (Marsden et al., 2000). It should also be kept in mind that better motivation does not automatically translate into better performance, as other conditions may need to be met, such as appropriate management, adequate training and efficient equipment (Marsden and Richardson, 1994). Based on the experiences of OECD countries, PRP should be applied only in environments that maintain and support trust-based work relationships, transparency, clear promotion mechanisms, and trust in top and

middle management. These are essential conditions for achieving an effective PRP system (Dahlstrom and Lapuente, 2009). Thus, in other Chinese PSUs, improvements should first be made to internal management, so as to build trust-based workplace relationships, before PRP is implemented.

Furthermore, in future government-led pay system reforms, some flexibility should be granted to individual PSUs so that they can create appropriate internal pay differences and an effective PRP system. Due to the fixed amount of pay allocated to the schools and the employee voting system used to approve the new pay distribution, egalitarian philosophies were followed in all schools and a reduced proportion of pay was made available to reward higher performance. However, it was found that the employees would have been more tolerant of larger pay gaps if the bonuses paid to high-performing employees had not involved a reduction in their own salaries. Thus, in order to implement an effective PRP system, which both narrows pay gaps between PSUs and widens pay gaps within PSUs, the government needs to allow PSUs more flexibility over setting their own budgets for pay. For example, two separate pools could be allocated by the government to each PSU: one for paying bonuses to high-performing employees and another to be allocated across all employees.

To sum up, setting up an effective PRP system is not a one-time task, but an ongoing process, which requires appropriate performance management that measures true performance in a way that minimizes random variations, and undesired and unintended consequences, aligns performance with the ultimate goals of the organization, and monitors performance so as to discourage cheating (Lavy, 2007). In the PSU sector in China, which involves such a great diversity of occupations, appropriate preparation and improvements in internal management are essential so as to link employees' pay to their performance effectively. This will require the efforts of both the PSUs themselves and different levels of government.

9.3 Contributions, limitations and directions for future research

The contributions of this thesis rest on a number of factors. First, very few studies have systematically investigated pay system reforms in organizations in China using empirical evidence, as this thesis does. In addition, this research has explored changes in pay systems in PSUs (*shiyè danwei*), a very important part of the Chinese public sector that is rarely explored. Secondly, detailed case studies were conducted involving in-depth semi-structured interviews, site visits of long duration and the collection of documentary evidence on the changes of pay systems in several different organizations. Appointments were made before each site visit to ensure there was plenty of time to complete the interviews without interruption, which enabled the researcher to collect detailed feedback. To my knowledge, this is the first in-depth study of the recent PRP reform in the PSU sector in China to provide an insight into the changes and impacts of the reform at an organizational level. Thirdly, different types of PSU were selected for the study, including a group of schools within the compulsory education system which are fully funded by the government, and a publishing organization which has been pushed into the market and forced to fund itself. In both cases, the organizations acted as pioneers within that type of PSU, which also makes this thesis the first comparative study across cases based on first-hand data. This thesis is therefore a valuable piece of research into the empirical implications for future pay system reforms in the PSU sector in China.

In spite of the contributions made by this research, it has some unavoidable limitations. First, although the case study method has its advantages in terms of exploring the organizational context and permitting theoretical generalization, it also has the restriction of a possible lack of generalizability of the research results to other classes or types of cases. In order to strength the external validity of this research, two different in-depth case studies were conducted: six sample schools in the compulsory education sector in County H, belonging to the category of PSUs providing public welfare which are fully supported by the government, and a publishing organization in Beijing, representing the group of

PSUs that have been pushed into the market and forced to self-fund. However, due to the great diversity of services provided by PSUs in China, the case study findings may not be generalizable to other types of PSU or to PSUs from other parts of China. This suggests that future research could apply the findings of this research to other types of PSUs in different locations in China.

Second, although multiple sources of evidence were used during the case studies in order to ensure construct validity, the data collection was limited by the amount of access allowed. In the case of the schools, the data were collected through interviews with the head teachers of each sample school as well as a small number of other teachers, picked across the schools. The interview data were complemented with documents and policies from the government and from individual schools, as well as published material where available. In the case of the publishing organization, the data were mainly collected through interviews with staff from the HR department who were in charge of the pay system reform, and then complemented with company documents and policies, with the full support of the HR team. Even so, the data included in this research tends to rely more heavily on the views of the management staff of the organizations studied. Although it is recognized that management perceptions of employees' perceptions are important since they are the basis of management behaviour (Huang, 2010), future research should explore employees' perceptions further using larger samples.

Finally, hidden contextual variables may underlie this research due to the case study approach adopted, and future research may be able to explore the broader contextual impacts of different changes in pay systems across the PSU sector in China by conducting a large-scale survey and applying quantitative analysis. Alternatively, based on the findings identified in this research, further issues regarding the changes in the pay systems and the implementation of PRP in the PSU sector in China could be explored in future research, such as the validity of tournament theory regarding the changes in internal pay gaps, the influence of Chinese culture (e.g., the importance of "*face*") on pay distribution, and

comparing the implementation of PRP in the public sector in China to the cases from other countries.

