

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

By

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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 substitution 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 a 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 substitution 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, the industrial structure from agriculture-based economy to a production-based economy.

In the early 1990's, service-based 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

Item	2003	2004	2005	2006	2007
Overall	17	12	11	17	18
Economic Performance	33	24	17	25	16
Government Efficiency	20	18	18	23	20
Business Efficiency	11	7	6	13	17
Infrastructure	23	20	18	18	21

Source: www.imd.ch/wcy; compiled by the Department of Economic Research, CEPD

Table 3: Major Economic Indicators in Chinese Taipei

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

*2007 Jan.-May

Source: www.dgbas.gov.tw

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 become 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.

Some times 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 . . .



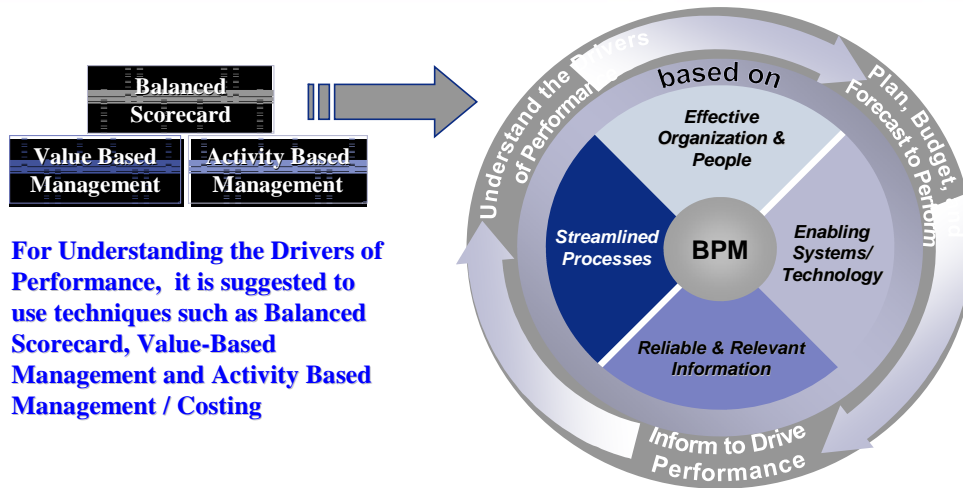
Based on the interviews conducted last week, a first cut Strategy Map has been drafted with the intention of starting and aiding the discussion

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

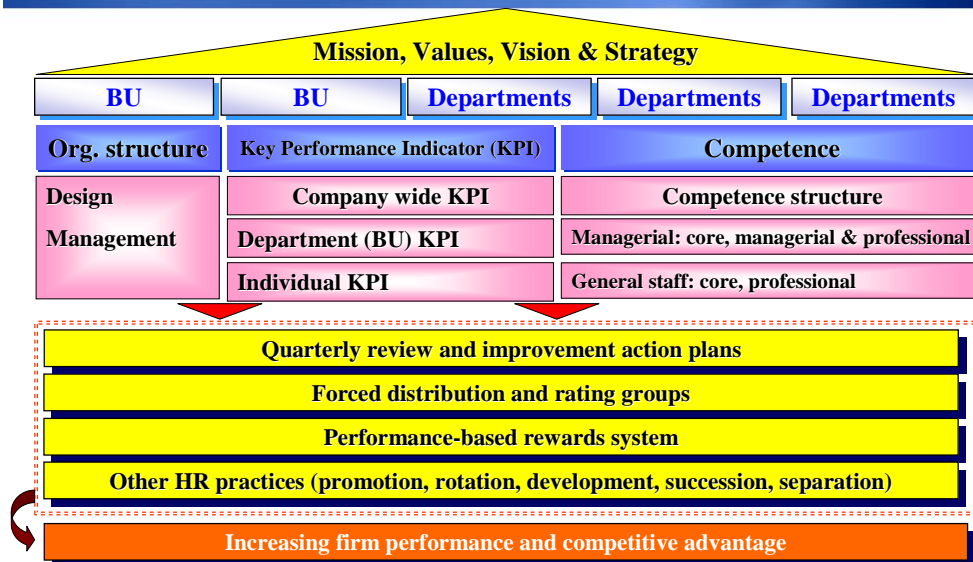


These should make the Strategic Objectives real and tangible

Understanding the Drivers of Performance



Performance Management makes Vision Happen



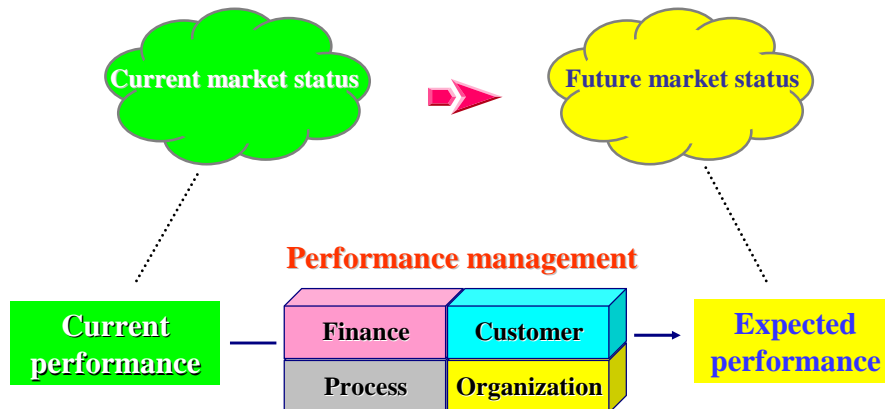
Closing the gap between vision and realization

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



Performance management align with rewards



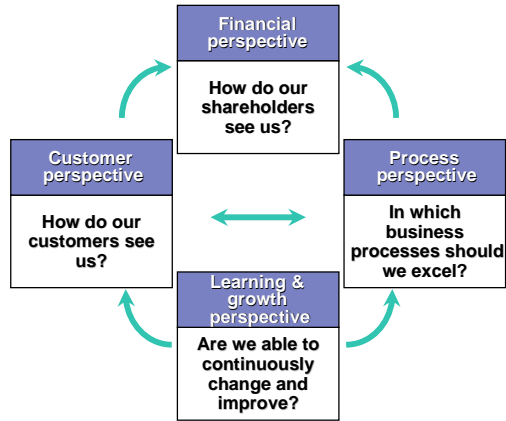
Performance Management & Reward Design Methodologies



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



Improving Performance Management: Developing the System

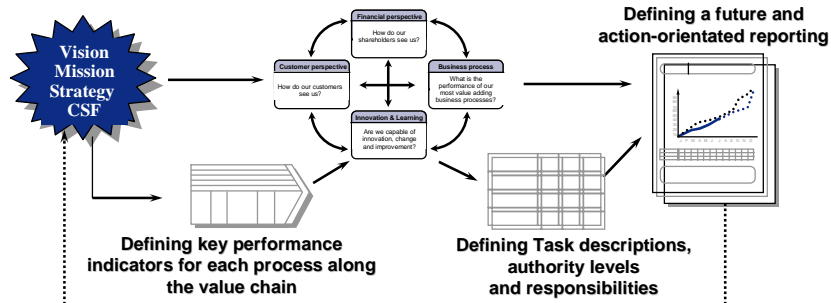
Key

Values and beliefs

Top management commitment

Balanced Scorecard

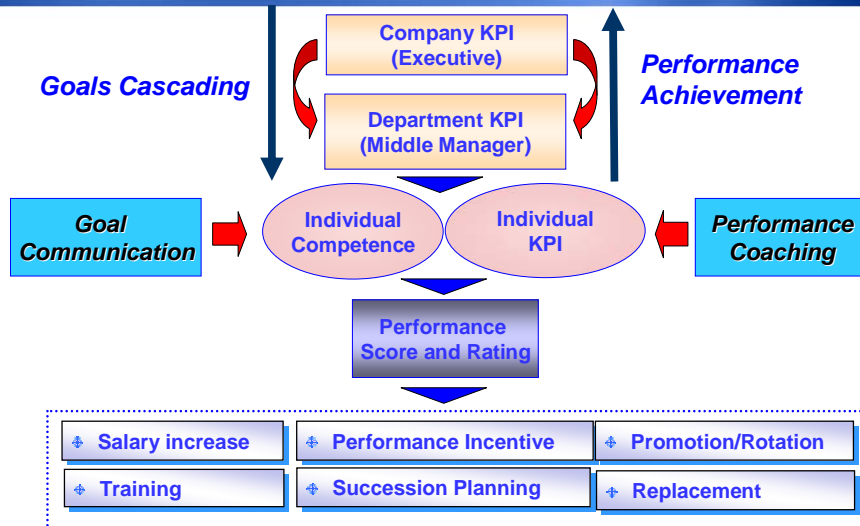
Selecting and balancing performance indicators on company level and for each area



