IV. Developing Key Performance Indicators and Productivity/Performance Benchmarks for Performance-based Remuneration Systems in Chinese Taipei

By
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MS CHUANG MEI CHUAN
1.0 Chinese Taipei’s Economy

The Chinese Taipei’s economy over the past 50 years has benefited from a well-educated and highly motivated work force, especially in the areas of science, technology, and high value-added manufacturing. Chinese Taipei’s economy achieved considerably high growth rates in 1960’s to 1980’s under import institution industrialization strategy, expansion of export-oriented labor-intensive light industries strategy, and import-substituting heavy industries strategy.

The success of the strategy was reflected in the changing composition of production, with the share of industrial products increasing from 21% in 1951 to 27% in 1961, while that of agricultural products decreased from 32% to 27%, from 1960 to 1987. Exports grew at an annual average rate of 17.7% and GDP growth rate average 9.3, as the industrial structure from an agriculture-based economy changed to a production-based economy. However, the increasingly competitive global economy pushes firms to exploit all of their available resources as a means of achieving competitive advantage.

One resource was recently recognized for providing a source of competitive advantage is the human resources of the firm, and this recognition has resulted in an expansion of the field of Strategic Human Resource Management (SHRM). Considerable research has observed relationships between HR practices and various operationalizations of firm performance (Backer & Gerhard, 1996; Youndt, Snell, Dean & Lepak, 1996; Rogers & Wright, 1998).
2.0. The Chinese Taipei’s Economic policy and Performance

The Chinese Taipei’s economy achieved considerably high growth rates in 1960’s to 1980’s under its import institution industrialization strategy, expansion of export-oriented labor-intensive light industries strategy, and import-substituting heaving industries strategy. The success of the strategy was reflected in the changing composition of production, with the share of industrial products increasing from 21% in 1951 to 27% in 1961, while that of agricultural products decreased from 32% to 27%, from 1960 to 1987, exports grew at an annual average rate of 17.7% and GDP growth rate average 9.3, the industrial structure from agriculture-based economy to a production-based economy.

In the early 1990’s, service-base economy became leading in The Chinese Taipei’s industrial structure. However, manufacturing industries' comparative advantage, for several reasons, was steadily slipping away. From 1987 to 1997, the industrial output as a share of GDP decreased from 47.1% to 34.9%, while manufacturing industries’ fell from 38.9% to 27.7%. During this period, Chinese Taipei found that only avenue open in industrial section was for industries to upgrade to a higher technological level, with capital and technology intensity replacing the no-longer-viable labor intensity of the past. So the government launched the Ten Newly Industries Program, helping the economy toward a hi-tech orientation.

Also, to develop Chinese Taipei as a knowledge-based economy, and recognize the rise in globalisation means that cost-saving in production can no longer support continuous economic development, in the beginning of 21 century, the government implementing a series of programs such as “the Challenge 2008 National Development Plan”, “the New Ten Projects”, and “Plan to Develop Knowledge-based Economy” that add high values to
high-tech and traditional industries and encourage innovation and foster new ventures as the way to maintain its global competitiveness.

2.1. Economic Performance, 2006

In 2006, the global economy entered a phase of accelerated growth. According to estimates by the International Monetary Fund, the world trade volume expanded 9.2%, well above the 7.4% recorded in the previous year, while the global economic growth rate rose by half a percentage point to 5.4%. A boom in export trade boosted The Chinese Taipei's economic growth rate to 4.68%, an improvement on the 4.07% recorded in 2005, higher than the targeted 4.5%, and second best in the past six years to the 6.15% achieved in 2004. Per capita GNP climbed to NT$535,993 (US$16,471), US$404 higher than in 2005. Other economic highlights of the year included:

- The expansion of external demand remained the main driver of The Chinese Taipei's economic growth, contributing 77.6% of the economy's growth.
- A 1.7% growth in employment, the second highest in twelve years, sustained the steady alleviation of the unemployment problem, with the unemployment rate falling to a six-year low of 3.91%.
- The consumer price index (CPI) climbed only 0.6%, markedly lower than the previous year’s rise of 2.3%.
- The Chinese Taipei’s energy efficiency continued its steady rise, with the energy consumption elasticity ratio down to 0.38 from 0.69 in 2005, demonstrating the slowing growth rate of domestic energy consumption. Moreover, by year-end 2006, 3,303 Chinese Taipei -made products, with a production value of over NT$80 billion, had obtained Green Mark certification, reflecting the growing boom of green consumption in Chinese Taipei.
- Environmental sustainability indicators showed a solid year-on-year improvement, with the proper disposal rate of garbage at 99.77%, the garbage recycling rate at 35.41%, and 65.8% of the total length of major
rivers either unpolluted or only slightly polluted.

For 2006 as a whole, Chinese Taipei’s real GDP still increased 4.68%. Unemployment rate is decreased from 4.99% in 2003 to 3.84% in May 2007. Overall competitiveness and economic performance is improving based on the IMD method (see table 2). However, after a brisk gain, global economy is forecasted to have moderate growth in 2007. Therefore, The Chinese Taipei’s export expansion also is expected to decelerate. In the future, Chinese Taipei needs to enhance competitiveness and be more responsive to the challenges of globalization. How to create or earn more profit and control cost down is essential issue for companies. Among them, related to human resource, wage and labor management practices are the key.

Table 2: Chinese Taipei’s competitiveness ranking in the IMD World Competitiveness Yearbook for the past five years

<table>
<thead>
<tr>
<th>Item</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>17</td>
<td>12</td>
<td>11</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Economic Performance</td>
<td>33</td>
<td>24</td>
<td>17</td>
<td>25</td>
<td>16</td>
</tr>
<tr>
<td>Government Efficiency</td>
<td>20</td>
<td>18</td>
<td>18</td>
<td>23</td>
<td>20</td>
</tr>
<tr>
<td>Business Efficiency</td>
<td>11</td>
<td>7</td>
<td>6</td>
<td>13</td>
<td>17</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>23</td>
<td>20</td>
<td>18</td>
<td>18</td>
<td>21</td>
</tr>
</tbody>
</table>

Source: [www.imd.ch/wcy](http://www.imd.ch/wcy), compiled by the Department of Economic Research, CEPD

Table 3: Major Economic Indicators in Chinese Taipei

<table>
<thead>
<tr>
<th>Item</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic growth rate (real GDP increase) %</td>
<td>3.50</td>
<td>6.15</td>
<td>4.07</td>
<td>4.68</td>
<td>4.38</td>
</tr>
<tr>
<td>Gross national product (GDP) US$ billion</td>
<td>305.6</td>
<td>331.0</td>
<td>354.9</td>
<td>364.4</td>
<td>375.4</td>
</tr>
<tr>
<td>Per person GDP US$</td>
<td>13,587</td>
<td>14,663</td>
<td>15,668</td>
<td>16,030</td>
<td>16,442</td>
</tr>
<tr>
<td>Changes in consumer price index (CPI)</td>
<td>-0.3</td>
<td>1.6</td>
<td>2.3</td>
<td>0.6</td>
<td>0.61</td>
</tr>
<tr>
<td>Exchange rate (end of the year) NT$ per US$</td>
<td>34.0</td>
<td>31.9</td>
<td>32.9</td>
<td>32.6</td>
<td>32.8</td>
</tr>
<tr>
<td>Unemployment rate %</td>
<td>4.99</td>
<td>4.44</td>
<td>4.13</td>
<td>3.91</td>
<td>3.84</td>
</tr>
</tbody>
</table>
2.2. Labor cost competitiveness in Chinese Taipei

Higher productivity and lower unit labor cost is essential for increasing firm’s competitiveness. During the last five years, productivity in all industries in Chinese Taipei is improving gradually, however, at the same time, unit labor cost is going downward. When the growth of productivity is positive, compared to a negative growth in unit labor cost, there is a space for wage increasing.

3.0. Union and Labor-Management Relations in Chinese Taipei

3.1. Government Influence on Firm Compensation Administration

- Labour Pension Act (2004.06.30 Announced)
  - Change the pension system from Defined Benefit Plans to Defined Contribution Plans. Under Labour Pension Act, enterprise was forced to commit to deposit a fixed amount for pension.

- Labour Standards Act
  - Wage shall be negotiated by employer and employee.
  - Built a basic wage (minimum wage) system: employee’s monthly salary could not be lower than NT$17,280 (US$526.83). It equals to US$2.2 per hour.

- Collective Agreement Law
  - Collective agreements are usually fixed for a period of from one to three years and are binding on both parties.
  - Some companies, particularly in the state-owned, heavy industry, and transportation companies based on collective agreement, yearly negotiations are made for annual increments and bonus quantum, but it is rare in case.
3.2. Labor-Management Relations in Chinese Taipei

In Chinese Taipei, labour management is based on the relative laws: Labour Standards Act, Labour Pension Act, Labour Union Law, Collective Agreement Law, The Settlement of Labour Disputes Law, and Convocation Rules of the Labour-Management Conference. Regarding the regulations, workers within the jurisdictional area of a labour union who have attained full 16 years of age, shall have the right and obligation to join and became a member of the labour union for industry or craft in which they are engaged. As a trade union, to conclude, revise, or abolish a collective agreement is one of the essential functions. If there is any dispute between employer and employee, both parties could follow the procedure that enacted in the Settlement of Labour Disputes Law. Moreover, a business entity shall hold meetings to coordinate worker-employer relationships and promote worker-employer cooperation and increase work efficiency.

- Trade union
  In the private sector in Chinese Taipei, the trade unions are not bargaining power but existing workers always rely on the state through the function of regulation, instead of the unions through the mechanism of collective bargain. For the past five years, the organization rate of industrial unions declined continuously, maintaining at 49 - 50%.

- Labour-management conference
  For enhancing the employee and employer can play this mechanism well, the government linked this mechanism to oversea investment and IPO approval and working hour arrangements. It means when a certain company who wants to invest overseas or join the financial open market, if the company fails to run this
mechanism following the regulation, the authority will reject the application. In addition, regarding the regulation of Labour Standards Act, if an employer wants to distribute the regular working hours to other workdays shall be with the prior consent of their trade union, if there is no trade union exist in a business entity, with the agreement of a labour-management conference.

- **Labor representative on Board**
  According to the regulation, in the state-owned enterprises, trade union can select its member to be a member of the Board. The number of the labour representatives should be no less than 20% of the total position for the government share. When employees have a seat in the Board, they can express more ideas to improve the employee benefits.