In sum, the case study approach adopted in this research has demonstrated its unique advantage in providing an insight into the recent pay system reform in the PSU sector in China. By exploring its implementation in individual PSUs and its impact on employees, this study has shed light on the undergoing pay system reform in the Chinese PSU sector, and contributed to the research gap regarding how well PRP performs in different PSUs in China.

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Appendix 1 Interview Questions in Case Study A

Part I: Interview Questions for Government Officials in County H (Semi-Structured Interviews)

1. What did the local government think of the implementation of the recent pay system reform in the compulsory education sector?
2. What guidance did the province/city government provide to the county government?
3. How did the county government implement the pay reform for schoolteachers in the local area?
4. What was the most difficult part of implementing the pay system reform?
5. What were the most significant changes made to the schoolteachers' pay in the local county during this reform?
6. What effect did the implementation of the pay system reform for schoolteachers have on the local government?
7. How was fairness ensured when implementing the PRP reform in different schools?
8. How did the local government evaluate the effectiveness of the implementation of the pay system reform in different schools in the compulsory education sector in the county?
9. According to government information, what changes did the pay system reform and the implementation of the new PRP system bring about in different schools?
10. According to government information, what impacts did the pay system reform and the implementation of the new PRP system have on different

groups of employees across the schools? (a. teachers; b. middle managers; c. class teachers; d. other employees)

11. According to government information, overall, how did the schoolteachers in the compulsory education sector feel about the pay system reform and the implementation of the new PRP system?
12. According to government information, what impact have the pay system reform and the implementation of the new PRP system had on the development of compulsory education in the county?
13. According to government information, what have been the achievements and what problems have occurred in the pay system reform and the implementation of the new PRP system across different schools in the compulsory education sector in the county?
14. According to government information, how could the pay system reform in the compulsory education sector have been improved?
15. According to government information, how could the implementation of the new PRP system in the compulsory education sector have been improved?
16. Any further comments regarding the pay system reform or the implementation of the PRP system in the compulsory education sector?
17. Any further comments regarding the implementation of PRP in future pay system reforms in other PSUs?

Part II: Interview Questions for Head Teachers and Teachers in the Compulsory Education Sector in County H (Semi-Structured Interviews)

1. Do you agree with the idea of linking pay to performance in schools in the compulsory education sector?
2. What changes were made to the pay system in your school during the reform? (a. pay level; b. components of the pay system)
3. What changes were made to your own pay in the pay system reform? (a. pay level; b. components of the pay system)
4. How was the pay system reform implemented in your school?
5. What were the most difficult parts of implementing the pay system reform in your school?
6. How were the criteria for performance appraisals decided upon during the pay system reform?
7. How has the implementation of the new PRP system affected the school's goals?
8. How has the implementation of the new PRP system affected the schoolteachers' goals?
9. Do the performance appraisals used in the new PRP system help to align the goals of the teachers with those of the school?
10. How is the performance of different employees in the school evaluated under the new PRP system?
11. As a **teacher (or an employee in a management position)** in the school, what do you think of the changes made to the pay system in your school during the pay system reform?
 - a. Can you improve your performance by working harder?

- b. If you work harder, will you get higher pay?
 - c. What do you think of the additional pay you could receive through working harder?
12. As the ***head teacher*** of the school, what do you think of the changes made to the pay system in your school during the pay system reform?
- a. Can employees improve their performance by working harder?
 - b. If employees work harder, will they get higher pay?
 - c. What do the employees think of the additional pay they can receive through working harder?
13. How did the pay gaps between high-performing and average employees change after the pay system reform in your school?
14. How did the pay gaps between employees in management positions and teachers change after the pay system reform in your school?
15. As ***head teacher*** of the school, has the implementation of the new PRP system helped you to manage the school?
16. Has the implementation of the new PRP system helped to motivate employees in management positions in your school?
17. Has the implementation of the new PRP system helped to encourage teachers in your school to achieve higher performance?
18. Do you think money is an important factor for teachers in compulsory education, motivating them to work hard?
19. How important to you is the pay you receive for your own work?
20. As ***head teacher***, how important do you think pay is for the employees in your school?

21. As a teacher/employee in compulsory education, what would you say has the biggest effect on how hard you work?
22. Did the implementation of the new PRP system help to reduce any unwanted behaviour in your school?
23. Did the implementation of the new PRP system help to reduce any unwanted behaviour among the employees in your school?
24. Did the implementation of the new PRP system impact on the cooperation between different groups of employees in your school?
25. Did the implementation of the new PRP system impact on the competition among teachers in your school?
26. How were you (or your employees) involved in the pay system reform in your school?
27. “Equity” or “equality”, which perspective do you think should have played the biggest role in the pay system reform in your school?
28. How do you perceive the fairness of the pay system reform in your school?
29. How do you perceive the fairness of the new PRP system implemented in your school?
30. Was there any changes in workplace relations in your school after the pay system reform?
31. Do you think the social status of teachers in compulsory education has changed since the pay system reform?
32. How do you perceive the role of the government in the pay system reform in compulsory education in your local area?