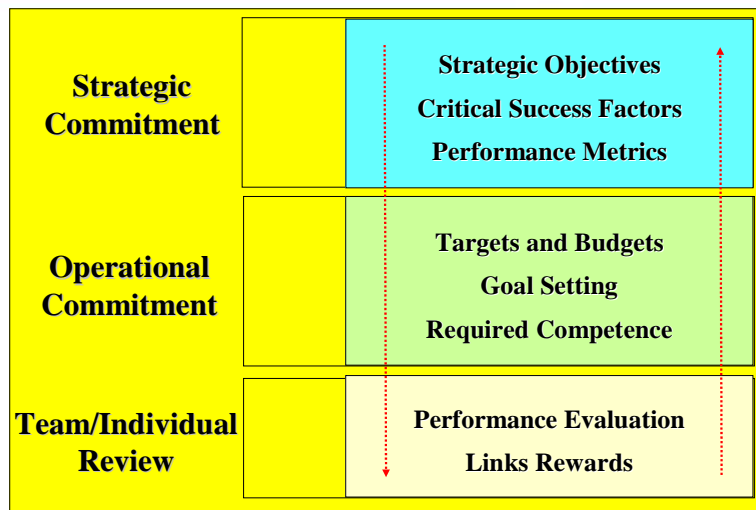
Training and communication: managing behavioral change

Performance Management, a management process along the processes and throughout the organization

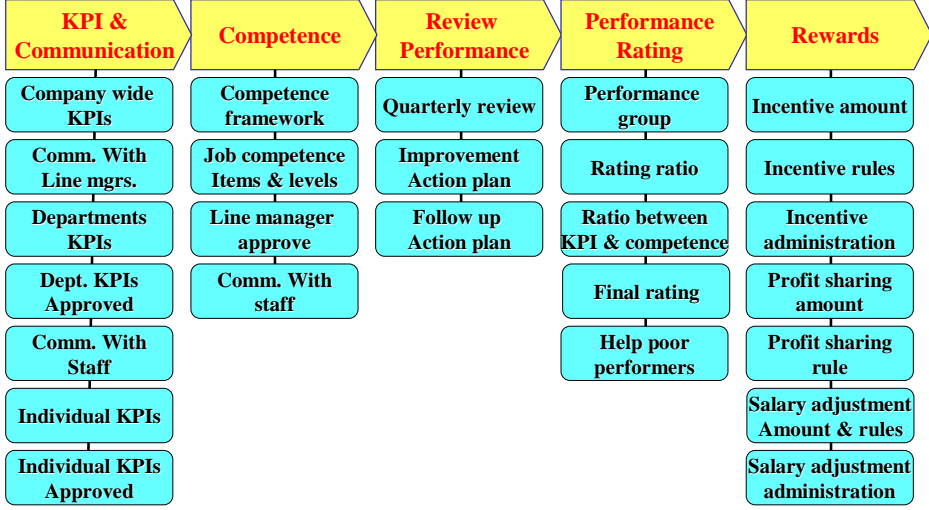
Performance Management by Objective



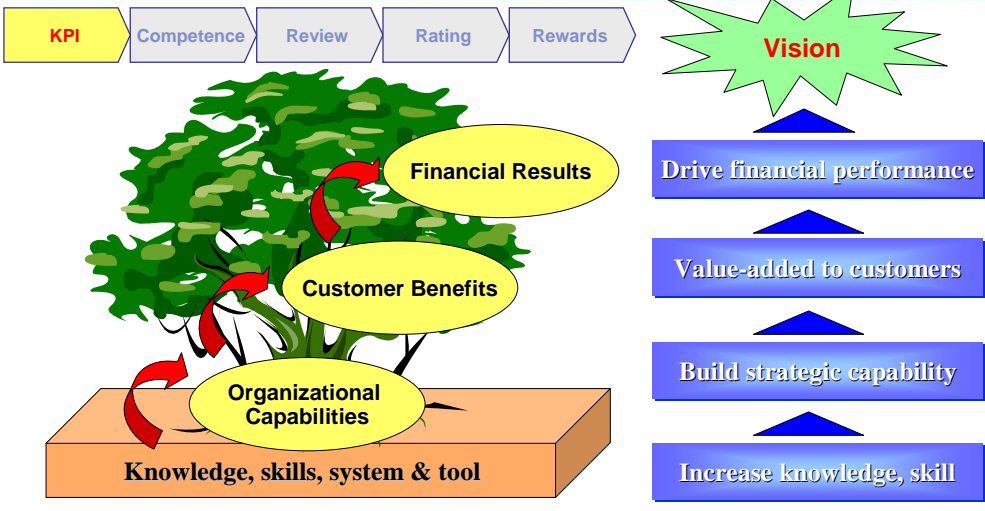
Performance Commitment Framework



Performance Management Process



Develop KPIs



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?

EXAMPLE

Goal

- Increase number of key accounts

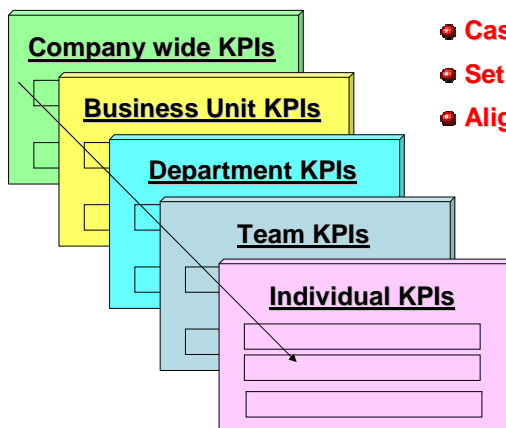
SMART performance indicator

- 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%

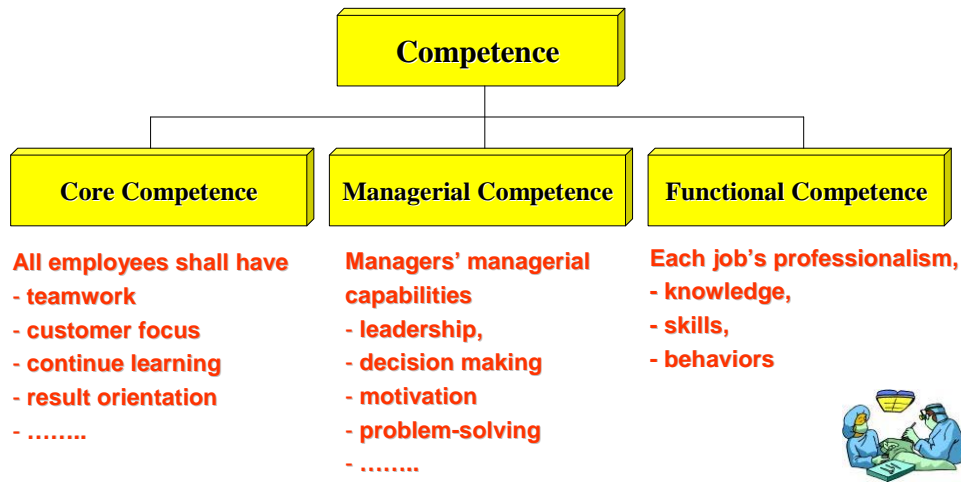
Execution



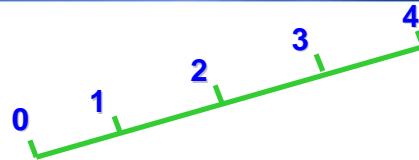
- Cascading communication
- Set up individual performance plan
- Align with reward