- **Collective agreement**
  Collective bargaining is still not so prevalent in Chinese Taipei’s private sector. However, in the state-owned enterprise, trade unions are stronger than the private sector’s, collective bargaining is popular. Labour conditions are the core issue in bargaining events.

- **Labour dispute and its settlement**
  As to the labour disputes, labour contract disputes are the most common. For settlement, there are different kinds of procedure such as mediation, arbitration, or appeal to court to resolve the disputes.

- **Gain sharing or ESOP option**
  Gain sharing, profit sharing or ESOP is common in Hi-tech industry. It is one of the important factors for Hi-tech industries to attract talents to work for them. Also, it is an essential tool for firms to support their improvement program.
4.0. Move toward Performance-Based Human Resource Management

4.1. Key Performance Indicators and Performance Management

Performance management means evaluating an employee’s current or past performance relative to the person’s performance standards. Evaluation involves: (1) setting work standards; (2) assessing the employee’s actual performance relative to these standards; (3) providing feedback to the employee with the aim of motivating that person to eliminate deficiencies or to continue to perform well.

Why does an organization evaluate employees’ performance? There are four reasons: (1) appraisals provide information upon which you make promotion and salary decisions; (2) provide an opportunity for manager and staff to review his/her work-related behavior, knowledge, and skills; (3) appraisal is part of the firm’s career planning process; (4) appraisal help managers better manage and improve the firm’s performance.

Evaluating performance is both a difficult and an essential supervisory skill. The manager, not HR, usually does the actual appraising. Manager must be familiar with basic appraisal techniques, understand and avoid problems that can know how to conduct appraisals fairly. HR executives serve a policy-making and advisory role. They provide advice and assistance regarding the appraisal tool to use, but leaves final decisions on procedures to operating division heads.
4.2. Performance Management Process

The performance management process contains three steps: (1) define the job and set up evaluation criteria; (2) manager appraisal performance; (3) provide evaluation feedback. Defining the job means making sure that you and your subordinate agree on his/her duties and job standards. Appraising performance means comparing your subordinate’s actual performance to the standards that have been set; this usually involves some type of rating form. After performance appraisal, manager should provide feedback to subordinates. The company makes plans for further development required.

Sometimes appraisal fails because subordinates don’t know ahead of time exactly what you expect in terms of good performance. Others fail because of problems with the forms or procedures used to actually appraisal the performance. Other problems, like arguing and poor communication, undermine the interview-feedback session. To avoid the potential problems, managers have to set up performance criteria for subordinates to follow. The performance standards shall add values to operation performance rather than daily activities. They must be focused on task process.

4.3. Key Performance Indicators

Managers have to set up specific measurable goals with each employee and then periodically discuss the latter’s progress toward these goals. Managers should set key performance indicators (KPIs) with subordinates and providing feedback periodically. However, the term KPI generally refers to a comprehensive, organization wide goal -setting and appraisal program consisting six steps:
1. **Set the organization’s goals.** Based on the company’s mission, values, vision, and short-term, long-term strategic objectives, management team establishes a company wide plan for next year and set company goals.

2. **Set department goals.** Department heads take these company goals and, with their supervisors, jointly set goals for their departments.

3. **Discuss department goals.** Department heads discuss the company’s goals and his department goals with all subordinates. Managers ask employees to set their individual goals. They may and may not have key performance indicators. But not each of them has KPIs. Some have KPIs and performance indicators (PIs).

4. **Define expected results.** Department heads and their subordinates set individual performance targets for further review.

5. **Performance review.** Line managers compare each employee’s actual and expected performance.

6. **Provide feedback.** Managers review subordinates’ actual performance base on his daily co-work. They should provide actual results and comments to employees. Then, they can improve them in the near future.

   Setting up KPIs and PIs has to follow “SMART” rule. Be specific, measurable, acceptable, realistic, and timely. An example is, “increase number of key accounts in the 2007 financial year by 10% compared to the 2006 financial year.”
The main tool we use is a Strategy Map . . .

For the Organizational and People strategic objectives to define . . .

These should make the Strategic Objectives real and tangible
Understanding the Drivers of Performance

For Understanding the Drivers of Performance, it is suggested to use techniques such as Balanced Scorecard, Value-Based Management and Activity Based Management / Costing.

Performance Management makes Vision Happen

<table>
<thead>
<tr>
<th>Mission, Values, Vision &amp; Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>BU</td>
</tr>
<tr>
<td>---</td>
</tr>
<tr>
<td>Org. structure</td>
</tr>
<tr>
<td>Design Management</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
</tbody>
</table>

- Forced distribution and rating groups
- Performance-based rewards system
- Other HR practices (promotion, rotation, development, succession, separation)
- Increasing firm performance and competitive advantage

Quarterly review and improvement action plans
Closing the gap between vision and realization

Main Objective:
..... to manage, direct and measure performance in order to implement and realize Strategies .....  

“Less than 10% of strategies effectively formulated are effectively executed”  
Fortune Magazine

Performance management turns strategy into results

Current market status ➞ Future market status

Performance management

Current performance

Finance
Customer
Process
Organization

Expected performance
Performance management align with rewards

Most Organizations align with rewards

Performance link rewards

Performance Management & Reward Design Methodologies

Strengthen Human Capital, Increase Competitive Advantage

Goal Setting & Competence
- Review Business Environment
- Company KPI
- Department KPI
- Individual KPI
- Competence Framework
- Competence Level

Evaluation Mechanism
- Quarterly Review KPI
- Semiannual Review Individual Competence
- Rating Group
- Rating Rules

Performance-based Incentives
- Ratio between Fixed & Variable Pay
- Total Amount of Variable Pay
- Link Performance
- Annual Adjustment
The Balanced Scorecard is the instrument for managing the organisation from four perspectives

**The Balanced Scorecard**
- Is a substantiation of the mission and strategy within four perspectives
- Provides insight into factors and performance indicators that determine results
- Introduces balance between the four perspectives
- Makes everyone’s individual contribution to the strategy clear
- Stands for consistent management at each level

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**Improving Performance Management: Developing the System**

**Key**
- Values and beliefs
- Top management commitment

**Balanced Scorecard**
- Selecting and balancing performance indicators on company level and for each area
- Defining a future and action-oriented reporting

**Vision**
- Mission
- Strategy
- CSF

**Defining key performance indicators for each process along the value chain**

**Training and communication: managing behavioral change**
- Performance Management, a management process along the processes and throughout the organization
Performance Management Process

- **KPI & Communication**
  - Company-wide KPIs
  - Comm. With Line mgrs.
  - Departments KPIs
  - Dept. KPIs Approved
  - Comm. With Staff
  - Individual KPIs Approved
- **Competence**
  - Competence framework
  - Job competence Items & levels
  - Line manager approve
  - Comm. With staff
- **Review Performance**
  - Quarterly review
  - Improvement Action plan
  - Follow up Action plan
- **Performance Rating**
  - Performance group
  - Rating ratio
  - Ratio between KPI & competence
  - Final rating
  - Help poor performers
- **Rewards**
  - Incentive amount
  - Incentive rules
  - Incentive administration
  - Profit sharing amount
  - Profit sharing rule
  - Salary adjustment Amount & rules
  - Salary adjustment administration

Develop KPIs

- **Vision**
  - Drive financial performance
  - Value-added to customers
  - Build strategic capability
  - Increase knowledge, skill
- **KPI**
- **Competence**
- **Review**
- **Rating**
- **Rewards**
- **Financial Results**
- **Customer Benefits**
- **Organizational Capabilities**
- **Knowledge, skills, system & tool**
Management in Accordance with the Strategy can be Best by Using Performance Indicators that are SMART

Specific
- Is the indicator sufficiently specific and clear to everyone?

Measurable
- Can the indicator be measured?

Acceptable
- Has agreement been reached about the indicator to be used?

Realistic
- Is the norm achievable?

Timely
- Is there a clear deadline for the achievement of the stated norm?

Goal
- Increase number of key accounts
  SMART performance indicator
  - Increase number of key accounts in the 2007 financial year by 10% compared to the 2006 financial year

Not SMART performance indicator
- Increase number of key accounts by 10%

Execution

Cascading communication
- Set up individual performance plan
- Align with reward
4.4 Competence Based System

**Competence Framework**

- **Core Competence**
  - All employees shall have
  - teamwork
  - customer focus
  - continue learning
  - result orientation
  - ...........

- **Managerial Competence**
  - Managers’ managerial capabilities
  - leadership,
  - decision making
  - motivation
  - problem-solving
  - ...........

- **Functional Competence**
  - Each job’s professionalism,
  - knowledge,
  - skills,
  - behaviors

**Set up competence level**

- **Competence level**
  - 0 : Has not demonstrated competency required at basic level
  - 1 : Basic knowledge & skills
  - 2 : Good knowledge & skills
  - 3 : Highly developed knowledge & skills
  - 4 : Exceptional knowledge & skills
Competence Chart

Competence-based human resource management

Vision

Business Strategy

HR Strategy

Recruitment

Performance

Succession

Transfer

Career Development

Compensation

Training

Competence
Implement Competence: P-J-O Fitness

Person

Organization

Job

Person-Job-Organization Fitness

Factors Decide Individual’s Performance

KPI 80%

Competence 20%

Balanced Scorecard
✓ Finance
✓ Customer
✓ Process
✓ Learning

Rating
✓ Knowledge
✓ Skill
✓ Attitude
✓ Behavior
Performance Rating-Forced Distribution

<table>
<thead>
<tr>
<th>Performance Rating</th>
<th>KPI (80%)</th>
<th>Competence (20%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>Excellent</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Good</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>Acceptable</td>
<td>20%</td>
<td></td>
</tr>
<tr>
<td>Need Improvement</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>

Who rate? -- 360° feedback

Traditional Evaluation
- Line Manager
- Employee

Other ratings:
- Self
- Colleagues
- Internal Customers
- Subordinates
- Others
- External Customers
- Line Manager
- Upper Manager
Successful Factors for Performance Management

4.5 Case of a Commercial Bank

The implementation of Performance Management System at a commercial bank had brought about positive impact as follows:

Experience from Commercial Bank

<table>
<thead>
<tr>
<th>Year</th>
<th>Employee Productivity (thousand NTS/Individual)</th>
<th>Non-Performing Loan (NPL)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>291</td>
<td>5.46%</td>
</tr>
<tr>
<td>2003</td>
<td>430</td>
<td>2.88%</td>
</tr>
<tr>
<td>2004</td>
<td>1,731</td>
<td>1.29%</td>
</tr>
<tr>
<td>2005</td>
<td>3,195</td>
<td>1.13%</td>
</tr>
<tr>
<td>2006</td>
<td>4,373</td>
<td>1.15%</td>
</tr>
</tbody>
</table>
Experience from Commercial Bank

ROA(%)  ROE(%)  

Experience from Commercial Bank

Profit before tax (million NTS)
5.0. Compensation Management Framework and Guideline

Organization uses compensation to motivate people to: (1) join the organization; (2) stay with the organization; and (3) to perform at high levels. For surviving and achieving excellence, company must be that much more competitive in their compensation practices to attract and maintain qualified people. Well-designed pay policies, forms, and levels and create a happy and harmonious organizational climate can help attract employees to the organization and retain those that the organization wants to keep. Within an organization, compensation can take many forms and can depend on the amount of time or effort spent on an activity, the performance achieved, or other indicators.