33. From your point of view, what do you think were the achievements and what problems occurred during the pay system reform and the implementation of the new PRP system in your own school?
34. From your point of view, what effect has the implementation of the pay system reform in the compulsory education sector has on different schools in the county?
35. From your point of view, how do you think the whole process of pay system reform in the compulsory education sector and the implementation of the new PRP system in your school could have been improved?
36. From your point of view, how do you think the whole process of pay system reform in the compulsory education sector and the implementation of the new PRP system across schools in your county could have been improved?
37. Do you have any further comments?

Appendix 2 Interview Questions in Case Study A (Chinese Version)

Part I: 访谈问题——政府部门相关人员部分（半结构式访谈）

1. 当地政府对近实行义务教育教师绩效工资改革的看法？
2. 在实行义务教育教师绩效工资改革的过程中，上级政府（省/市政府相关机构）是否提供了具体的指导意见？
3. 如何在全区范围内具体实行义务教育教师绩效工资改革？
4. 在实行义务教育教师绩效工资改革的过程中，什么是最困难的环节？
5. 对比改革前后当地义务教育教师工资，最大的变化是什么？
6. 对当地政府来说，实行义务教育教师工资改革带来了什么样的影响？
7. 政府如何监督义务教育教师绩效工资改革实施的公正性？
8. 政府如何评估全区范围内不同义务教育学校教师绩效工资改革实施的效果？
9. 从政府角度来看，此次工资改革和新的绩效工资的实施对各个学校带来什么样的影响？
10. 从政府角度来看，义务教育教师绩效工资改革对各个学校相关人员带来什么样的影响？（a. 任课教师； b. 中层管理人员； c. 班主任； d. 其他员工）
11. 从政府角度来看，大部分义务教育教师如何看待此次的教师工资改革和新的绩效工资的实行？

12. 从政府角度来看，此次教师工资改革和新的绩效工资的实施对全区范围义务教育的发展产生什么样的影响？
13. 从政府角度来看，此次义务教育绩效工资改革的过程和新的绩效工资的实施有哪些利与弊？
14. 从政府角度来看，此次教师工资改革的实施过程中有哪些地方值得改进？
15. 从政府角度来看，新的义务教育绩效工资制度有哪些地方值得改进？
16. 对此次义务教育教师工资改革和新的绩效工资的实行您有什么其他的建议或看法？
17. 对今后在其他事业单位推行绩效工资改革，您有什么建议或看法？

Part II: 访谈问题——校长及教师部分（半结构式访谈）

1. 您如何看待在义务教育学校中把老师的薪酬和绩效挂钩？
2. 此次义务教育教师绩效工资改革前后您所在的学校的工资制度发生了什么样的变化？（a. 工资水平；b. 工资分配结构）
3. 此次义务教育教师绩效工资改革前后您本人的工资收入发生了什么样的变化？（a. 工资水平；b. 工资收入结构）
4. 您所在的学校是如何实行此次绩效工资改革的？
5. 在您所在学校的改革实施过程中，最困难的环节是什么？
6. 在您所在学校绩效工资改革实行的过程中，相关的绩效衡量指标是如何确定的？
7. 在实行绩效工资改革的过程中，绩效衡量指标的确定对学校的工作目标有什么样的影响？
8. 在实行绩效工资改革的过程中，绩效衡量指标的确定对各个员工的工作目标有什么样的影响？
9. 新的绩效工资的实行能够帮助协调教师和学校之间的工作目标吗？
10. 在绩效工资的实行过程中，不同员工的工作表现是如何被评估的？
11. 作为任课老师（或者学校管理人员），您如何看待您所在的学校改革后工资制度的改变？
 - a. 您能通过努力改进工作表现吗？
 - b. 如果您更努力工作，您的工资报酬会相应的提高吗？

- c. 您如何看待通过更努力工作后工资报酬的改变?
12. 作为学校校长，您如何看待您所在的学校改革后工资制度的改变?
- a. 学校的员工能通过努力改进工作表现吗?
- b. 如果员工更努力工作，他们的工资报酬会相应的提高吗?
- c. 学校的员工如何看待通过更努力工作后工资报酬的改变?
13. 在实施绩效工资改革前后，您所在的学校优秀员工和普通员工之间的工资差异有什么样的变化?
14. 在实施绩效工资改革前后，您所在的学校管理人员和任课教师之间的工资差异有什么样的变化?
15. 作为学校校长，您觉得新的绩效工资的实行有助于您管理学校吗?
16. 新的绩效工资的实行有促进您所在的学校相关管理人员的工作吗?
17. 新的绩效工资的实行能够激励您所在学校的教师争取更好的绩效吗?
18. 您觉得金钱报酬是激励义务教务教师认真工作的重要动力吗?
19. 薪酬因素对您本人的工作有多大的影响作用?
20. 作为学校校长，您觉得薪酬因素对您所在学校的员工来说有多大的影响作用?
21. 作为一名义务教育教师（或工作人员），您觉得什么是鼓励你努力工作的最重要因素?
22. 实行新的绩效工资后，有帮助减少您所在学校学校管理中的一些不良行为吗?