4.4 Competence Based System

Competence Framework



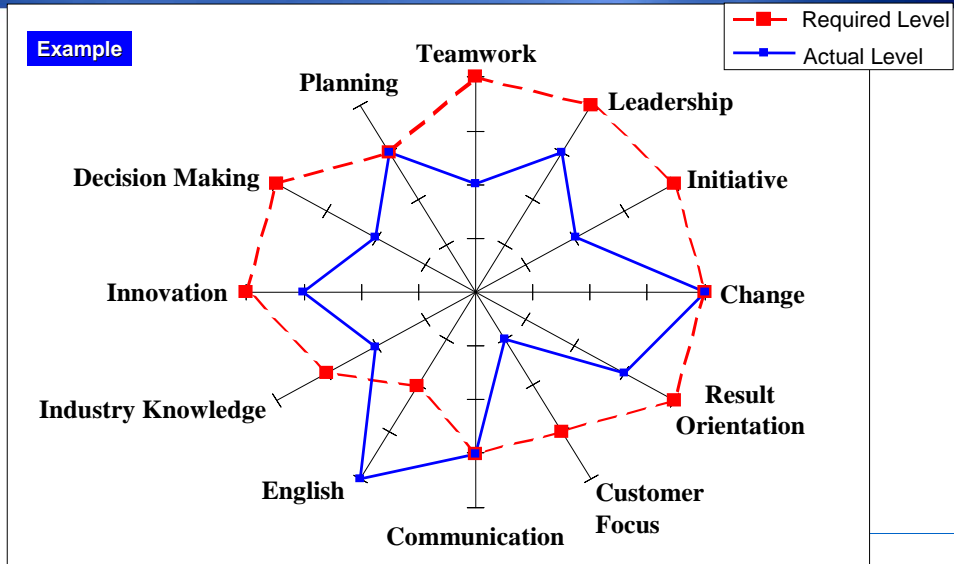
Set up competence level



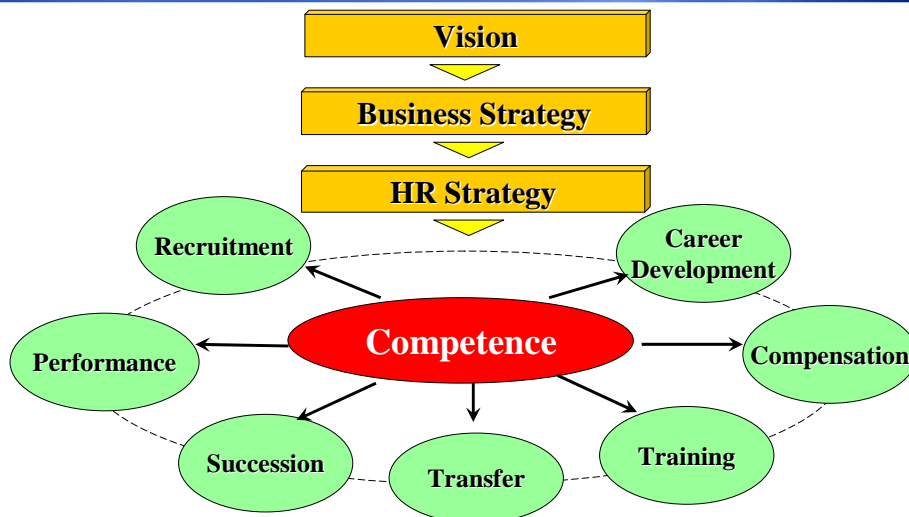
Competence level

- 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

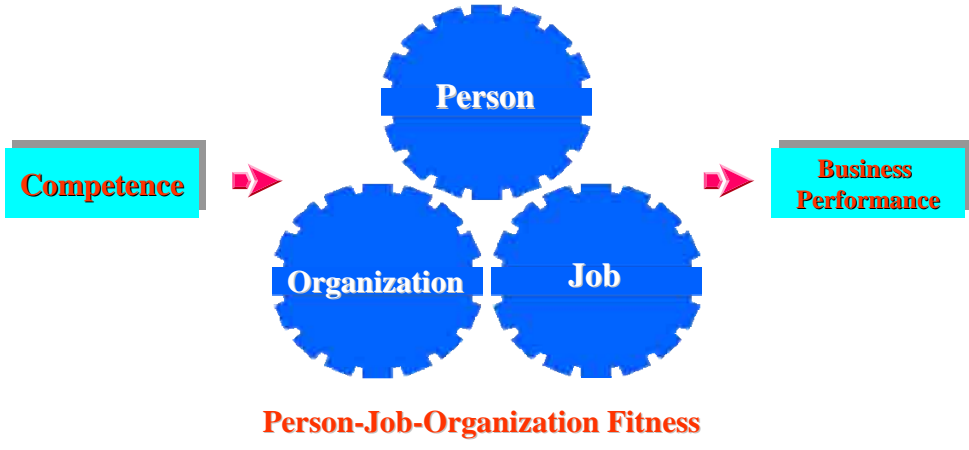
Competence Chart



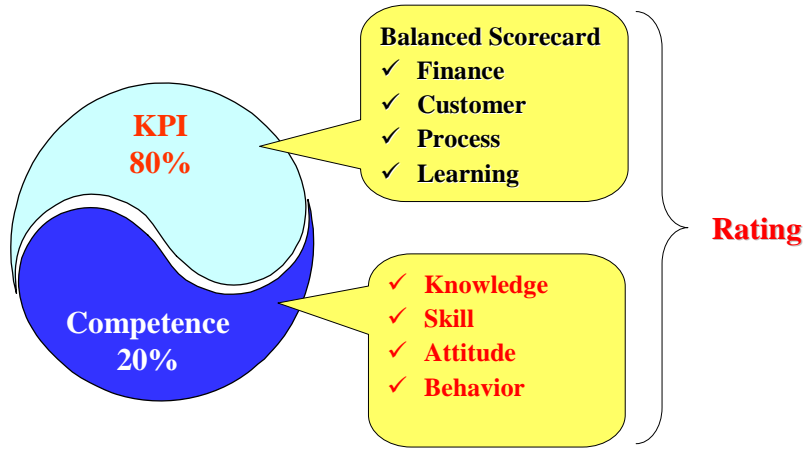
Competence-based human resource management



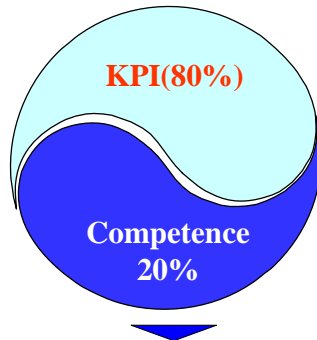
Implement Competence: P-J-O Fitness



Factors Decide Individual's Performance



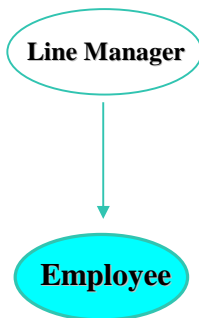
Performance Rating-Forced Distribution



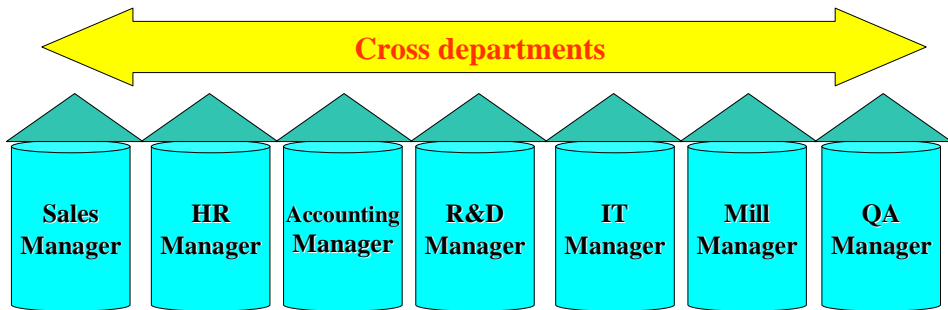
Outstanding	Excellent	Good	Acceptable	Need Improvement
10%	20%	40%	20%	10%

Who rate? -- 360° feedback

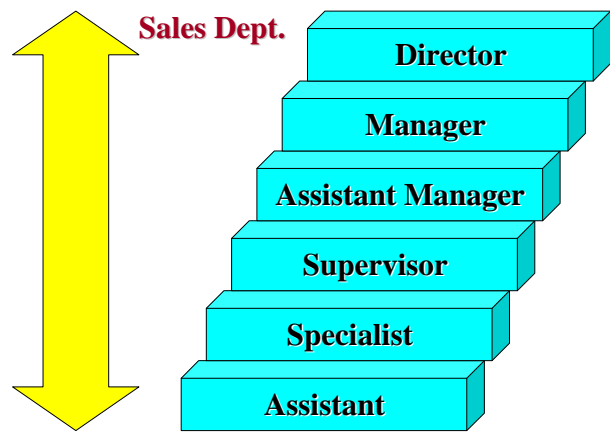
Traditional Evaluation



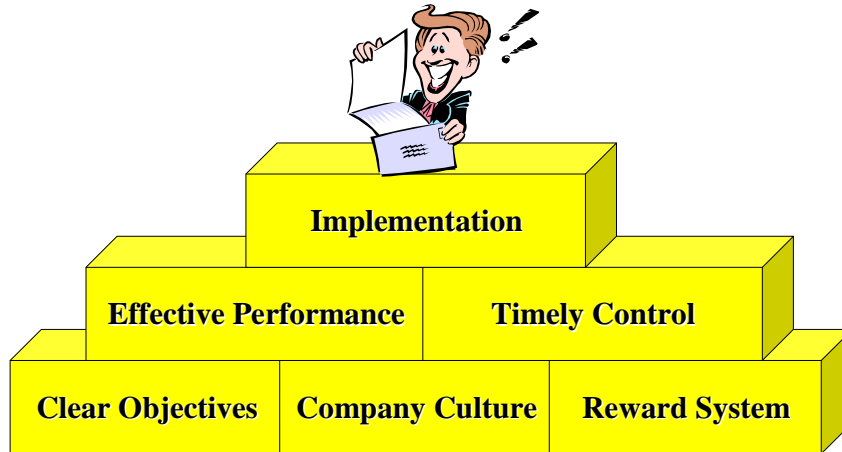
Rating group



Rating group



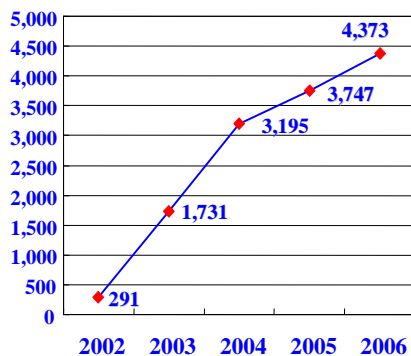
Successful Factors for Performance Management