Lazier (1998) classified the payment to two different kinds: payment by input and payment by output. He argued that paying on the basis of output has advantages. First, output-based pay induces the good workers to stay and the bad workers to leave the firm. Second, output-based pay motivates workers to put forth effort instead of merely showing up to work. Mahoney (1989) pointed out that there are three basic determinants should include in a wage formula: job, performance, and person (including individual's skill, knowledge, and so on).

5.1. Compensation Management Framework

Compensation has been defined in many ways. Milkovich & Newman (2008) defined it as all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship (see Figure: 1).
Bergmann, Scarpello & Hills (1998) provided a specific definition of compensation. They defined compensation as: Compensation = Salary + Employee Benefits + Non-recurring Financial Rewards + Non-pecuniary Rewards. Chu (2001) expanded Mahoney’s model and demonstrated a four-factor model for Chinese Taipei’s compensation theory. In his theoretical model, there are four key elements involving in: job-based factor (focus on internal equity, compensation is reflected a certain job’s comparable worth), performance-based factor (focus on motivation, compensation is linked to performance), skill-based factor (focus on motivation, compensation is referred to individual’s KASO), and hygiene-based factor (focus on external equity, compensation is adjusted by cost...
of living or labour market level). In practice, the component of wage/compensation system varies. However, there are two formulas used to describe the system in Chinese Taipei: DGBAS and Watson Wyatt.

According to DGBAS\textsuperscript{10}, there are two parts included in the compensation model: wage and non-wage. The wage system should comprise regular wage and irregular wage components. Regular wage includes basic salary, fixed monthly subsidies and bonuses, and monthly full-attendance bonuses; irregular wage includes overtime payment, year-end bonuses, and non-monthly performance bonuses. Non-wage compensation includes the following benefits paid by the employers: insurance (including labour insurance, national health insurance, group insurance, and occupational accident insurance), retirement fund allocations, retirement funds, dismissal/layoff compensations, employee benefits and other subsidies (see the compensation model as Figure 2).

\textbf{Figure 2: Compensation in Chinese Taipei based on DGBAS’s Definition}

\begin{itemize}
  \item Basic salary
  \item Fixed monthly subsidies & bonuses
  \item Monthly full-attendance bonuses…
  \item Overtime payment
  \item Year-end bonuses
  \item Non-monthly performance bonuses…
  \item Insurance
  \item Retirement funds
  \item Dismissal/layoff compensation
  \item Employee benefits and other subsidies…
\end{itemize}

\textsuperscript{10} DGBAS is the abbreviation of Directorate-General of Budget, Accounting and Statistics, a cabinet-level office, handles most of the duties of the nation’s Comptroller’s Office in Chinese Taipei.
Based on DGBAS’s definition and its survey, the compensation formulation is as follows: Compensation = RW (regular wage) + IW (irregular wage). Table 1 shows the proportion of regular and irregular wage to average monthly earnings by industry in Chinese Taipei.

Table 1: Proportion of regular and irregular wage to average monthly earnings by industry in Chinese Taipei

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>83</td>
<td>17</td>
<td>82</td>
<td>18</td>
<td>84</td>
<td>16</td>
</tr>
<tr>
<td>Industrial Sector</td>
<td>82</td>
<td>18</td>
<td>81</td>
<td>19</td>
<td>83</td>
<td>17</td>
</tr>
<tr>
<td>Mining &amp; Quarrying</td>
<td>83</td>
<td>17</td>
<td>83</td>
<td>17</td>
<td>84</td>
<td>16</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>84</td>
<td>16</td>
<td>86</td>
<td>14</td>
<td>87</td>
<td>13</td>
</tr>
<tr>
<td>Electricity, Gas &amp; Water</td>
<td>81</td>
<td>19</td>
<td>80</td>
<td>20</td>
<td>82</td>
<td>18</td>
</tr>
<tr>
<td>Construction</td>
<td>69</td>
<td>31</td>
<td>70</td>
<td>30</td>
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<td>87</td>
<td>13</td>
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<tr>
<td>Accommodation &amp; Eating-Drinking Places</td>
<td>92</td>
<td>8</td>
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<td>Transportation, Storage &amp; Communication</td>
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<td>Finance &amp; Insurance</td>
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<td>25</td>
<td>73</td>
<td>27</td>
<td>75</td>
<td>25</td>
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<td>Real Estate &amp; Rental &amp; leasing</td>
<td>88</td>
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<td>87</td>
<td>13</td>
<td>88</td>
<td>12</td>
</tr>
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<td>Professional, Scientific, Technical Services</td>
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<td>85</td>
<td>15</td>
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<td>83</td>
<td>17</td>
<td>84</td>
<td>16</td>
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<tr>
<td>Cultural, Sporting &amp; Recreational Services</td>
<td>89</td>
<td>11</td>
<td>88</td>
<td>12</td>
<td>92</td>
<td>8</td>
</tr>
<tr>
<td>Other Services</td>
<td>91</td>
<td>9</td>
<td>90</td>
<td>10</td>
<td>90</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Calculated by author with DGBAS, Earnings and Productivity Statistics data.
Referring to human resource consulting firm, Watson Wyatt’s definition, there are two components included in compensation model: total guaranteed cash and variable payment. The total guaranteed cash comprise basic salary, any fixed bonuses, and any fixed allowances, such as car allowances, and shift allowances, but does not include overtime allowances; the variable payment included variable bonus, commissions, sales incentives, profit shares, performance bonuses, and management incentives (see the compensation model as Figure 3).

**Figure 3: Compensation in Chinese Taipei based on Watson Wyatt’s Definition**

- **Cash Compensation**
  - Total Guaranteed Cash (TGC)
  - Variable Payment (VP)

- **Total Guaranteed Cash (TGC)**
  - Basic salary
  - Fixed bonuses
  - Fixed allowance

- **Variable Payment (VP)**
  - Variable bonus
  - Commissions
  - Sales incentives
  - Profit shares
  - Performance bonus
  - Management incentives

Source: Framed by author.

5.2. Compensation Management Guideline

Compensation management includes decisions on pay grade, pay level, salary range, annual salary adjustment, promotion salary adjustments, performance-based incentives and linking other human resource practices. There are many different kinds of managerial practices in different organizations. However, compensation management in Chinese Taipei has general characteristics of: (1) salary curve is different among different position. For instance, the salary curve of a clerical position is flatter than a top management position; (2) nearly 90% of the sample implemented pay grades measures, the job grade was divided into around
10; (3) salary range of clerical level position is within 20%-25%, however, top management level is increasing to 60%-120%; (4) nearly half of large-scale enterprise adopt an approach which refer to market level strategy for setting salary range; (5) annual salary review and increments refer to public sector salary adjustment, market wage, and firm performance. If there is no profit in a certain year, then there will be no salary review (Chu, 2001).

In addition, almost all organizations both in the private sector and the public sector adopted a mixed model (including job-based, skill-based, seniority-based, and performance-based payment) for managing their wage system. However, organizations in the private sector are putting heavier proportions on performance-based payment than the public sectors.

5.3 The Pay Model
Strategic Compensation Objectives

- To reward employees’ past performance
- To remain competitive in the labor market
- To maintain salary equity among employees
- To mesh employees’ future performance with organizational goals
- To control the compensation budget
- To attract top talents (new employees)
- To reduce unnecessary turnover

5.4 Compensation Management

General Rules of Compensation Management

Equity
- Internal
- External
- Individual

Legal
- Labor Laws
- Employment Contract
- Company Policy

Accurate
- Time
- Amount
- Salary Items

Reasonable
- Market
- Org. Performance
- Individual Performance
The Impact of Equity on Output

Internal Equity → Perceptions of Fairness → Motivation

External Equity → Perceptions of Fairness → Commitment

Individual Equity → Perceptions of Fairness → Performance

Factors Determine Salary

The Market

The Job

The Person
Total Returns for Work

Total Returns

Total Compensation

Indirect

Direct

Recognition & Status

Employment Security

Challenging Work

Learning

Total Returns for Work

Compensation Framework

Total Compensation

Indirect

Direct

Protection
- Pension
- Leaving
- Group Ins.
- Labor Ins.
- Health Ins.
- Occupational
- Layoff
- Learning

Leaves
- Annual
- Marriage
- Funeral
- Sickness
- Maternity
- Occupational
- National

Benefits
- Welfare
- Cafe
- Co. Products
- Training
- Environment
- Entertainment
- Family care
- Executives

Base
- Shift
- Duty
- Stand by
- Hardship
- Transportation
- Meal
- Overtime
- ……

Allowance
- Performance
- Year end
- Option
- Long services
- Sales
- Production
- Others
- ……

Bonus

Overall Compensation
5.5. Pay System Policy and Techniques

**Pay System Policy**

- **Internal alignment**
  - *Focus*: Comparisons among jobs or skill levels inside a single organization

- **External competitiveness**
  - *Focus*: Compensation relationships external to the organization: comparison with competitors

- **Employee contributions**
  - *Focus*: Relation emphasis placed on employee performance

- **Management**
  - *Focus*: Policies related to managing the pay system
Pay System Techniques

Include methods used to operationalize policy decisions and link decisions to overall compensation objectives. Examples of techniques:

- **Internal consistency**
  - Job analysis
  - Job evaluation
- **External competitiveness**
  - Pay surveys
- **Employee contributions**
  - Performance Measurement & Management Mechanism
  - Incentive plans
  - Performance-based pay increases

Building a High Performance Culture through Reward Design

Attract, Motivate and Retain top talents

- Use differentiated salary increasing employee performance
- Labor cost have to drive firm performance rather than being operation cost
- Win the success in the market
Strategic Compensation Decision Model

Mission, Values, Vision, Strategy

BU

BU

Shared Services

Department

Department

Economic, Political, Social

HR Strategy & Policy

Legal, Market

Compensation

Internal Alignment

External Competitiveness

Individual Performance

Pay level, Pay component

Job grading system

Pay structure

Incentive, Annual adjustment

Vision happen

Achieve objectives

Increase competitive

Human capital

Job Analysis, Job Description, Job Evaluation, Salary Survey, HRIS

Framework for Reward Strategy

How will performance be measured?