23. 实行新的绩效工资后，有帮助减少您所在的学校员工工作中的一些不良行为吗？
24. 实行新的绩效工资后对您所在的学校不同员工间的合作关系有造成影响吗？
25. 实行新的绩效工资后对您所在的学校教师间的竞争情况有影响吗？
26. 您本人（或者您学校的员工）是如何参与此次的绩效工资改革过程？
27. 在此次绩效工资的改革过程中，您觉得公平和平均哪个因素比较重要？
28. 您如何看待您所在的学校此次绩效工资改革过程的公平性？
29. 您如何看待您所在的学校新的绩效工资制度的公平性？
30. 绩效工资改革前后您所在学校的工作氛围有什么变化吗？
31. 您觉得此次义务教育绩效工资改革前后，义务教育教师的社会地位有什么变化吗？
32. 您觉得此次义务教育教师绩效工资改革过程中，政府起到了什么样的作用？
33. 从您个人角度出发，您怎么看待您所在的学校此次的工资制度改革和新的绩效工资的利与弊？
34. 从您个人的角度出发，您怎么看此次义务教育教师绩效工资改革对全区范围内不同学校的影响？
35. 从您个人的角度出发，您觉得您所在的学校此次义务教育绩效工资改革的整体过程和新的绩效工资的实行中有哪些地方可以改进？

36. 从您个人的角度出发，全区范围内此次义务教育绩效工资改革的整体过程和新的绩效工资的实施中有哪些地方可以改进？
37. 您有任何其他的建议与看法吗？

Appendix 3 Interview Questions in Case Study B

Interview Questions for Staff in the HR Department in Organization M (Semi-Structured Interviews)

1. Why was the pay system reform carried out in Organization M?
2. How was the pay system reform implemented in Organization M?
3. What changes were made to the pay system in Organization M in the reform? (a. pay level; b. components of the pay system)
4. What were the most difficult parts of implementing the pay system reform in the organization?
5. How were the criteria for the performance appraisals decided upon during the pay system reform?
6. How is the performance of employees in different departments evaluated in the new PRP system?
7. How has the implementation of the new PRP system affected the goals of the organization?
8. How has the implementation of the new PRP system affected the goals of employees in different departments?
9. Has the implementation of the new PRP system helped to align the goals of the employees with those of the organization?
10. What do you think of the changes made to the pay system in the organization during the pay system reform?
 - a. Can employees in different departments improve their performance by working harder?

- b. If employees work harder, will they receive higher pay?
 - c. How do employees in different departments perceive the additional pay they can receive through working harder?
11. How have the pay gaps between employees in different departments changed in the pay system reform?
 12. How have the pay gaps between employees at different position levels in the organization changed in the pay system reform?
 13. How have the pay gaps between high-performing and average employees in the organization changed in the pay system reform?
 14. Has the implementation of the new PRP system helped to encourage employees to achieve higher performance?
 15. How did the HR department evaluate the implementation of the new PRP system after the reform?
 16. Do you think money is an important factor in motivating employees to work harder?
 17. What do you think is the most important factor that makes employees work harder?
 18. Has the implementation of the new PRP system helped to reduce any unwanted behaviour among the internal management of the organization?
 19. Has the implementation of the new PRP system helped to reduce any unwanted behaviour among employees in the organization?
 20. Has the implementation of the new PRP system affected cooperation among employees in the organization?

21. Has the implementation of the new PRP system affected the competition among employees in the organization?
22. How were employees in different departments involved in the pay system reform?
23. What impact have the pay system reform and the implementation of the new PRP system had on different employees in the organization? (a. employees in production departments; b. employees in administration departments; c. employees in management positions; d. others)
24. “Equity” or “equality”, which philosophy played a more important role in the pay system reform in the organization?
25. How fair do you think the pay system reform in your organization was?
26. How fair do you think the new PRP system implemented in your organization is?
27. Has there been any change in workplace relations since the pay system reform?
28. Did the government policy have any impact on the pay system reform in the organization?
29. What do you think have been the achievements and what problems have occurred in the pay system reform and the implementation of the new PRP system in your organization?
30. How do you think the implementation of the pay system reform in your organization could have been improved?
31. How do you think the current PRP system in your organization could be improved?

Appendix 4 Interview Questions in Case Study B (Chinese Version)

访谈问题——某出版社绩效工资制度改革访谈问题（人力资源办公室，半结构式访谈）

1. 出版社此次工资制度改革实行的原因？
2. 工资制度改革的具体实施过程？
3. 工资制度改革前后出版社整体工资水平和工资收入结构的变化？
4. 工资制度改革过程中，最困难的环节是什么？
5. 工资制度改革过程中，相关的绩效衡量指标是如何确定的？
6. 实行新的绩效工资制度后，各部门员工的工作表现如何评估？
7. 工资制度改革的过程中，绩效衡量指标的确定对单位的工作目标有什么样的影响？
8. 工资制度改革的过程中，绩效衡量指标的确定对各个员工的工作目标有什么样的影响？
9. 新的绩效工资的实行能够帮助协调员工和出版社之间的工作目标吗？
10. 您如何看待出版社绩效工资改革实行后工资制度的改变？
 - a. 各部门员工能够通过努力改进工作表现吗？
 - b. 如果员工更努力工作，他们的工资报酬会相应的提高吗？
 - c. 各部门员工如何看待通过更努力工作后工资报酬的改变？