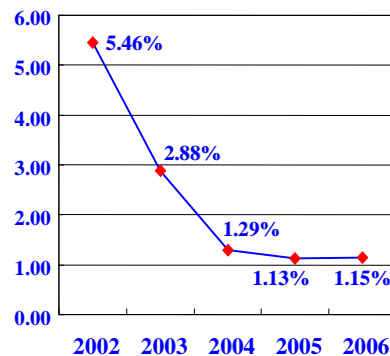
4.5 Case of a Commercial Bank

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

Experience from Commercial Bank

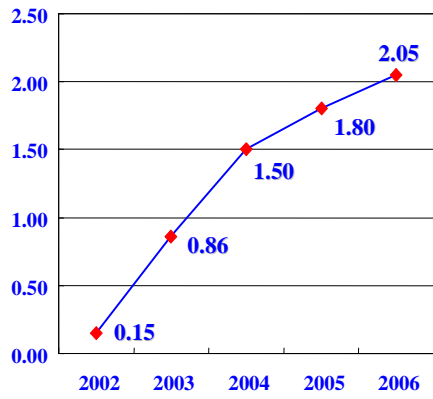


Employee Productivity
(thousand NT\$/Individual)

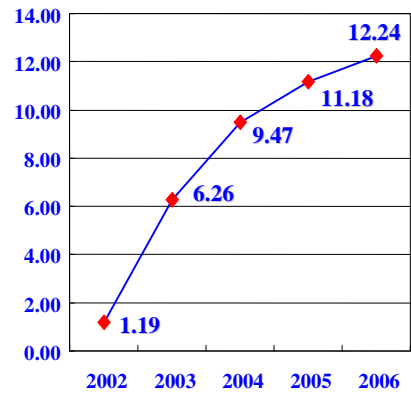


Non-Performing Loan (NPL)

Experience from Commercial Bank

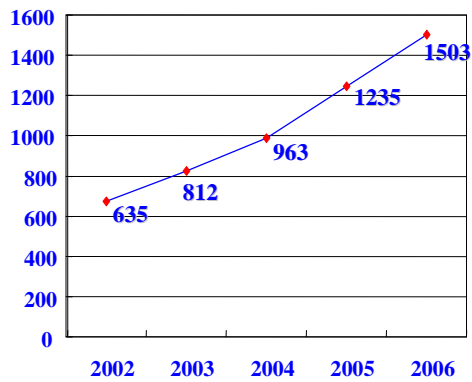


ROA(%)



ROE(%)

Experience from Commercial Bank



Profit before tax (million NT\$)

5.0. Compensation Management Framework and Guideline

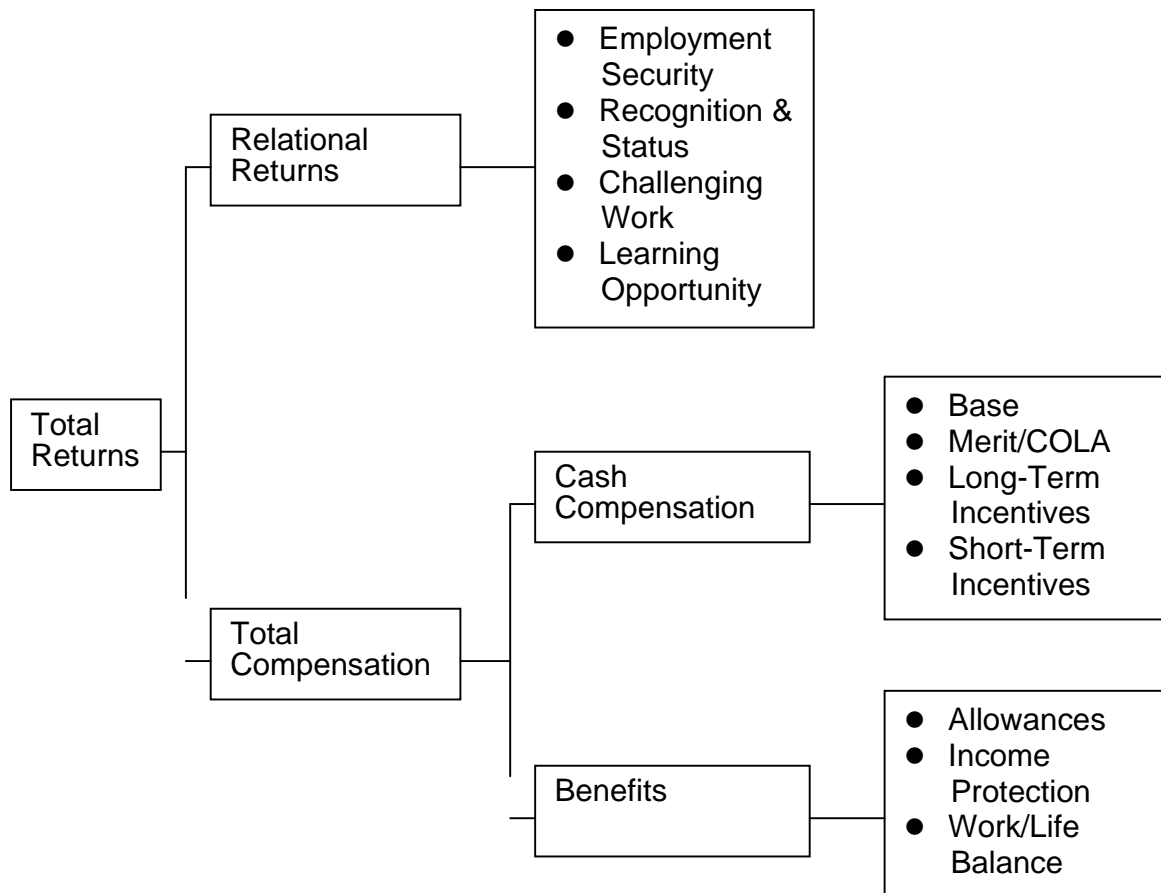
Organization uses compensation to motivate people to: (1) join the organization; (2) stay with the organization; and (3) to perform at high levels. For surviving and achieving excellence, company must be that much more competitive in their compensation practices to attract and maintain qualified people. 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).

Figure 1: Total Returns for Work



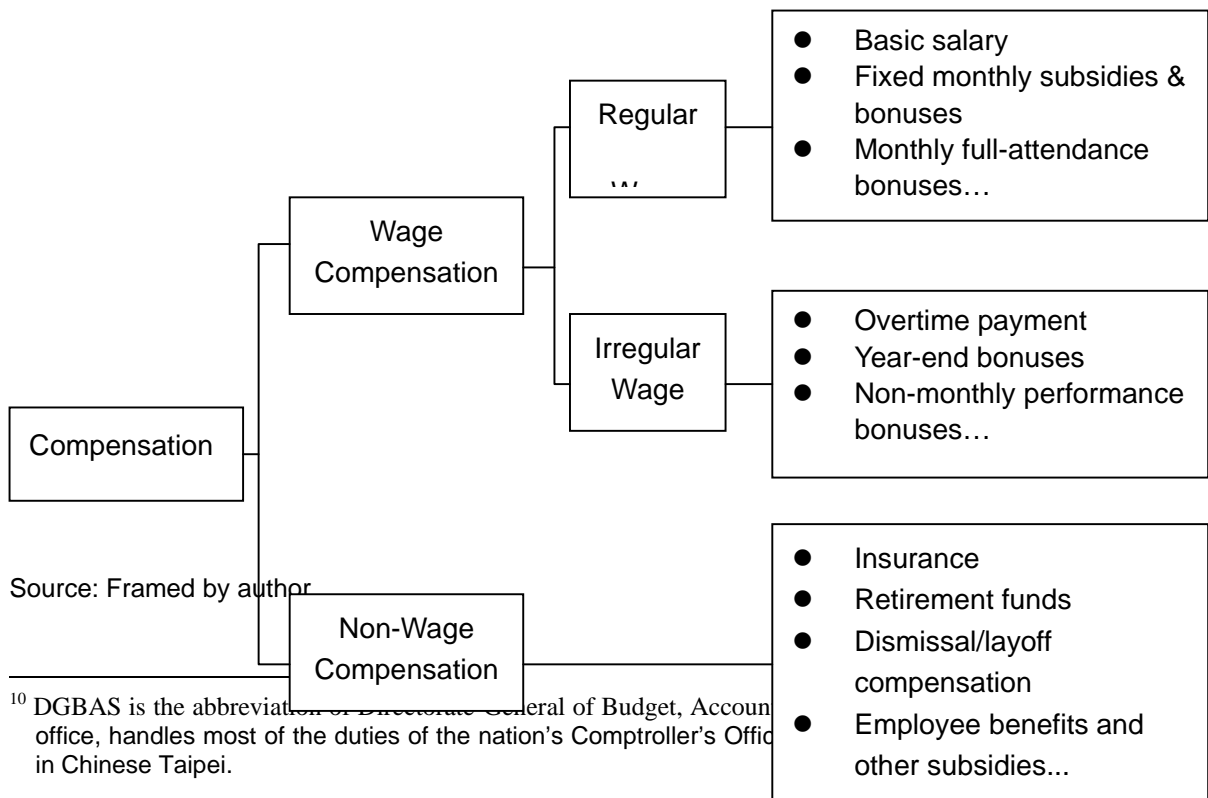
Source: G. T. Milkovich & J. M. Newman (2006) Compensation

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 DGBAS¹⁰, 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).