- relative v. absolute
- inputs v. outputs
- short-term v. long-term
- comparator groups
- performance targets

How will pay be delivered?

- pay programmes
- timing of payments
- pay mix
- process integration

How much will be paid?

- comparator groups
- global v. local guidelines
- position relative to market

Reward Strategy
Managing Compensation Rules

- **Differentiation**: Align compensation to business performance
- **Attracting top talent and retaining top performers**: Pay for Performance
- **Competitive Total Compensation**

### 5.6. Performance Linked Incentive Design

**Performance Linked Incentive Design**

- **Goal**
  - **Min**: Fixed Monthly Salary
  - **Max**: Fixed Monthly Salary

**Incentive Design**

<table>
<thead>
<tr>
<th>Goal</th>
<th>Company Incentive Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt; NTD 45M</td>
<td>No incentive</td>
</tr>
<tr>
<td>NTD 50M</td>
<td>10% of sales profit</td>
</tr>
<tr>
<td>NTD 50M–60M</td>
<td>For over 50M part, take additional 2% sales revenue as incentive</td>
</tr>
</tbody>
</table>
Fixed and Variable Pay

Variable pay shall align with organization performance and employee performance.

Fixed Salary

Variable

Market Total Cash Compensation

Fixed and Variable Pay

Company Pay Level Policy

Company pay structure

Market salary trend

Leading

Competitive

Leg

Market salary trend

Company pay structure

2008 2009 2010

Company Pay Level Policy

8%
Salary component will be determined by job hierarchy, business function, what are the main issues?
Job Evaluation Framework

**Job Evaluation Factors**

- Education
- Experience
- Job Complexity
- Decision
- Job Scope
- Communication
- Leadership

<table>
<thead>
<tr>
<th>Grade</th>
<th>I</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>V</th>
</tr>
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<tbody>
<tr>
<td>Score</td>
<td>15</td>
<td>25</td>
<td>45</td>
<td>75</td>
<td>115</td>
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</table>

**EXAMPLE**

Score increments: 10, 20, 30, 40

Increasing

Organization Structure

<table>
<thead>
<tr>
<th>G</th>
<th>Managerial</th>
<th>Marketing/Sales</th>
<th>Manufacture/R&amp;D/Technical</th>
<th>Administration</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>General Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Sr. VP/COO</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>VP/Director</td>
<td>Sr. Marketing/Sales Manager</td>
<td>Advisory Engineer</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CFO/CIO</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Director</td>
<td>Sr. Marketing/Sales Manager</td>
<td>Chief Engineer</td>
<td>Sr. Executive Assistant</td>
</tr>
<tr>
<td></td>
<td>Sr. Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Manager</td>
<td>Marketing/Sales Manager</td>
<td>General Engineer</td>
<td>Executive Assistant</td>
</tr>
<tr>
<td>4</td>
<td>Asst. Manager</td>
<td>Marketing/Sales Asst. Manager</td>
<td>System Engineer</td>
<td>Executive Secretary</td>
</tr>
<tr>
<td>3</td>
<td>Sr. Marketing/Sales Specialist</td>
<td>Sr. Specialist/Engineer</td>
<td>Sr. Specialist/Accountant/Secretary</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Marketing/Sales Specialist</td>
<td>Specialist/Engineer</td>
<td>Specialist/Accountant/Secretary</td>
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</tr>
<tr>
<td>1</td>
<td>Marketing/Sales Assistant</td>
<td>Assistant</td>
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</tbody>
</table>

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The trend of compensation management: from Salary Grades to Broad Grades

**Traditional Salary Structure** → **Broadband Salary Structure**

<table>
<thead>
<tr>
<th>No</th>
<th>Country</th>
<th>Hourly Pay</th>
<th>Index</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>CHINA</td>
<td>6.67</td>
<td>3</td>
</tr>
<tr>
<td>2</td>
<td>MEXICO</td>
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</tr>
<tr>
<td>3</td>
<td>BRAZIL</td>
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<td>17</td>
</tr>
<tr>
<td>4</td>
<td>POLAND</td>
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<td>19</td>
</tr>
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<td>5</td>
<td>HONG KONG</td>
<td>5.56</td>
<td>24</td>
</tr>
<tr>
<td>6</td>
<td>HUNGARY</td>
<td>6.07</td>
<td>26</td>
</tr>
<tr>
<td>7</td>
<td>CZECH REPUBLIC</td>
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<td>TAIWAN</td>
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<td>9</td>
<td>PORTUGAL</td>
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<td>21</td>
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<td>SINGAPORE</td>
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</tr>
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<td>ISRAEL</td>
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<td>KOREA</td>
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<td>63</td>
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<td>ITALY</td>
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<td>89</td>
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<td>16</td>
<td>JAPAN</td>
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**Hourly Compensation Costs from Major Manufacture Countries Worker**

<table>
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<tr>
<td>17</td>
<td>IRELAND</td>
<td>22.76</td>
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<td>18</td>
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<td>19</td>
<td>CANADA</td>
<td>23.82</td>
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<td>20</td>
<td>FRANCE</td>
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<td>22</td>
<td>UNITED KINGDOM</td>
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<td>LUXEMBOURG</td>
<td>27.68</td>
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<td>24</td>
<td>SWEDEN</td>
<td>28.73</td>
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<td>SWITZERLAND</td>
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<td>31</td>
<td>DEMARK</td>
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<td>32</td>
<td>NORWAY</td>
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Hourly Compensation Costs for Production Workers: In U.S. Dollars
Labor Costs: US Airline Industry

<table>
<thead>
<tr>
<th>Company</th>
<th>Labor Costs (%)</th>
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<tbody>
<tr>
<td>United</td>
<td>49.7</td>
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<tr>
<td>American</td>
<td>48.5</td>
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<tr>
<td>US Airways</td>
<td>46.7</td>
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<td>Delta</td>
<td>46.3</td>
</tr>
<tr>
<td>Northwest</td>
<td>40.5</td>
</tr>
<tr>
<td>Southwest</td>
<td>36.1</td>
</tr>
<tr>
<td>Continental</td>
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<tr>
<td>Alaska</td>
<td>31.7</td>
</tr>
<tr>
<td>American West</td>
<td>29.1</td>
</tr>
<tr>
<td>ATA</td>
<td>27.8</td>
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<tr>
<td>AirTran</td>
<td>27.7</td>
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<tr>
<td>JetBlue</td>
<td>25.5</td>
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</tbody>
</table>

Salary Differences between Grades

<table>
<thead>
<tr>
<th>Grade</th>
<th>Position</th>
<th>AVG. Salary</th>
<th>Difference $</th>
<th>Difference %</th>
</tr>
</thead>
<tbody>
<tr>
<td>G6</td>
<td>VP</td>
<td>$162,000</td>
<td>$42,000</td>
<td>35%</td>
</tr>
<tr>
<td>G5</td>
<td>Director</td>
<td>$120,000</td>
<td>$27,000</td>
<td>29%</td>
</tr>
<tr>
<td>G4</td>
<td>Manager</td>
<td>$93,000</td>
<td>$20,000</td>
<td>27%</td>
</tr>
<tr>
<td>G3</td>
<td>Asst. Manager</td>
<td>$73,000</td>
<td>$14,500</td>
<td>25%</td>
</tr>
<tr>
<td>G2</td>
<td>Supervisor</td>
<td>$58,500</td>
<td>$10,500</td>
<td>22%</td>
</tr>
<tr>
<td>G1</td>
<td>Specialist</td>
<td>$48,000</td>
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</table>
Salary Survey: Why

Adjust Pay Level
Adjust Pay Mix
Adjust Pay Structure
Target Special Groups
Estimate Labor Costs
Collective Bargaining

Salary Structure

<table>
<thead>
<tr>
<th>Grade</th>
<th>Min(70%)</th>
<th>Mid-Point(100%)</th>
<th>Max(130%)</th>
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<td>140,000</td>
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<td>260,000</td>
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<td>103,500</td>
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<td>7</td>
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<td>149,500</td>
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<td>116,500</td>
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<td>4</td>
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<tr>
<td>1</td>
<td>18,900</td>
<td>27,000</td>
<td>35,100</td>
</tr>
</tbody>
</table>

Salary Structure Example
## Salary Structure

<table>
<thead>
<tr>
<th>G</th>
<th>Managerial</th>
<th>Marketing/ Sales</th>
<th>Manufacture/ R&amp;D/Technical</th>
<th>Administration</th>
<th>Min</th>
<th>Mid</th>
<th>Max</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>G Manager</td>
<td></td>
<td></td>
<td></td>
<td>150,000</td>
<td>200,000</td>
<td>250,000</td>
</tr>
<tr>
<td>8</td>
<td>Sr. VP</td>
<td></td>
<td></td>
<td></td>
<td>115,500</td>
<td>154,000</td>
<td>192,500</td>
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<tr>
<td>7</td>
<td>VP/ Director CFO/CIO</td>
<td>Advisory Engineer</td>
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<td>89,300</td>
<td>119,000</td>
<td>148,000</td>
</tr>
<tr>
<td>6</td>
<td>Director Sr. Manager</td>
<td>(Marketing/Sales) Chief Engineer Sr. Executive Assistant</td>
<td></td>
<td></td>
<td>70,200</td>
<td>93,600</td>
<td>117,000</td>
</tr>
<tr>
<td>5</td>
<td>Manager (Marketing/Sales) Manager</td>
<td>General Engineer Executive Assistant</td>
<td></td>
<td></td>
<td>55,400</td>
<td>73,800</td>
<td>92,300</td>
</tr>
<tr>
<td>4</td>
<td>Asst. Manager (Marketing/Sales) Asst. Manager</td>
<td>System Engineer Executive Secretary</td>
<td></td>
<td></td>
<td>44,000</td>
<td>58,600</td>
<td>73,300</td>
</tr>
<tr>
<td>3</td>
<td>(Marketing/Sales) Sr. Specialist Sr. (Specialist/ Engineer) Sr. (Specialist/ Accountant/ Secretary)</td>
<td></td>
<td></td>
<td></td>
<td>35,400</td>
<td>47,000</td>
<td>58,800</td>
</tr>
<tr>
<td>2</td>
<td>(Marketing/Sales) Specialist Specialist/ Engineer Specialist/ Accountant/ Secretary</td>
<td></td>
<td></td>
<td></td>
<td>28,500</td>
<td>38,000</td>
<td>47,500</td>
</tr>
<tr>
<td>1</td>
<td>(Marketing/Sales) Assistant Assistant</td>
<td></td>
<td></td>
<td></td>
<td>23,300</td>
<td>31,000</td>
<td>38,800</td>
</tr>
</tbody>
</table>