11. 在实施绩效工资改革前后，不同部门间员工的工资差异有什么样的变化？
12. 在实施绩效工资改革前后，不同职位等级的员工间的工资差异有什么样的变化？
13. 在实施绩效工资改革前后，高绩效员工和普通员工之间的工资差异有什么样的变化？
14. 新的绩效工资的实行有促进各部门员工的工作绩效吗？
15. 人力资源部门如何衡量新的绩效工资的实施效果？
16. 您觉得金钱报酬是激励员工认真工作的重要动力吗？
17. 您觉得什么是激励员工努力工作最重要的因素？
18. 实行新的绩效工资改革后，有帮助减少单位管理中的一些不良行为吗？
19. 实行新的绩效工资后，有帮助减少员工工作中的一些不良行为吗？
20. 实行新的绩效工资后，员工间的合作关系有影响吗？
21. 实行新的绩效工资后，员工间的竞争关系有影响吗？
22. 各部门员工如何参与此次的工资制度改革？
23. 此次薪酬制度改革和新的绩效工资的 implementation 对不同员工的影响？（a. 生产部门员工；b. 行政部门员工；c. 管理人员；d. 其他）
24. 在此次工资制度改革过程中，公平和平均哪个因素更重要？
25. 您如何看待此次绩效工资改革过程的公平性？
26. 您如何看待新的绩效工资制度的公平性？
27. 绩效工资改革前后出版社内部工作氛围有什么变化吗？

28. 改革过程中，政府的相关政策有任何影响作用吗？
29. 您如何评估此次薪酬制度改革和实行新的绩效工资制度的利与弊？
30. 您觉得整个薪酬制度改革的过程中有哪里可以改进吗？
31. 您觉得现在实施的绩效工资制度哪里可以改进吗？

Appendix 5 Sample Pay Systems in Case Study A

Sample A: Summary of the system for distributing encouraging performance pay²⁴ in Primary School C (December 2009)

Part I. Composition of individual employees' encouraging performance pay

Employee's encouraging performance pay	=	Annual performance appraisal award	+	Allowance for teaching hours	+	Position appraisal allowance	+	Bonuses for teaching/research awards	+	Other allowance
		(40 per cent)		(20 per cent)		(30 per cent)		(<5 per cent)		(about 5 per cent)

Notes:

1. Each employee is evaluated and placed into one of four categories: "excellence", "eligibility", "just qualified", and "fail".
2. For employees who fail the performance appraisal, all of their encouraging performance pay is deducted.
3. The total amount of "allowance for teaching hours", "position allowance" and "allowance for teaching/research awards" should be controlled within the 60 per cent of the total encouraging performance pay within the school
4. The bonuses for teaching/research awards should be less than 5 per cent of the total encouraging performance pay in the school. After distributing each component of the individual employees' encouraging performance pay, if there is any encouraging performance pay left within the school,

²⁴ Seventy percent of employees' pay is allocated by the county government, so the pay system determined within the school concerns the distribution of the remaining thirty percent of employees' pay, which is called "encouraging performance pay", according to the government policy.

the rest will be allocated to all employees who passed their performance appraisal, as an “other allowance”, using weights of 50 per cent for those in the “just qualified” category and 100 per cent for those in the “eligibility” and “excellence” categories.

Part II. Explanations of each component of the employees’ pay

(A) Annual performance appraisal award (40 per cent)

According to the performance appraisal results, all employees in School C are allocated into one of four categories: “excellence”, “eligibility”, “just qualified” and “failed”. No more than 15 per cent of the employees should be categorized under “excellence”, but there are no quotas set for the number of employees in the other categories. Employees whose annual performances are evaluated as “just qualified” do not receive the “performance appraisal award” (40 per cent of the individual’s “encouraging performance pay”), and employees who fail their performance appraisals do not receive any “encouraging performance pay”. The “performance appraisal award” for individual employees is determined as follows:

Performance appraisal award for an individual employee = A (the average individual performance appraisal award across School C) × B (the index benchmark of School C) × C (the individual’s index according to his/her performance evaluation result) – D (deduction of bonus due to leave for sickness/personal reasons)

Notes:

A (the average individual performance appraisal award across School C) =
(the total amount of encouraging performance pay allocated to School C) × 40 per cent ÷ (the total number of employees in School C)

B (the index benchmark of the school) =

(total number of the employees involved in the PRP reform) ÷
[(number of management staff ranked under “excellence”) ×150 per cent +
(number of management staff ranked under “eligibility”) ×130 per cent +
(number of employees ranked under “excellence”) ×120 per cent +
(number of employees ranked under “eligibility”) ×100 per cent]

C (the individual’s index according to his/her performance evaluation result): For employees in senior management positions (including the chief secretary, the deputy head teacher and the head teacher’s assistant), the indices for the different performance appraisal results are 140 per cent for excellence and 130 per cent for eligibility. For all other employees, the indices are 110 per cent for excellence and 100 per cent for eligibility.