Figure 2: Compensation in Chinese Taipei based on DGBAS's Definition



¹⁰ DGBAS is the abbreviation of Directorate General of Budget, Accounting and Statistics, which 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

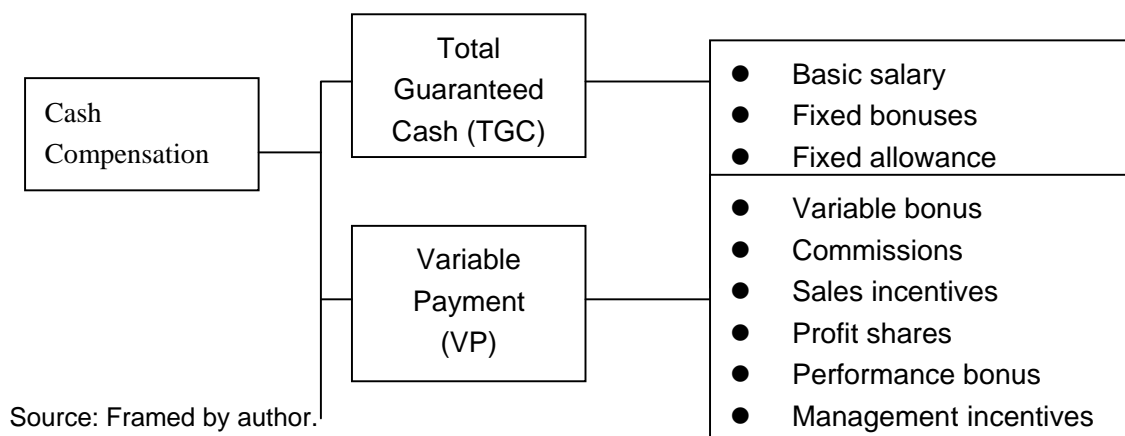
Unit: %

Industry	2003		2004		2005		2006		2007	
	RW	IW	RW	IW	RW	IW	RW	IW	RW	IW
Total	83	17	82	18	84	16	88	12	87	13
Industrial Sector	82	18	81	19	83	17	87	13	85	15
Mining & Quarrying	83	17	83	17	84	16	81	19	83	17
Manufacturing	84	16	86	14	87	13	89	11	88	12
Electricity, Gas & Water	81	19	80	20	82	18	80	20	78	22
Construction	69	31	70	30	69	31	68	32	67	33
Service Sector	91	9	91	9	92	8	92	8	92	8
Trade	86	14	86	14	87	13	87	13	86	14
Accommodation & Eating-Drinking Places	92	8	92	8	90	10	88	12	89	11
Transportation, Storage & Communication	80	20	80	20	80	20	78	22	77	23
Finance & Insurance	75	25	73	27	75	25	72	28	71	29
Real Estate & Rental & leasing	88	12	87	13	88	12	86	14	85	15
Professional, Scientific, Technical Services	87	13	85	15	89	11	87	13	86	14
Health Care Service	81	19	83	17	84	16	80	20	78	22
Cultural, Sporting & Recreational Services	89	11	88	12	92	8	86	14	85	15
Other Services	91	9	90	10	90	10	91	9	90	10

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



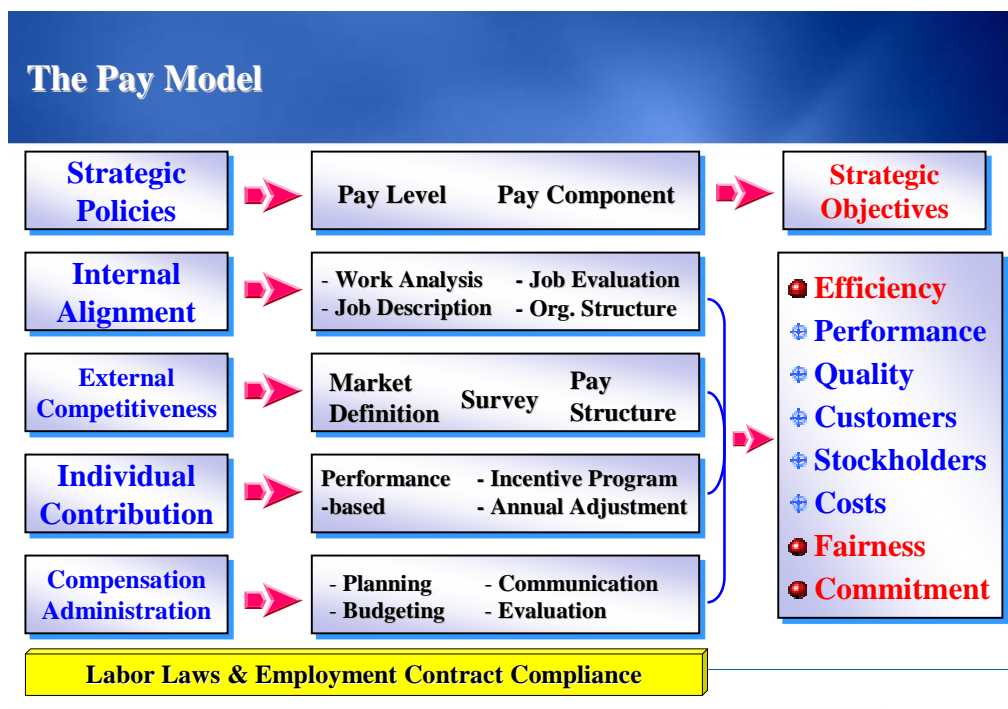
5.2. Compensation Management Guideline

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

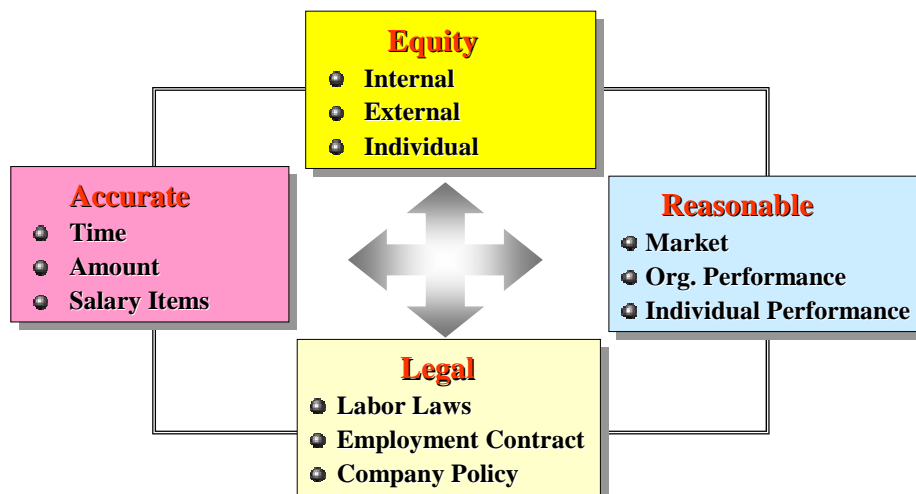


Strategic Compensation Objectives

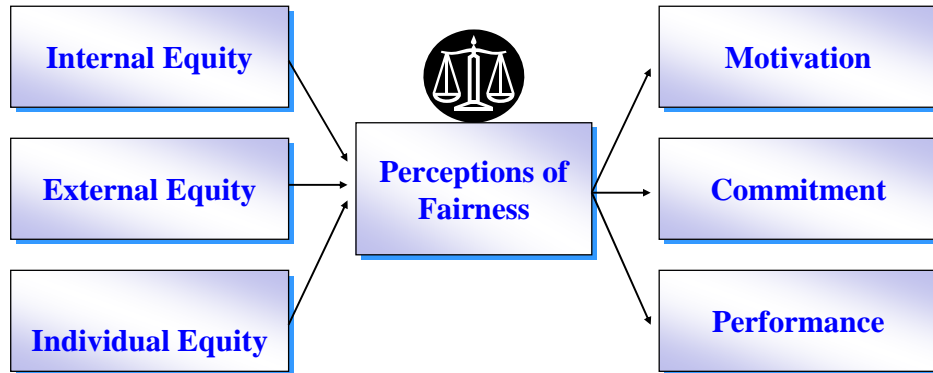
- † To reward employees' past performance
- † To remain competitive in the labor market
- † To maintain salary equity among employees
- † To mesh employees' future performance with organizational goals
- † To control the compensation budget
- † To attract top talents (new employees)
- † To reduce unnecessary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