### Salary Structure Diagram

![Salary Structure Graph](Image)

- **Max**
- **Mid**
- **Min**

---

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Salary Structure

Deciding Variable Compensation

Company Compensation Policy Cost Concern

- Job Market
- Salary survey (external competitiveness)
- Regulations
- Economy

Employee
- Performance
- Knowledge
- Skills
- Competencies

Job
Job Evaluation (Internal Equity)
5.7. Linking Rewards with Performance: Pay for Performance Plans

Rewards linked with Performance

- KPI (80%)
- Individual Competence (20%)

Year end bonus
Quarterly incentives
Profit sharing
Annual adjustment

Performance-based Incentive Amount and Allocation

- Revenue: USD10 Billion
- Profit: 15%

10% of Profit before tax
As incentive amount

Adjustment 2.5%
Allowance 0.5%
Benefits 1%
Bonus 6%

Average 4 months
Performance-based Bonus

<table>
<thead>
<tr>
<th>Rating</th>
<th>Excellent</th>
<th>Outstanding</th>
<th>Good</th>
<th>Acceptable</th>
<th>Need Improvement</th>
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<tr>
<td>Bonus (months)</td>
<td>8</td>
<td>5.6</td>
<td>4</td>
<td>2.4</td>
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</tbody>
</table>

---

1.2
Business
Sales, Manufacture

1.1
Business Support
Marketing, Logistic

1
Support
Accounting, IT, HR

---

Compa-Ratio, CR

Compa-Ratio: individual’s actual salary/mid point of individual’s job grade

- Min 24,000 (80%)
- Mid-point 30,000 (100%)
- Max 36,000 (120%)

- Tom’s salary is 27,000, the Compa-Ratio is: 27,000/30,000*% = 90%
- Individual
- The same grade
- The whole department
- The whole company
## Performance-based annual salary adjustment

### Focus Areas (Low salary but high performance)

<table>
<thead>
<tr>
<th>CR Rating</th>
<th>&lt;75%</th>
<th>75-85%</th>
<th>85-95%</th>
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<th>105-115%</th>
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<tr>
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<tr>
<td>B(20%)</td>
<td>9%</td>
<td>8%</td>
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<td>3%</td>
</tr>
<tr>
<td>C(40%)</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>D(20%)</td>
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<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>E(10%)</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
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### Service Years and Performance Decides Profit Sharing

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<tr>
<th>Grade</th>
<th>Years</th>
<th>≤ 1 Yr</th>
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<tr>
<td>1</td>
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<td>20</td>
<td>30</td>
<td>40</td>
<td>50</td>
<td></td>
</tr>
</tbody>
</table>

### Performance Rating

- A: *1.3*
- B: *1.1*
- C: *1*
- D: *0.9*
- E: *0.7*
6.0. Performance-Based Compensation in Chinese Taipei

Pay for performance programs are compensation plans that pay employees on the basis of some performance measures. These performance measures might include such things as individual productivity, team or work group productivity, department productivity, or the overall organization’s profits for a given period (Robbins & Decenzo, 2002). There are many different determinants which firms use to make decisions on compensation. However, compensation experts agree that traditional formulas of paying employees on seniority or merit-pay basis fails to properly balance organizational profitability and employee professional goals.

To produce a win-win scenario, many companies introduce wage restructuring for improving the wage system to link with the firm goals and
much closely to focus on performance. Wage restructuring does not mean an across the board wage cut, it means linking workers' pay more closely with their performance, and making it less dependent on seniority in the job. When the government adjusted the pension system from defined benefit plan to defined contribution plan, for controlling and managing the firms cost, performance-based is prevailing for all industries.

Pay for performance programs are gaining in popularity in the Chinese Taipei’s organisations. The survey of Watson Wyatt found more than two-thirds of surveyed companies in consumer products, high-tech, and pharmaceutical industries paid a performance-related bonus to employees. Variable bonus was most notable in the chemical industry, where 90% of surveyed companies paid bonus. It is increasingly popular for companies to adopt a performance-based variable program in Chinese Taipei.

The growing popularity of performance-based compensation can be explained in terms of both motivation and cost control. From a motivation perspective, making some or a worker’s entire pay conditional on performance measures focuses his or her attention and effort on that measure, then reinforces the continuation of that effort with rewards. However, if the employee’s, team’s, or organisation’s performance declines, so too does the reward. Thus, there is an incentive to keep efforts and motivation strong. On the cost-saving side, performance-based bonuses and other incentive rewards avoid the fixed expense of permanent-and often annual-salary increases. The bonuses typically do not accrue to base salary, which means that the amount is not compounded in future years.

Performance measure and management is essential for implementing performance-based compensation system effectively and efficiently. If there are no evidence to show what the performance is and how it can contribute to wage, then it will not work to motivate employees? In general, large and middle scale firms in Chinese Taipei have a system for implementing their performance measurement and management. The main concept framework is as shown in figure 4.

Figure 4: Framework of performance measurement and management

- **Goal Setting**
- **BSC/KPI**
- **Performance & Competence Communication**
- **Department Objectives (Middle Managers)**
- **Performance Evaluation & Performance Rating**
- **Annual Increase**
- **Bonus & Incentives**
- **Training & Development**
- **Succession Plan**
- **Promotion & Transfer**
- **Layoff/Termination**

Performance Achieved
When a firm carries out performance appraisal, there are several procedures to follow: (1) objectives & communication: the main issue of performance appraisal is to link employee productivity to organisational goal. In order to implement performance well, setting firm goal and down this target to each department, unit, and individual is the first thing to decide. When the goal is set, then it should be followed by communicating with key partners such managers and employees to make sure the goal is clear enough to them; (2) identify the competence and its level: according to firms core business and job analysis to develop the core competence and individual competence and its level for employee, make sure that employee is clear about competence in terms of knowledge, skill, ability, attitude, and behavior requirement; (3) decide the time period of performance review and develop improvement action plans for weak employees; (4) decide on appraisal ratings, including rating group, rating ration, performance indicator such as KPI and competence ration in a performance appraisal proportion distribution; (5) link performance result to compensation.

In Chinese Taipei, most of the companies review performance once or twice a year, while some review on a quarterly basis. To carry out the performance review, some enterprises review procedures using IT systems. Self-assessment of employee and direct supervisor review is the first step, before the final approval, managements will organize a cross-department/unit joint committee to review the results. If there is no joint committee for review, the result from the supervisor of the department or unit will be submitted to the right person for final approval.

The review result, in general, is divided into 5 levels: excellent, outstanding, good, fair, and need to improve. In some case, there are only 3 levels for performance rating: outstanding, success, and poor. The rating
ratio in a 5 level model maybe is 10%, 15%, 50%, 15%, 10%; in a 3 level maybe is 15%, 70%, 15%. The final result of the performance review is linking to: (1) compensation adjustment such as base salary increased (including annual or monthly increment), bonus such as profit share (including cash bonus and stock bonus), year-end bonus. A few companies in the hi-tech industry give bonuses based on performance 2 or 3 times a year rather than the annual compensation.

Table 5: Salary Increase Align with Performance

<table>
<thead>
<tr>
<th>Rating</th>
<th>Compa-Ratio</th>
<th>75%</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
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<tbody>
<tr>
<td>Excellent</td>
<td>12%</td>
<td>11%</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
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<td>Outstanding</td>
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<td>9%</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
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<tr>
<td>Good</td>
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<tr>
<td>Fair</td>
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<td>2%</td>
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<tr>
<td>Need to Improve</td>
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</tbody>
</table>

Note: 1. Q1: 75%-87.5% Q2: 87.5%-100% Q3: 100%-112.5% Q4: 112.5%-125% 2. Note: Data for illustration only

Table 6: Year-end Bonus Align with Performance

<table>
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<tr>
<th>Rating</th>
<th>Bonus Weight</th>
<th>Year-end Bonus (Month)</th>
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</thead>
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<td>Outstanding</td>
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<td>Good</td>
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<td>4</td>
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<tr>
<td>Fair</td>
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<tr>
<td>Need to Improve</td>
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</table>

Note: Data for illustration only
Table 7: Profit Sharing–Stock Bonus Align with Performance

<table>
<thead>
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<td>0</td>
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<td>30</td>
<td>40</td>
<td>50</td>
</tr>
</tbody>
</table>

Excellent | Outstanding | Good | Fair | Need to Improve
--- | --- | --- | --- | ---
*1.3 | *1.1 | *1 | *0.9 | *0.7

Note: Data for illustration only

7.0 Enterprise Level Survey

Eight enterprises in Chinese Taipei were interviewed to focus on how enterprises implement their performance-based compensation scheme and maintain their excellence when facing global challenges and enhancing competitiveness. These eight enterprises are made up of five from the service sector, and the other three from the industry sector. Among these eight companies, five have strong linkages of compensation to performance, two have a normal linkage, and one is beginning to move
into performance-based system smoothly, but is facing strong resistance from the trade union.

Regarding the performance management system, all the case companies have a rule for doing the performance measurement and management. Some companies decided different rating level for different job positions. For example, for manager, there are only three rating levels. However, subordinates level has a five rating levels. Many companies involved in this study need to select the essential factors for performance review, it seems to the idea of KPI but in different terms. They will discuss and set it in the beginning of the year, then review it quarterly. However, one company’s performance management is decided by the leader of department or unit. Four companies have set up individual performance indicators and competence profiles for employees, while the rests are based on competence or behavior.