D (deduction of bonus due to leave for sickness/personal reasons): For employees who are absent for personal reasons more than three days within a month, or for illness on more than six days within a month, or who are absent on more than eight days within a month in total, the monthly performance appraisal award is canceled; for employees who miss more than 15 days within a year for personal reasons, or more than 30 days for illness, or more than 40 days in total, the annual performance appraisal award is halved; employees who are absent for personal reasons on more than 30 days within a year, or for illness on more than 60 days within a year, or in total on more than 75 days within a year have their annual performance appraisal award canceled.

(B) Allowance for teaching hours (20 per cent)

- 1) Basic allowance: all employees who have fulfilled their allocated tasks receive the basic allowance of 2,000 *yuan*/year.

2) Substitute allowance: teachers who were allocated temporary teaching tasks are given an allowance of 6 *yuan/class*²⁵. If these tasks last for longer than 2 weeks, the allowance is 10 *yuan/class*.

3) The weekly workload for employees in different positions:

3a. The standard teaching load for all full-time teachers is 14-20 classes per week.

3b. Conversion rates between full-time teachers and employees in other positions:

Positions	Conversion rate (per cent)
Head teacher and chief secretary	80
Deputy head teacher, assistant to the head teacher, deputy chief secretary and other senior managers at an equivalent level	65
Middle managers	50
Middle managers (deputy level)	40

Note: For employees holding more than one position, only the highest position will be counted.

3c. Conversion rates between the teaching loads of teachers of different subjects

Subject(s)	Conversion rate (per cent)
Music, Arts, Sports, Social behaviour etc.	1
English & Science	1.1
Chinese & Mathematics	1.25

3d. Conversion rates for other tasks: morning reading (0.4 class/section); lunch supervision (0.6 class/section) etc.

²⁵ Each class in compulsory education schools in County H usually lasts for 40 or 45 minutes. The class time is 40 minutes in the case of School C.

- 4) Allowance for working overtime: tasks within the individual's job responsibilities are not counted towards the overtime allowance. For tasks outside of a person's job requirements, the overtime allowance is 8 *yuan*/hour, upto a maximum of 30 *yuan* per half day, and 60 *yuan* per day.

(C) Position appraisal allowance (30 per cent)

Attendance allowance (10 per cent): For employees who fulfill the attendance requirement, the attendance allowance is 200 *yuan*/month, with a total of 10 months per year.

Note:

All employees have to request leave by following the appropriate procedure. For employees who are absent without reason for more than half a day, the attendance allowance for the month is canceled. If an employee is absent without reason for longer than half a day, their encouraging performance pay is reduced at a rate of 300 *yuan* per half day. If an employee is absent without reason for more than 5 days, all encouraging performance pay will be suspended. If they are absent for more than 10 days, all pay will be suspended. If they are absent without reason for 15 days in succession, or absent without reason on more than 30 days within a single year, their employment contract will be suspended. In the case of employees who request sickness, business, or maternity leave, their encouraging performance pay will be adjusted according to further instruction.

Position allowance (20 per cent): Employees who fulfill the tasks allocated to their position receive a corresponding allowance according to their position level. If any accidents occur that are related to their position, deductions will be made (e.g., a student being injured at school, teachers who use corporal punishment, etc.). The position allowance includes:

- a. Allowance for employees who are regularly on-duty: 200 *yuan*/term. The on-duty position allowance is reduced by 25 *yuan* every time the employee is late to arrive or leaves early; 50 *yuan* is deducted each time the employee fails to arrive altogether.
- b. Management position allowance: class teachers receive an allowance of 300 *yuan*/month (already included in the 70 per cent of pay allocated by the government); deputy class teachers receive an allowance of 100 *yuan*/month; research tutors receive 150 *yuan*/month; employees in middle management positions receive 40 *yuan*/month; employees in senior management positions receive 50 *yuan*/month.

(D) Bonuses for teaching/research awards (5 per cent)

The bonuses for employees who win awards different levels are listed below (unit: *yuan*).

	Awards at provincial level or above			Awards at the city level			Awards at the county level			Awards at the local district level		
	I	II	III	I	II	III	I	II	III	I	II	III
General awards	200			100			60			30		
Teaching competitions	100	80	60	60	50	40	40	30	20	20	15	10
Arts, speech or technical competitions	100	80	60	60	50	40	40	30	20	20	15	10
Case study competitions	100	80	60	60	50	40	40	30	20	20	15	10
Published papers	60			30			20			N/A		
Public class demonstration	50			40			30			20		
Outstanding teacher awards	100			80			60			40		
Research project awards	200			150			100			30		
Supervision of students awards (double for team awards)	100	80	60	50	40	30	30	25	15	20	15	10
Special achievements	Bonuses will be decided at school meetings											

(E) Other allowance

The remainder of the total encouraging performance pay allocated to the school is distributed among all employees who pass their performance appraisals, using a weight of 50 per cent for those who are classed as “just qualified” and 100 per cent for those classed under “eligibility” or “excellence”.