5.4 Compensation Management

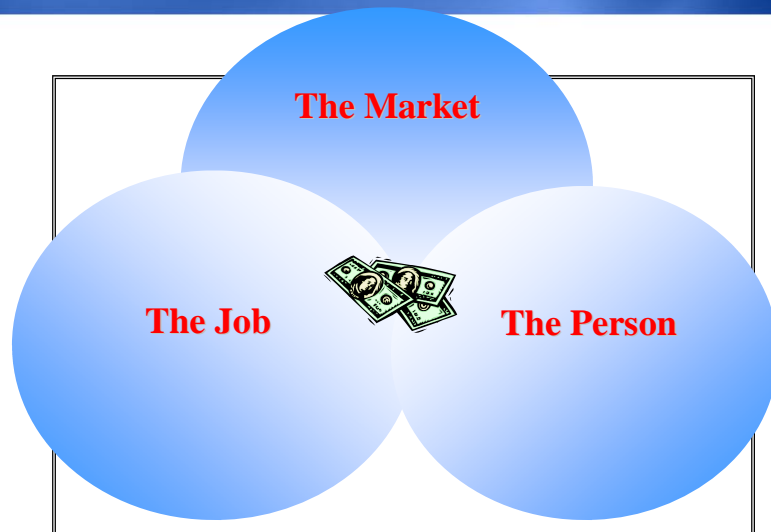
General Rules of Compensation Management



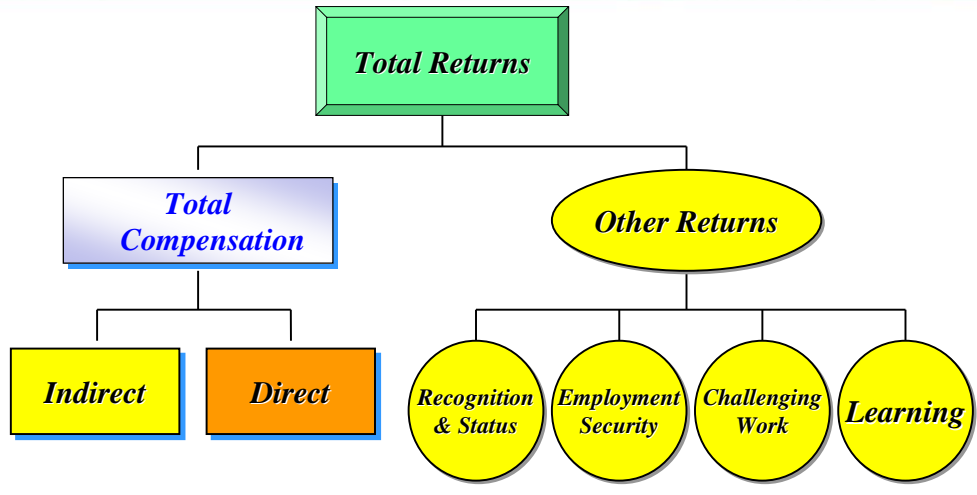
The Impact of Equity on Output



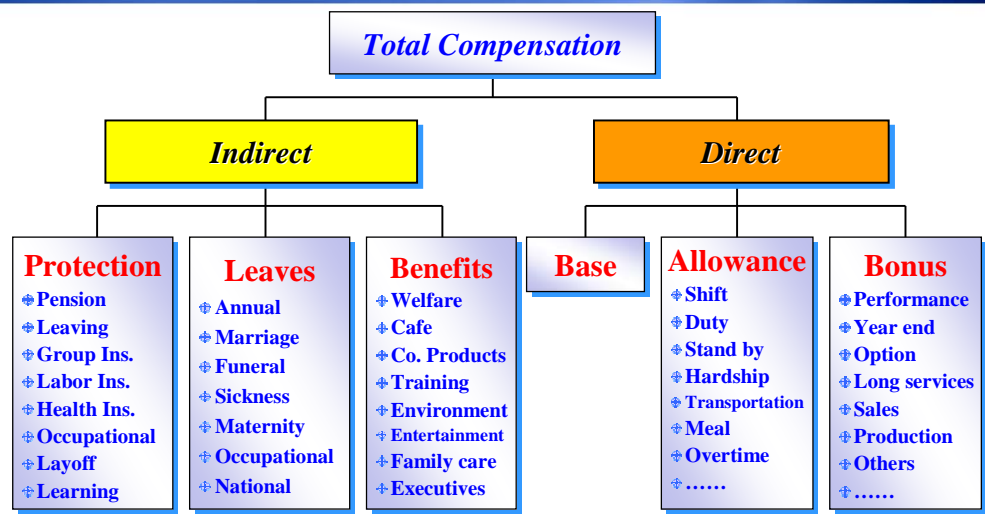
Factors Determine Salary



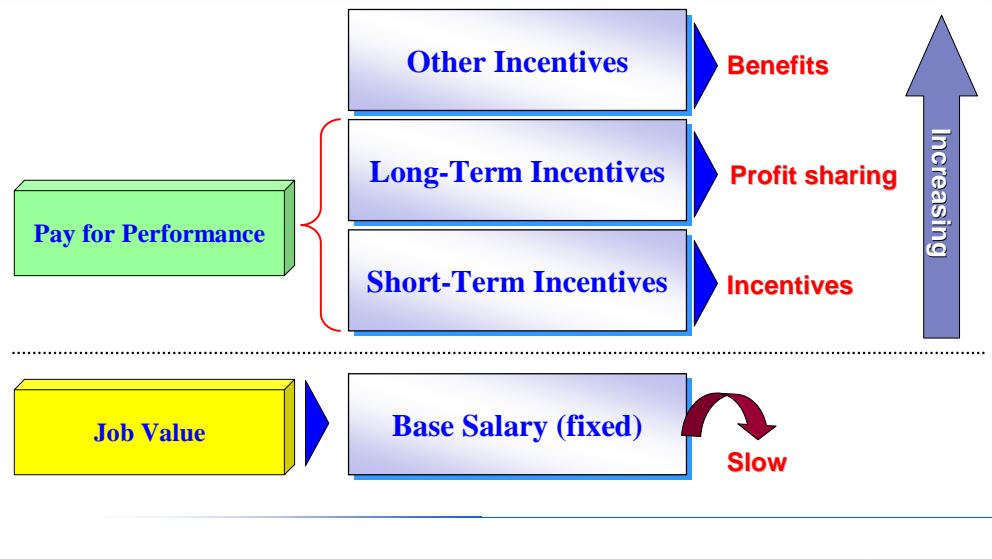
Total Returns for Work



Compensation Framework



Strategic Perspectives on Total 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



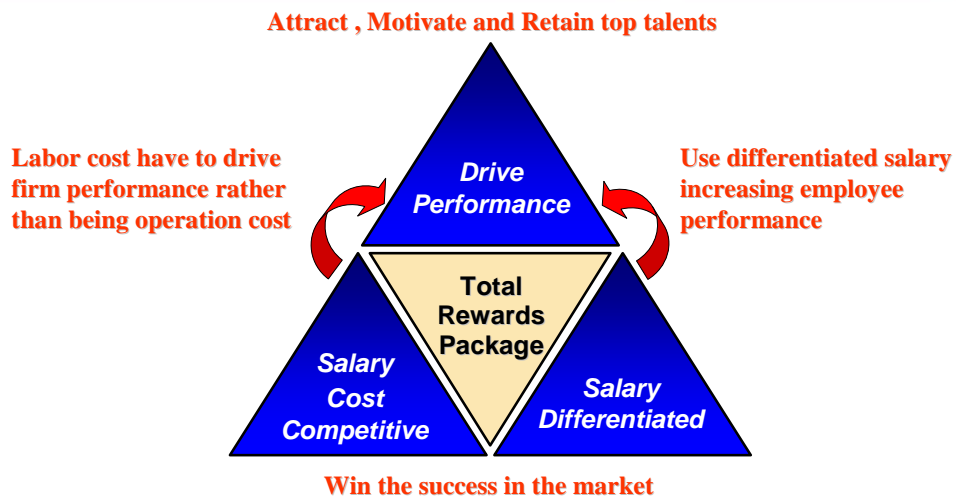
Pay System Techniques

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

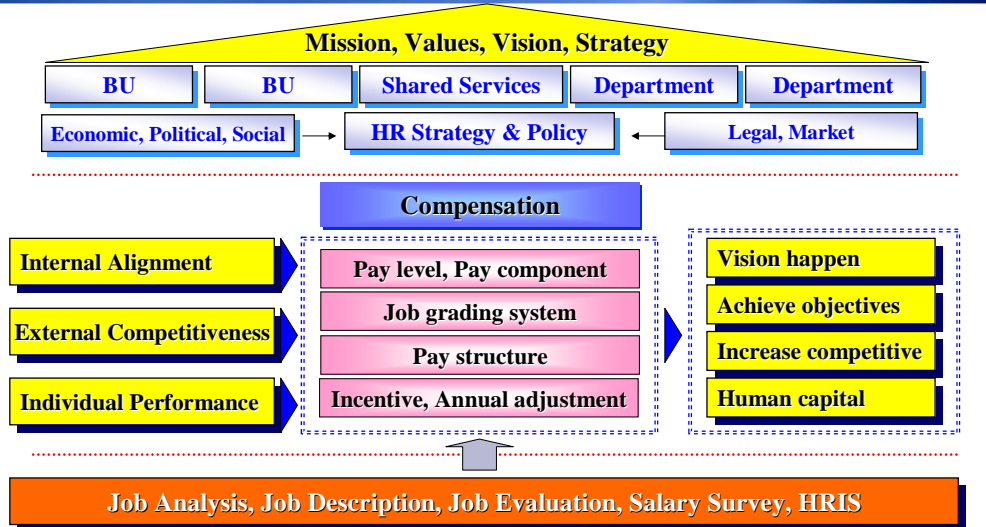
- **Internal consistency**
 - Job analysis
 - Job evaluation
- **External competitiveness**
 - Pay surveys
- **Employee contributions**
 - Performance Measurement & Management Mechanism
 - Incentive plans
 - Performance-based pay increases