No matter how many rating levels they have, the result of performance is linking to salary increment, performance bonus or year-end bonus, profit share and human resource practice such as promotion, training, or replacement (except one case company). For example, one of the case companies, when the employee was rated in an outstanding level is a fast-tracker, will promote to upgrade position during 1 to 2 years compare to the employee who rated as success level is need 3 to 4 years).

Most of these companies do not have trade unions. Only three companies have in-house trade unions, and two of them have collective agreements. Labour management conferences are being used in most of the companies and, through the conferences, both parties (employees and
employers) got a chance to communicate with each other to focus on labour relations, working conditions, and productivity issues.

Two individual cases are highlighted to show the implementation of performance-based compensation at the firm level. The identity and data shown had been disguised for confidentiality purposes.

### 7.1 Case 1: The application of competence-based HRP model

The organisation is a 50-year-old private company located in Chinese Taipei. Its core business is marine transportation focused in Asia. There are 160 employees and twelve departments in its head office in Chinese Taipei, and around 60 contract-employees work at different ports. Due to the Asian financial crisis in late 1990s, the company encountered a lot of challenges, leading the management team to study the necessity and possibility of reengineering the business model, process, and organisational structure, and to strengthen human resources in order to overcome the severe challenges. But the reality and difficulties are, as an old bureaucratic organisation, it lacks not only the knowledge and skills, but also the momentum with which to make organisational change effectively. Most of the employees and managers have not received annual bonus and salary increase for the past three years.

Given the reality and difficulties mentioned above, to speed up the organisational change, the CEO decided to invite external consultants to start the reengineering project in 2001. The project scope included business strategy, company wide core competence, competence-based human resource practices and increasing firm performance. The study addresses previously neglected areas of competence-based human
resource practices role in business reengineering process in an attempt to increase our understanding of this increasingly key topic. To accomplish this objective, several aspects were explored:

- What is human resource’s role in this reengineering process?
- How to develop firm’s core competence?
- How to implement competence-based human resource practices?
- How can human resource practices increase the firm’s human capital?

7.1.1 Reengineering Process

Although the company has had its business strategies in the past years, it is obvious that those strategies have not worked out in terms of increasing or maintaining the company's competitive advantages in the marine industry. Secondly, based on the strategy, management teams developed a firm level core competence as an infrastructure to implement competence-based human resources practices. Thirdly, human resource professionals conduct several activities to train and help line managers to implement competence-based interview, placement, performance management and training program. The final purpose is to enrich company’s human capital and increase its competitive advantages.

7.1.2 Business Strategy

In the changing and uncertainty environment, it is necessary to review current business strategy. CEO, management team and consultants redefine business strategy after diagnosing internal and external issues. We have labeled rapid growth from traditional operation to agile operation, IPO in two years, and approach new clients.
An opposed to the product /market strategy, the core competence of a firm is a bundle of skills and technologies that represent the sum of learning across individual organisational units (Wright, McMahan, McCormick & Sherman, 1998). A core competence provides a competitive advantage through being competitively unique and making a contribution to customer value or cost (Prahalad & Hamel, 1990). Based on the above business strategy, the company developed a set of company wide core competence as an infrastructure to implement human resource practices and increase competitive advantage.

Management developed eight core competencies that included customer orientation, teamwork, initiative, responsible, result orientation, cost control & management, industry knowledge and English capability. The definitions are described as follows:

**Customer orientation:** Works to clarify and exceed customer’s expectations. Shows concern for customers’ problems. Is friendly and understanding. Encourages customer focus in others.

**Teamwork:** Effectively working with members within the department to achieve organisation’s goals. Is helpful and co-operative. Makes every practical effort to meet customer needs? Is flexible and reacts positively to changes in instructions or plans. Is team spirited? Is supportive to other members of the team and helps them when necessary?

**Initiative:** Is proactive and uses initiative to respond to customer needs? Is conscientious, reliable and meets commitments? Is keen to take responsibility?

**Responsibility:** Wiling to take the responsibility of personal decisions or actions.
**Result Orientation:** Effectively developing, utilizing resources, methods, systems and processes. Using the most efficient ways to maximum investment return ratio.

**Cost Control & Management:** Understands and applies commercial principles. Find ways of reducing costs. Is aware of market and competitor activity. Understand the business as a whole.

**Industry Knowledge:** Understands and applies commercial principles. Find ways of reducing costs. Is aware of market and competitor activity. Understands the business as a whole.

**English:** Can fluently read, speak, write and listen to gather information, communicate and learn.

### 7.1.3 Competence-based HR practices

The company used the above competence model to develop HR practices in the fields of selection, interview, placement, performance measurement and management, training and development. Competent human resource professionals recognize the requirements of the profession and are willing to invest in maintaining and improving their skills and knowledge during rapidly changing times (Losey, 1999). As Losey stated in his articles in this issue, developing competence is a combination of education, experience, interest, and raw capability (ethics).

Intelligence + Education + Experience + Ethics + Interest = Competence

The competence work provides a roadmap for the content HR practices. Wright (1998) argued that the most important type of horizontal fit among HR practices to organisations would be when the practices all promote the
same organizationally relevant outcomes. Recent emphasis on competence models provide a basic framework for creating horizontal fit. Such models identify a relevant set of behavioral competencies, and then HR practices can be designed to complementarily promote the selection and development of those competencies in individuals (Wright & Boswell, 2002).

7.1.4 Competence-based selection and interview

As mentioned, the company adapts competence models to select and interview candidates to identify their competencies level. First, line managers identify every job’s competencies & levels and send to his/her upper managers for approval. Human resources manager works with line managers conducting the interview or other selection tools. After the interview process, they join together to identify candidates’ competencies level and the gap between the actual and the job required.

7.1.5 Competence-based Placement

The internal transfer, promotion, relocation, termination, succession, plan and other placement practices use the competence model to identify candidates’ competence level. Line managers and HR managers join together to decide the placement decision. The competence gap graph is helpful in clarifying the complexity inherent in each of these competencies. Furthermore, it helped management to diagnose individual’s strength and weakness to increase the likelihood of people-job and people - organization fitness.
7.1.6 Competence-based Performance Management

Employee’s performance rating is determined by personal goals and individuals competencies. At the end of the year, managers set goals with employees for the next year. At the same time, managers describe the job competencies level that employee’s annual performance rating is determined by 80% goal achievement and 20% competence level. The company intends to build up a culture that both results and behaviors are important in the organisation. In other words, they were not only expected to achieve their/ annual business goals but also to demonstrate their behaviors, attitudes, skills as required based on their job and rank. Managers review employees’ annual performance based on the competence model and provide the feedback of gap to ask them to improve in certain period.

7.1.7 Competence-based Training and Development

Within the framework, line managers identify their subordinates’ training needs. Human resource professionals draft the training program for different functions, and different jobs. For example, the company develops leadership, decision-making, people management and business strategy programs for the management team. Negotiation, customer services, time management and industry development trends are provided for the sales team.

7.1.8 Human Capital and Person-Job / Person-Organisation Fit

Sound people management skills in an organisation are a key to success. It is the core responsibility for line managers, not just the human resources professionals. Barney (1991) argued that sustained competitive advantage derived from the resources and capabilities a firm controls that are
valuable, rare, imperfectly imitable, and not substitutable. Those resources and capabilities can be viewed as bundles of tangible and intangible assets, including a firm’s management skills, its organisational process and routines, and the information and knowledge it controls. A firm’s human resources, including all of the knowledge, experience, skills, and commitment of a firm’s employees and their relationships with each other and with those outside the firm can provide a source of competitive advantage (Barney & Wright, 1998; Boxal, 1998; Snell, Youndt, & Wright, 1996).

Human capital refers to knowledge that is embodied in people (Coff, 2002). Human capital is critical to maintain competitive advantage since organisational capabilities are created by transforming human capital into group or firm level knowledge (Nonaka, 1994). Though firm’s human capital can be gained from “make-or-buy” strategy (Miles & snow, 1984). In general, firms often make and buy their human capital (Lepak & Snell, 1999). After discussing with consultant group and within high-level management team, the company decides to increase its human capital through implementing the competence-based HR practices-selection, interview, placement, performance management, and training & development.

Person-Job fit is concerned with finding a match between the skills, knowledge, and abilities needed to perform the relatively static technical aspects of a job and individuals who have these abilities (Werbel & Johnson, 2001). Person-organisation fit is conducted at the organisation level of analysis. It concerns the value congruence between the worker and the organisational culture and is concerned with organisational culture and is concerned with organisational socialisation processes (Chatman, 1989). Ideally, the two types of fits are important. Organisations should make efforts to address the types of fit given that each impacts employee
motivation and organisational effectiveness. Organisations would like to examine the person-job /person-organisation fit to evaluate their effectiveness.

The company implements competence-based HR practices to increase person-job /organisation fit that can achieve organisational effectiveness. After two years’ implementation, the Company’s sales grew up 20%, 11% turnover for unfitness staff, employee satisfaction increased 23% customer retention rate increased to 88%. The specific role of competence-based HR practices play in business reengineering process is explored. It also helps to strengthen person-job/person-organisation fit in dynamic organisation.

After five years of implementation, the company's sales grew by 22%, 12% turnover for unfit staff, employee satisfaction increased 23%, customer retention rate increased 89%. In 2007, due to its excellent performance, the company was merged by a global liner group.

This case illustrates how competence-based HR practices can help an organisation to enhance/improve its business performance by implementing business reengineering process in a dynamic environment. Since human capital is embedded in individual employees, event the company can reengineer business model, business process, and initiate other managerial issues, its final success relies on “people”, such as management skills and employees’ commitment. One managerial implication of this study is that HR functions should provide competence-based HR practices as a tool for managers’ and subordinates’ to use. While standardizing the competence-based selection, interview, placement, performance management, and training & development seems attractive. For example, all employees know what is expected from their
performance, understand how they are currently performing, and receive consistent training and development.

Finally, organisation culture implies the importance of a shared understanding between the organisation and employees. It seems that integrating organisational culture with reengineering process so that the company’s competitive advantage can be built in a unique way – “social complexity”. The organisational effectiveness depends largely on managers and employees. It is important for organisations to realize that organizational effectiveness is a multilevel construct. That is, individual characteristics (skills and abilities), organisational characteristics (organisational culture and value) all have critical impacts on organisational effectiveness. Thus, certain degree of fit on the individual, job and organisational level would be important to achieve organisational effectiveness.