Sample B: Summary of the system for distributing encouraging performance pay in Junior High School D (December 2009)

Composition of individual employees' encouraging performance pay in Junior High School D

The employee's encouraging performance pay is made up of the following components:

Annual performance appraisal award	Allowance for attendance	Allowance for working overtime	Bonuses for teaching achievements	Any adjustments
(40 per cent)	(10 per cent)	(20 per cent)	(30 per cent)	(N/A)

Part I: The performance appraisal scheme

Categories of performance criteria

The performance of each employee in School D is evaluated according to six categories of performance criteria, and their final performance appraisal result is based on the total number of points received during the evaluation. Details of the performance criteria are as follows:

(A)	(B)	(C)	(D)	(E)	(F)
Political ethics	Professional knowledge	Teaching skill	Work achievements	Fulfillment of responsibilities	Extra achievements
(Maximum 25 points)	(Maximum 10 points)	(Maximum 10 points)	(Maximum 30 points)	(Maximum 25 points)	(Optional, maximum 5 points)

(A) Political ethics (25 points)

Three rounds of appraisal are used in this category: peer appraisal, supervisor appraisal and appraisal by the performance evaluation team at the school. The total points awarded in each round are weighted as follows: peer appraisal 50 per cent, supervisor appraisal 20 per cent and appraisal by the performance evaluation team 30 per cent. All employees are then allocated into one of four categories: “excellence” (21-25 points), “good” (16-20 points), “qualified” (11-15 points), or “poor” (6-10 points).

(B) Professional knowledge (10 points)

Basic requirements (6 points): For all employees with an education degree who participate in the teaching or research activities of the school, 6 points are awarded, which enables the employee to pass the appraisal in this category. If the employee does not fulfill these requirements, some points will be deducted. Employees who fulfill certain extra criteria are awarded extra points (upto a maximum of 10 points in total) as follows:

- (1) Employees with a higher graduate degree (2 points). (The basic education requirement is a college degree, but employees with a higher degree and those who are older than 45 years old are awarded extra points.)
- (2) Employees who participate in group teaching/research projects (1 point).
- (3) Employees who attend and pass the required training programmes (1 point).
- (4) Employees who are participating in further education (1 point).

(C) Teaching skill (10 points)

Basic requirements (6 points): for all employees who fulfill their allocated teaching tasks, 6 points are awarded, which enables the employee to pass the appraisal in this category. If the employee does not fulfill their requirements, points are deducted. Extra points are awarded for certain extra achievements (up to a maximum of 10 points in total) as follows:

- (1) Employees who fulfill the teaching requirement successfully (2 points).
- (2) Employees whose classes are chosen as sample demonstration classes (1 point).
- (3) Employees who have demonstrated at public classes or lectures (1 point).

(D) Work achievements (30 points)

Basic requirements (18 points): for all employees who fulfill their allocated teaching tasks, and whose teaching and research results meet the required standard, 18 points are awarded, meaning the employee passes their appraisal in this category. If the employee does not fulfill the requirements, points are deducted. Extra points are awarded as follows (up to a maximum of 30 points in total):

- (1) Teachers who achieve good teaching results are awarded extra points based on their students' performance in examinations. The benchmark standard is 3.8. The teachers are awarded 1 extra point if their students receive 3.9, 2 extra points for 4.0, 3 extra points for 4.1, 4 extra points for 4.2, and 5 points for 4.3 or above.
- (2) Teachers are awarded extra points if one of their students wins an academic competition (e.g., 4-5 points for national competitions, 3-4

points for provincial competitions, 2-3 points for city-wide competitions, 1-2 points for district competitions) (only the highest competition result qualifies).

- (3) Employees are awarded extra points if their research projects win any public awards (4-5 points for national awards; 3-4 for provincial awards; 2-3 for city awards; 1-2 for district awards), based on the highest award the employee receives.
- (4) Employees are awarded extra points if have research papers published in journals/books (4-5 points for national publications; 3-4 for provincial; 2-3 for city-level; 1-2 for district), based on the highest level publication.

(E) Fulfillment of responsibilities (25 points)

Basic requirements (15 points): teachers who teach 12-16 classes per week, employees in senior management positions who teach 2-4 classes per week, employees in middle management positions who teach 4-6 classes per week. If the employee does not fulfill the requirements, points are deducted. Extra points are awarded (upto a maximum of 25 points in total) as follows:

- (1) Overtime (2 points for those whose extra teaching load is more than 50 per cent of a standard unit; 1 point for those whose extra teaching load is less than 50 per cent of a standard unit)
- (2) The class teacher whose class is judged the best class in the school (2 points).
- (3) Class teachers are awarded 1 extra point if none of their students break the school rules within the year.
- (4) Teachers who fulfil the family visiting requirement with a full record (1 point).

(F) Extra achievements (optional)

Employees are awarded extra points if they achieve any further public achievements not included in the list above (4-5 points for national-level achievements; 3-4 for province-level; 2-3 for city-level; 1-2 for district-level).