Building a High Performance Culture through Reward Design



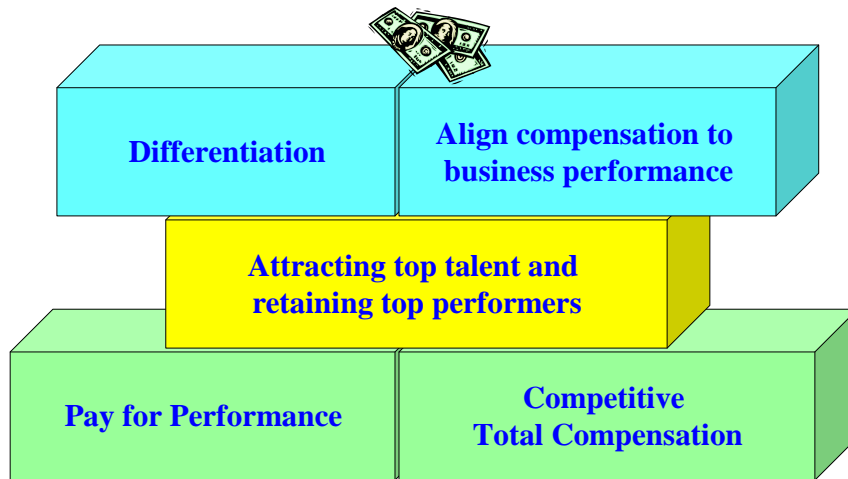
Strategic Compensation Decision Model



Framework for Reward Strategy

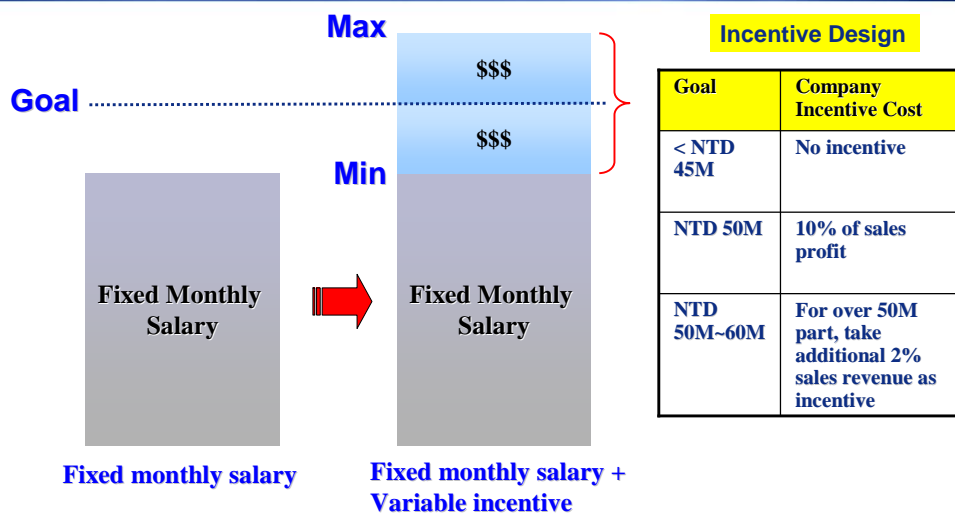


Managing Compensation Rules

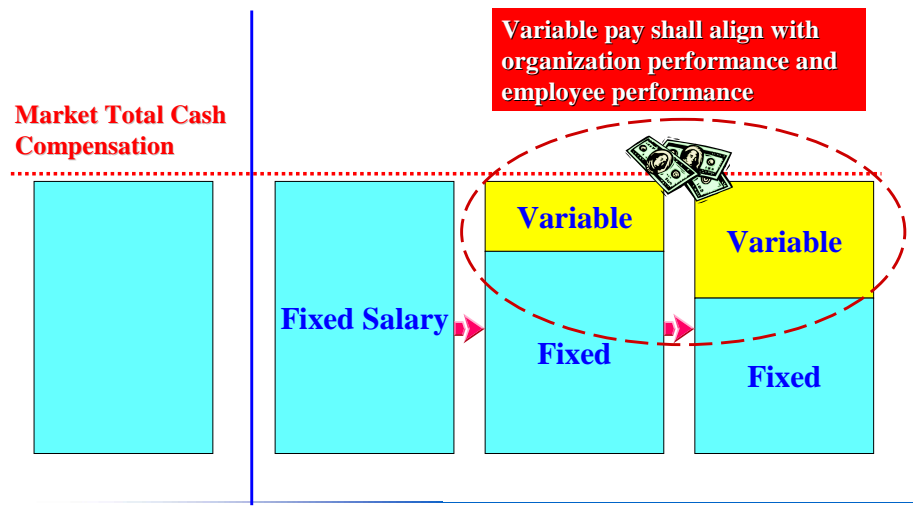


5.6. Performance Linked Incentive Design

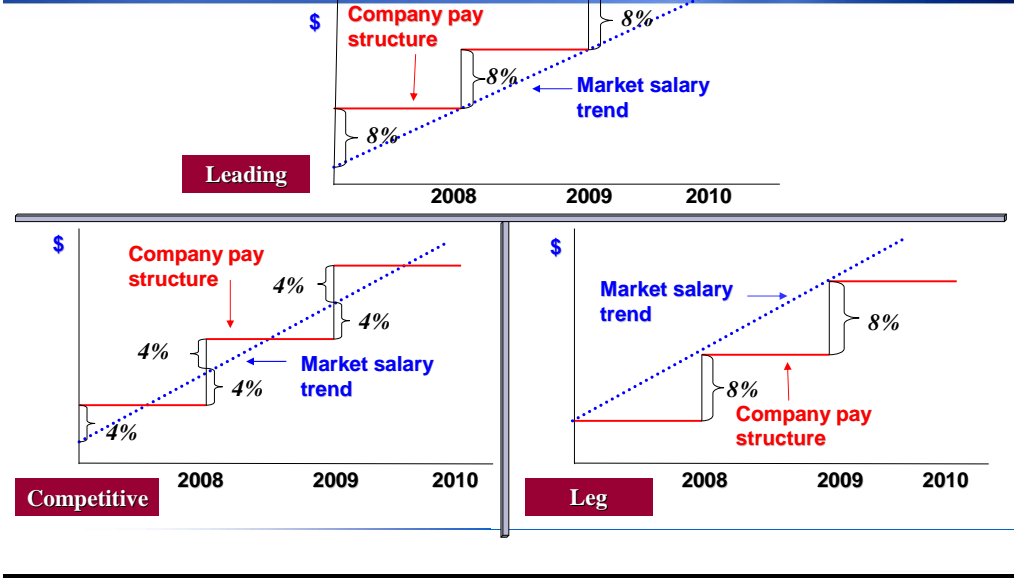
Performance Linked Incentive Design



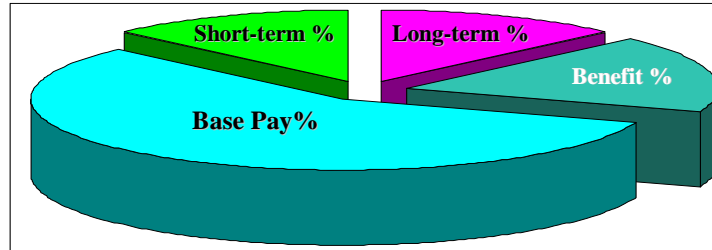
Fixed and Variable Pay



Company Pay Level Policy



Build Compensation Component

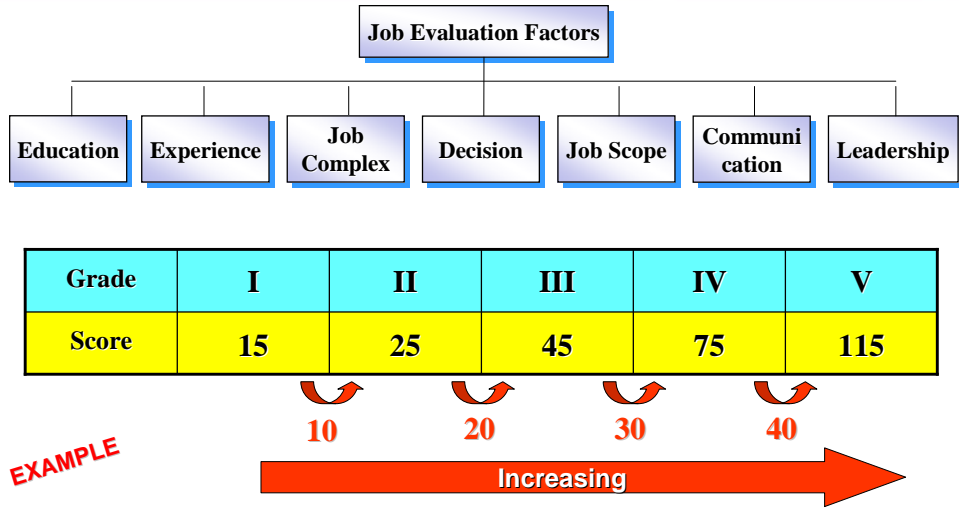


Salary component will be determined by job hierarchy, business function, what are the main issues?