As Pfeffer (1995) stated, competitive success is achieved through people, then the skills of those people are critical. He also argued that organisation, its employees, and how they work are the critical success factors in the new economic world. In general, competencies are definitely the keys to foster a firm’s competitive advantage. The competence model is increasingly popular in being used as the foundation of human resources management systems. Understanding the value of a competence model to various HRM systems will help firms to judge how best to apply them in the organisation. However, Bonger, Thomas & McGee (1999) link competence to competitive advantage in different product markets and argue that the need for a dynamic model for competence. They point out that both individual and organisational learning processes must be managed in order to keep existing competences distinctive and to allow for the formation of new competences.
7.1.9 Organisation Chart

```
    Organization
      +-------------------+
      | Board of Directors|
      |                  +|
      | Chairman          |
      |                  +|
      | President         |
      +-------------------+
        |                  |
        | Administrative   |
        |                  +|
        | Human Resource   |
        |                  +|
        | IT               |
        +-------------------+
        |                  |
        | Planning & Market|
        |                  +|
        | Planning          |
        |                  +|
        | Marketing         |
        +-------------------+
        |                  |
        | Operation & Marine|
        |                  +|
        | Operation         |
        |                  +|
        | Marine            |
```

7.1.10 Competence Gap

The company uses the competence gap analysis to determine the performance of the employees. The variable pay component is based on the competence demonstrated by each employee in identified competence variables as shown in the competence gap chart. The other main purpose of the competence gap is to provide training and education to narrow the gap of employees.
7.1.11 Job Evaluation

In the job evaluation process, there are altogether 7 dimensions of:

1. Job Scope/Impact
2. Judgement/Decision
3. Job Complexity
4. Communication/Interaction
5. Leadership
6. Education/Knowledge
7. Experience/Skills

Each of the dimensions is further sub-divided into 25 categories and the job is evaluated based on a four-scale method.

<table>
<thead>
<tr>
<th>Job Evaluation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>7 Dimensions</strong></td>
</tr>
<tr>
<td><strong>25 Categories</strong></td>
</tr>
<tr>
<td><strong>4 Scales</strong></td>
</tr>
</tbody>
</table>

- Experience/Skills
- Job Scope/Impact
- Job Complexity
- Leadership
- Communication/Interaction
- Judgment/Decision
- Education/Knowledge

7.1.12 Grade Conversion Table

Points are given to the employees based on the grades. For this purpose the grade conversion table is used and points range determined.
7.1.13 Job Grade and Structure

The jobs are then divided into the various grades, with the highest post of the President in Grade 9 and the assistant in Grade 1.
## Job Grade & Structure

<table>
<thead>
<tr>
<th>Grade</th>
<th>Managerial</th>
<th>Marketing/Sales</th>
<th>Operation/Marine</th>
<th>Administrative</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>President</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Vice President</td>
<td>CFO, COO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Director</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Sr. Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Manager</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Assistant Manager</td>
<td>Sr. Specialist</td>
<td>Sr. Specialist</td>
<td>Executive Assistant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sr. Sales Rep.</td>
<td>Sr. Port Captain</td>
<td>Executive Secretary</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Sr. Port Chief Engineer</td>
<td>Sr. Specialist</td>
</tr>
<tr>
<td>3</td>
<td>Specialist</td>
<td>Specialist Sales Rep.</td>
<td>Specialist Port Captain</td>
<td>Specialist Accountant</td>
</tr>
<tr>
<td></td>
<td>Sales Rep.</td>
<td></td>
<td>Port Captain Port Chief Engineer</td>
<td>Secretary</td>
</tr>
<tr>
<td>2</td>
<td>Specialist</td>
<td>Specialist Sales Rep.</td>
<td>Specialist Sales Rep.</td>
<td>Specialist Accountant</td>
</tr>
<tr>
<td></td>
<td>Sales Rep.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Assistant</td>
<td>Assistant</td>
<td>Assistant</td>
<td></td>
</tr>
</tbody>
</table>

* Data for Illustration Only

### 7.1.14 Salary Structure

The salary structure is based on four quartiles, Q1 to Q4, with the starting salary of the grade in Q1 and goes on to Q4, reflecting the highest range of the respective grades.
## Salary Structure

<table>
<thead>
<tr>
<th>G</th>
<th>Minimum</th>
<th>Mid Point</th>
<th>Maximum</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>139,000</td>
<td>200,000</td>
<td>261,000</td>
</tr>
<tr>
<td>8</td>
<td>107,500</td>
<td>154,000</td>
<td>200,500</td>
</tr>
<tr>
<td>7</td>
<td>83,500</td>
<td>119,000</td>
<td>155,700</td>
</tr>
<tr>
<td>6</td>
<td>65,600</td>
<td>93,600</td>
<td>121,600</td>
</tr>
<tr>
<td>5</td>
<td>52,000</td>
<td>73,800</td>
<td>95,600</td>
</tr>
<tr>
<td>4</td>
<td>41,500</td>
<td>58,650</td>
<td>75,800</td>
</tr>
<tr>
<td>3</td>
<td>33,500</td>
<td>47,000</td>
<td>60,500</td>
</tr>
<tr>
<td>2</td>
<td>27,200</td>
<td>38,000</td>
<td>48,800</td>
</tr>
<tr>
<td>1</td>
<td>22,300</td>
<td>31,000</td>
<td>39,700</td>
</tr>
</tbody>
</table>

*Data for Illustration Only*
7.1.15 Enterprise Level Performance-Based Compensation System

### Salary Increase Align with Performance

<table>
<thead>
<tr>
<th>Compa-Ratio</th>
<th>≤ 75%</th>
<th>Q1</th>
<th>Q2</th>
<th>Q3</th>
<th>Q4</th>
<th>≥ 125%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent (10%)</td>
<td>12%</td>
<td>11%</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Outstanding (15%)</td>
<td>10%</td>
<td>9%</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
</tr>
<tr>
<td>Good (50%)</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td>3%</td>
</tr>
<tr>
<td>Fair (15%)</td>
<td>6%</td>
<td>5%</td>
<td>4%</td>
<td>3%</td>
<td>2%</td>
<td>0</td>
</tr>
<tr>
<td>Need To Improve (10%)</td>
<td>2%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

* Data for Illustration Only

- Q1: 75%-87.5%
- Q2: 87.5%-100%
- Q3: 100%-112.5%
- Q4: 112.5%-125%
7.1.16 Performance-Based Bonus Payment

**Year-end Bonus Align with Performance**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Excellent (10%)</th>
<th>Outstanding (15%)</th>
<th>Good (50%)</th>
<th>Fair (15%)</th>
<th>Need to Improve (10%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonus Weight</td>
<td>2</td>
<td>1.5</td>
<td>1</td>
<td>0.5</td>
<td>0</td>
</tr>
<tr>
<td>Bonus (Month)</td>
<td>8</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>0</td>
</tr>
</tbody>
</table>

* Data for Illustration Only

7.1.17 Profit Sharing Practice

**Profit Sharing-Stock**

<table>
<thead>
<tr>
<th>Seniority Grade</th>
<th>≤ 1 Yr</th>
<th>1-3 Yrs</th>
<th>3-5 Yrs</th>
<th>5-10 Yrs</th>
<th>≥ 10 Yrs</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>160</td>
<td>320</td>
<td>480</td>
<td>640</td>
<td>800</td>
</tr>
<tr>
<td>8</td>
<td>130</td>
<td>260</td>
<td>390</td>
<td>520</td>
<td>650</td>
</tr>
<tr>
<td>7</td>
<td>110</td>
<td>220</td>
<td>330</td>
<td>440</td>
<td>550</td>
</tr>
<tr>
<td>6</td>
<td>90</td>
<td>180</td>
<td>270</td>
<td>360</td>
<td>450</td>
</tr>
<tr>
<td>5</td>
<td>70</td>
<td>140</td>
<td>210</td>
<td>280</td>
<td>350</td>
</tr>
<tr>
<td>4</td>
<td>50</td>
<td>100</td>
<td>150</td>
<td>200</td>
<td>250</td>
</tr>
<tr>
<td>3</td>
<td>0</td>
<td>60</td>
<td>90</td>
<td>120</td>
<td>150</td>
</tr>
<tr>
<td>2</td>
<td>0</td>
<td>40</td>
<td>60</td>
<td>80</td>
<td>100</td>
</tr>
<tr>
<td>1</td>
<td>0</td>
<td>20</td>
<td>30</td>
<td>40</td>
<td>50</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Rating</th>
<th>Excellent</th>
<th>Outstanding</th>
<th>Good</th>
<th>Fair</th>
<th>Need To Improve</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>* 1.3</td>
<td>* 1.1</td>
<td>* 1</td>
<td>* 0.9</td>
<td>* 0.7</td>
</tr>
</tbody>
</table>

* Data for Illustration Only
7.1.18 about Management in the Company

- No Trade Union
- No Collective Agreement
- Less labour dispute
- Non-Discrimination Working Environment

The non-discrimination work environment is based on the working conditions and employee communication outlined below:

<table>
<thead>
<tr>
<th>Working Conditions</th>
<th>Employee Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>Web Dialogue</td>
</tr>
<tr>
<td>Leaves with Pay</td>
<td>Performance Interview</td>
</tr>
<tr>
<td>Insurance</td>
<td>Year-end Party</td>
</tr>
<tr>
<td>Flexible Working Hours</td>
<td>Quarterly Review Meeting</td>
</tr>
<tr>
<td>Welfare Committee</td>
<td>Morning Meeting</td>
</tr>
<tr>
<td>Competitive Compensation</td>
<td>Open Door Policy</td>
</tr>
<tr>
<td>Work Rule</td>
<td>Agency Meeting</td>
</tr>
</tbody>
</table>

8.0 Case 2: Financial Institution

8.1 The Organisation and its Challenges

The organisation was established in China and restarted its business in Chinese Taipei. The company operates its business in Chinese Taipei for more than 40 years. Its core business is financial service (banking) focus
in Asia. There are 1,600 employees work at twenty departments and 52 branches in Chinese Taipei, and around 600 employees work at China and Hong Kong. The Chinese Taipei government opened banking industry into free market and deregulated for more than 15 years. Some banks were changed from state owned to privately owned. Some banks offer a wide variety of services to a diverse of customers; others offer a limited set of traditional services to a largely homogeneous set of customers. The industry is growing faster than the past years and is getting more competition. Due to Asia financial crisis in late 1990s, the company encountered a lot of challenges in finance, customer retention and new service development. The board of directors asked CEO and its management team to study the necessity and possibility of reengineering the business model, process, and organisational structure, and to strengthen its human capital in order to overcome the severe challenges. But the reality and difficulties are, as an old and bureaucratic organisation, it lacks not only the knowledge and skills, but also the momentums with which to make organizational change effectively for the most of the employees and managers.