Part II: The performance appraisal results

According to the total points received across all of the above categories, each employee is evaluated and placed into one of the following four categories:

- (1) “Excellence”: above 90 points
- (2) “Eligibility”: 70-89 points
- (3) “Just qualified”: 60-69 points
- (4) “Fail”: 59 points or less

Any employee exhibiting any of the following behaviours is automatically evaluated as “Just qualified”:

- (1) absent for more than 3 consecutive days for no reason, or for more than 10 days without reason within a year;
- (2) arrive late or leave early for 10 days in a row for no reason, or on more than 30 occasions within a year;
- (3) fail to attend further training without providing a reason;
- (4) break school regulations but it does not have a negative impact on the school.

Any employee exhibiting any of the following behaviours is automatically evaluated as “failed”:

- (1) absent for more than 10 consecutive days for no reason, or for more than 20 days without reason within a year;

- (2) arrive late or leave early very regularly without providing a reason, and do not improve after receiving an official reminder;
- (3) responsible for a major accidents;
- (4) break school regulations in a way that has a negative impact on the school
- (5) evaluated as “just qualified” in the previous term, but have shown no sign of improvement;
- (6) break the law.

Part III: Proportion of employees awarded to each category

There are four categories to which employees can be allocated following their performance appraisals: “excellence”, “eligibility”, “just qualified”, and “fail”. Employees placed in the “excellence” category should make up no more than 15 per cent of all employees in the school. The proportions allocated to the other three categories are flexible.

Part IV: The distribution of the annual performance appraisal award

The sum of the individual annual performance appraisal awards accounts for 40 per cent of the total encouraging performance pay distributed within the school. The distribution of the annual performance appraisal award is as follows:

- (1) Only employees placed in the “excellence” or “eligibility” categories receive performance appraisal awards. Employees placed in the “fail” category do not receive any encouraging performance pay.
- (2) The index for “excellence” is 120 per cent and that for “eligibility” is 100 per cent. For senior managers (deputy head teacher, assistant to the head teacher, deputy chief secretary and other senior managers at an equivalent level), the indices are 150 per cent and 130 per cent, respectively. For middle managers they are 130 per cent and 110 per cent, respectively.

- (3) Employees exhibiting the following behaviours have their annual performance appraisal award reduced: annual absence for personal reasons for more than 30 days, annual sick leave for more than 60 days, or annual total absence for more than 75 days (annual award canceled); monthly absence for personal reasons of more than 3 days, monthly sick leave of more than 6 days, or monthly total absence of more than 8 days (monthly award canceled); annual absence for personal reasons of more than 15 days, annual sick leave of more than 30 days, or annual total absence of more than 40 days (annual award halved).

Part V: Teaching loads and overtime allowances

(A) Benchmark workload

a. Full-time teachers

Subject	Standard Teaching Load
Chinese, Maths, English and Science	12 classes/week
Social science & Politics	14 classes/week
PE, Arts, Music and IT skills	16 classes/week
Extra	Morning classes, supervision or further activities count towards the individual's performance

b. Management positions

Subject	Position	Conversion rate	Converted teaching load (per week)
Management positions	Head teacher	80	10
	Deputy head teacher	60	7
	Middle management positions	50	6
	Deputy middle management positions	30	4
	Director of Communist Party	12	1.5
Others	Director of teaching and research	8	1
	Director of teaching preparation	4	0.5
	Director of trade union	2	0.25
Notes	If a position is shared by two people working part time, the workload is calculated as half of the full-time load.		

c. Teaching support positions and back office staff

Employees in teaching support positions	<ul style="list-style-type: none"> • Document administration and conference organizer (1) • Students' file administration (1) • Laboratory administration (1.5) • Librarian (3) • IT service (1) • School doctor (1.5)
Employees in back offices	<ul style="list-style-type: none"> • Canteen administration (1) • Accountant for canteen service (0.5) • Accountant (1) • Statistician (0.75) • Storage administration (0.5) • Equipment fixing and maintenance (1) • PE equipment and gymnasium administration (1)

(B) The setting of overtime allowances

1. Overtime teaching or substitute teaching

- a. Main subjects (Chinese, Maths, English, Science, Social science and Political science): 15 *yuan*/class
- b. Other subjects (PE, Music, Arts, and IT skills): 12 *yuan*/class
- c. Others: 8 *yuan*/class

2. Evening self-study supervision: 25 *yuan*/section

3. Weekly on-duty staff: 30 *yuan*/day

4. On-duty at night: 50 *yuan*/night

5. Overtime work during holidays: 40 *yuan*/day

6. Overtime work during weekends: 30 *yuan*/day

7. Morning sports administration: 8 *yuan*/section

8. Supervision for military training: 50 *yuan*/day

9. Supervision for academic competition

- a. Main subjects (Chinese, Maths, English, Science, Social science and Political science): 45 minutes per class, counted towards teaching load
- b. Other subjects (PE, Music, Arts, and IT skills): 1.5 hours per class, counted towards teaching load

Questions regarding any situation not included above have to be referred to the school performance appraisal team.