Given that reality and difficulties mentioned above, in order to speed up the organisational change, CEO decided to invite external consultants to start the reengineering project in 2000. The project scope included developing the bank’s business strategy, key performance indicators, core competence, competence-based human resource practices. The study addresses previously neglected areas of competence-based human resource practices role in business reengineering process in an attempt to increase our understanding of this increasingly key topic. To accomplish this objective, we explore several aspects of the following research question: What is human resource’s role in this reengineering process? How to develop firm’s core competence? How to implement competence-
based human resource practices? How can human resource practices increase firm's human capital?

8.2 Reengineering Process

Although the company has had its business strategies in the past years, it is obvious that those strategies have not worked out in terms of increasing or maintaining the company’s competitive advantages. The first step is redefining corporate business strategy that can help the company gain sustain competitive advantages in the banking industry. Second, based on the strategy, management team develops firm level core competence as an infrastructure to implement competence-based human resource practices that can increase employees’ human capital. Third, human resource professionals conduct several activities to train and help line managers to implement competence-based interview, placement, performance management and training program. The final purpose is to enrich company’s human capital and increase its competitive advantages & firm performance (see Figure 5).
In the changing and uncertainty environment, it is necessary to review current business strategy. CEO, management team and consultants redefine business strategy after diagnosing internal and external issues. We have labeled rapid growth from traditional operation to agile operation, develop new product/service, and approach new clients (see Figure 6).
8.4 Model of Core Competence

An opposed to the product/market strategy, the core competence of a firm is a bundle of skills and technologies that represents the sum of learning across individual skill sets and individual organisational units (Wright, McMahan, McCormick & Sherman, 1998). A core competence provides a competitive advantage through being competitively unique and making a contribution to customer value or cost (Prahalad & Hamel, 1990). Based on the above business strategy, the company developed a set of company wide core competence as an infrastructure to implement human resource practices and increase competitive advantage.

Management developed six core competencies which included customer orientation, teamwork, initiative, responsible, result orientation, professional knowledge in banking industry. The definitions are described as followings:

- **Customer orientation**: Works to clarify and exceed customers’ expectations. Shows concern for customers’ problems. Is friendly and understanding. Encourages customer focus in others.
Teamwork: Effectively working with members within the departments to achieve organisation’s goals. Is helpful and co-operative. Makes every practical effort to meet customer needs? Is flexible and reacts positively to changes in instructions or plans. Is team spirited? Is supportive to other members of the team and helps them when necessary?

Initiative: Is proactive and uses initiative to respond to customer needs? Is conscientious, reliable and meets commitments? Is keen to take responsibility?

Responsible: Willing to take the responsibility of personal decisions or actions.

Result Orientation: Effectively developing, utilizing resources, methods, systems and processes. Using the most efficient ways to maximum investment return ratio.

Professional Knowledge in Banking Industry: Knowledge, skills that are necessary to daily operation. Employees can bring valuable benefit to clients through those knowledge and skills.

8.5 Competence and HR practices

The company used the above competence model to develop HR practices in the fields of selection, interview, placement, performance measurement and management, training and development. Competent human resource professionals recognize the requirements of the profession and are willing to invest in maintaining and improving their skills and knowledge during rapidly changing times (Losey, 1999). As Losey stated in his article in this issue, developing competence is a combination of education, experience, interest, and raw capability (ethics).

The competence work provides a roadmap for the content of HR practices. Wright (1998) argued that the most important type of horizontal fit among HR practices to organisations would be when the practices all
promote the same organisationally relevant outcomes. Recent emphasis on competence models provides a basic framework for creating horizontal fit. Such models identify a relevant set of behavioral competencies, and then HR practices can be designed to complementarily promote the selection and development of those competencies in individuals (Wright & Boswell, 2002).

8.5.1 Competence-based selection and interview

As mentioned, the company adapts competence models to select and interview candidates to identify their competencies level. First, besides the company wide core competence, line managers identify every job’s professional competencies & levels and send to his/her upper managers for approval. Human resource manager works with line managers conducting the interview or other selection tools. After the interview process, they join together to identify candidates’ competencies level and the gap between the actual and the job required.

8.5.2 Competence-based Placement

The internal transfer, promotion, relocation, termination, succession plan and other placement practices use the competence model to identify internal candidates’ competence level. Line managers and HR manager join together to decide the placement decision. The competence gap graph is helpful in clarifying the complexity inherent in each of these competencies. Furthermore, it helped management to diagnosis individual’s strength and weakness to increase the likelihood of people-job and people-organisation fitness. Management makes decisions to promote, transfer, relocate, and terminate employees through the competence map.
8.5.3 Competence-based Performance Management

Employee’s performance rating is determined by personal goals and individual competencies. At the year-end, managers set goals with employees for the next year. At the same time, managers describe the job competencies level that employees are expected to perform/behave. The combination ratio of goals and competence is 80:20. It means employee’s annual performance rating is determined by 80% goal achievement and 20% competence level. The company intends to build up a culture that results and knowledge, skills & behaviors are important in the organisation. In another words, employees not only are expected to achieve their annual business goals but also expected to demonstrate their behaviors, attitudes, skills as required based on their job and rank. Managers review employees’ annual performance based on the competence model and provide the feedback of gap to ask them to improve in certain period.

8.5.4 Competence-based Training and Development

Within the framework, line managers identify their subordinates’ training needs. They can realize what and why employees can not obtain their performance goals. At the same time, they can judge employees competence levels based on their goal achievement rates. Human resource professionals collect data from different functions and business lines, then draft the training programs for various jobs. For example, the company develops leadership, decision making, people management and business strategy programs to management team. Negotiation, customer service, time management and industry development trends are provided to sales team.
8.6 Human Capital and Person-Job Fit

Sound people management skill in organisation is a key to success. It is the core responsibility for line managers, not just the human resource professionals. Barney (1991) argued that sustained competitive advantage derives from the resources and capabilities a firm controls that are valuable, rare, imperfectly imitable, and not substitutable. Those resources and capabilities can be viewed as bundles of tangible and intangible assets, including a firm’s management skills, its organisational process and routines, and the information, knowledge it controls. A firm’s human resources, including all of the knowledge, experience, skills, and commitment of a firm’s employees and their relationships with each other and with those outside the firm can provide a source of competitive advantage (Barney & Wright, 1998; Boxall, 1998; Snell, Youndt, & Wright, 1996). Human capital refers to knowledge that is embodied in people (Coff, 2002). Human capital is critical to maintain competitive advantage since organisational capabilities are created by transforming human capital into group or firm level knowledge (Nonaka, 1994). Though firm’s human capital can be gained from “make-or-buy” strategy (Miles & Snow, 1984). In general, firms often make and buy their human capital (Lepak & Snell, 1999). After discussing with consultant group and within high-level management team, the company decides to increase its human capital through implementing the competence-based HR practices: selection, interview, placement, performance management, and training & development.

Person-Job fit is concerned with finding a match between the skills, knowledge, and abilities needed to perform the relatively static technical aspects of a job and individuals who have these abilities (Werbel & Johnson, 2001). Person-organisation fit is conducted at the organisational level of analysis. It concerns the value congruence between the worker
and the organisational culture and is concerned with organisational socialization processes (Chatman, 1989). Ideally, the two types of fit are important. Organisations should make efforts to address the types of fit given that each impacts employee motivation and organisational effectiveness. Organisations would like to examine the person-job and person-organisation fit to evaluate their effectiveness.

The company implements competence-based HR practices to increase person-job and person-organisation fit that can achieve organisational effectiveness. After three years’ implementation, the Company’s sales grew up 22.5%, 13% turnover for unfitness staff, employee satisfaction increased 23%, customer retention rate increased to 85.6%. The specific role of competence-based HR practices play in business reengineering process is explored. It also helps to strengthen person-job and person-organisation fit in dynamic organisation.

The company set up a three-years financial goal which is US$100 million. After the reengineering process, 2004 financial statement says the goal is completely achieved, US$103.5 million.

9.0 Conclusion: Issues and Challenges

It is clear that an inappropriately designed compensation scheme can be counter productive. Moreover, any company can move from paying equally to pay equitably, if not, they will not get loyal workers and there will be no alignment between workers and business results. However, in practice it had been proven that the variable component in the company’s pay system has motivated the staff to perform and makes them aware of the company’s business performance. The design of a good performance-
based compensation is fruitful and essential for companies to enhance competitiveness.

Chinese Taipei is now encouraging companies to move to the performance-based system to help enterprises and employees to achieve a win-win situation and to enable both the employers and employees to move together for success. However, companies should understand that the performance-based system is not to exploit employees but to foster employees as the human capital for the company. Although the move towards a performance-based system is a hot issue for all companies in Chinese Taipei to seek an opportunity to achieve a more flexible salary regime, there are several implementation problems that need to be addressed:

1. Many employees, especially in the service sector, are not in favor of the performance-based system as they are afraid that the performance level ascertained by the companies are not realistic and will not be achievable even if they perform well. There is also a belief that the system will add on to their workload without additional compensation.

2. The objective of most firms to implement the performance-based compensation system is not to motivate employee, but to or cut down the labor cost. With this objective, the design of the system is biased towards employers and thus when the system is implemented; it will lead to higher staff turnover.

3. Performance appraisal system and the skill to conduct this system is essential for implementing the performance-based compensation
system, however, many enterprises fail to deliver a good appraisal or review procedure which can appraise employees with transparency and equity. The performance factors developed for appraisal is often not measurable, and employees are wary about it.

4. If there is an in-house trade union, they will challenge and resist this system. If firm fails to discuss and negotiate the system with trade union and gain their acceptance, then the system will not be implemented.

5. Performance-based system is a challenge and requires commitment from both parties. Performance-based is task-oriented, rather people-oriented, when company employs performance-based system there is a fear that employees will only focus on performance and not on commitment or quality, this will in turn affect the overall development of company.
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