Compensation Component

	Basic	Short-term	Long-term	Total	
CEO	100 90	70 75	120 150	290 315	 Benchmark
COO	100 90	60 65	100 125	260 280	 Tradition
Sr. Manager	100 95	50 55	60 80	210 230	
Middle Mgr.	100 95	40 45	45 60	185 200	
Junior Mgr.	100 95	30 35	20 35	150 165	
Staff	100 95	20 25	10 20	130 140	

Job Evaluation Framework



Organization Structure

G	Managerial	Marketing/ Sales	Manufacture/ R&D/Technical	Administration
9	General Manager			
8	Sr. VP/COO			
7	VP/Director CFO/CIO		Advisory Engineer	
6	Director Sr. Manager	Sr. Marketing/Sales Manager	Chief Engineer	Sr. Executive Assistant
5	Manager	Marketing/Sales Manager	General Engineer	Executive Assistant
4	Asst. Manager	Marketing/Sales Asst. Manager	System Engineer	Executive Secretary
3		Sr. Marketing/Sales Specialist	Sr. Specialist/Engineer	Sr. Specialist/Accountant/ Secretary
2		Marketing/Sales Specialist	Specialist/Engineer	Specialist/Accountant/ Secretary
1		Marketing/Sales Assistant	Assistant	Assistant

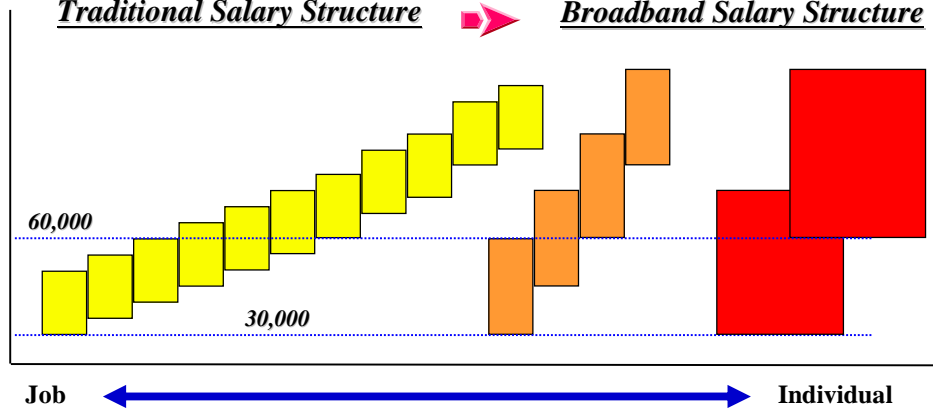
Hierarchy and Broadband Salary Structure

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

Traditional Salary Structure



Broadband Salary Structure

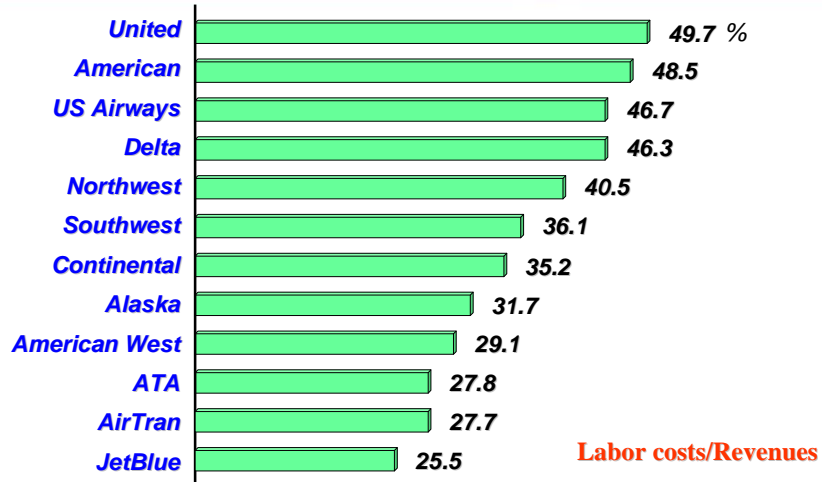


Hourly Compensation Costs from Major Manufacture Countries Worker

No	Country	Hourly Pay	Index
1	CHINA	0.67	3
2	MEXICO	2.63	11
3	BRAZIL	4.09	17
4	POLAND	4.54	19
5	HONG KONG	5.56	24
6	HUNGARY	6.07	26
7	CZECH REPUBLIC	6.11	26
8	TAIWAN	6.38	27
9	PORTUGAL	7.33	31
10	SINGAPORE	7.66	32
11	ISRAEL	12.42	53
12	KOREA	13.56	57
13	NEW ZEALAND	14.97	63
14	SPAIN	17.78	75
15	ITALY	21.05	89
16	JAPAN	21.76	92
17	IRELAND	22.76	96
18	UNITED STATES	23.65	100
19	CANADA	23.82	101
20	FRANCE	24.63	104
21	AUSTRALIA	24.91	105
22	UNITED KINGDOM	25.66	109
23	LUXEMBOURG	27.68	117
24	SWEDEN	28.73	121
25	AUSTRIA	29.42	124
26	SWITZERLAND	30.50	129
27	BELGIUM	30.79	130
28	NETHERLANDS	31.81	135
29	FINLAND	31.93	135
30	GERMANY	33.00	140
31	DEMARK	35.47	150
32	NORWAY	39.14	166

SOURCE: U.S. BUREAU OF LABOR STATISTICS, November, 2006
 HOURLY COMPENSATION COSTS FOR PRODUCTION WORKERS: IN U.S. DOLLARS

Labor Costs: US Air line Industry



Salary Differences between Grades

Grade	Position	AVG. Salary	Difference \$	Difference %
G6	VP	\$162,000	\$42,000	35%
G5	Director	\$120,000	\$27,000	29%
G4	Manager	\$93,000	\$20,000	27%
G3	Asst. Manager	\$73,000	\$14,500	25%
G2	Supervisor	\$58,500	\$10,500	22%
G1	Specialist	\$48,000		

Increasing ↑

Salary Survey :Why



Salary Structure

Grade	Min(70%)	Mid-Point(100%)	Max(130%)
9	140,000	200,000	260,000
8	103,500	150,000	200,500
7	80,500	115,000	149,500
6	62,700	89,600	116,500
5	48,800	69,800	90,700
4	38,300	54,600	71,000
3	30,100	43,000	55,900
2	23,800	34,000	44,200
1	18,900	27,000	35,100

30%

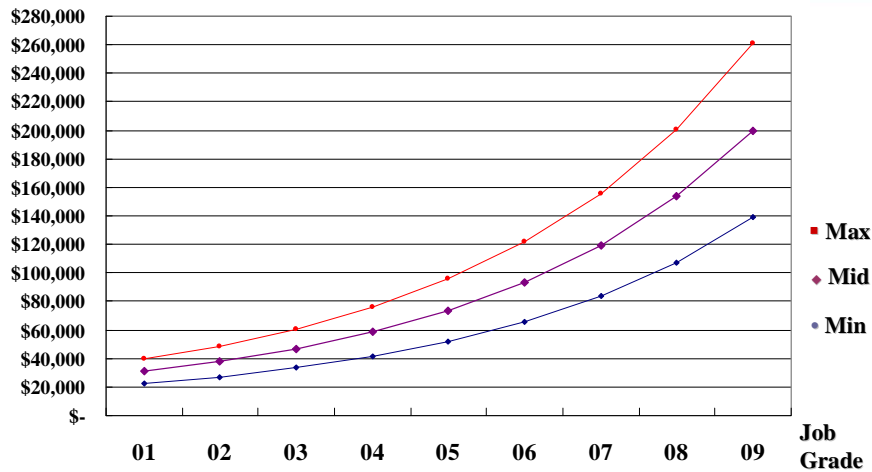
30%

EXAMPLE

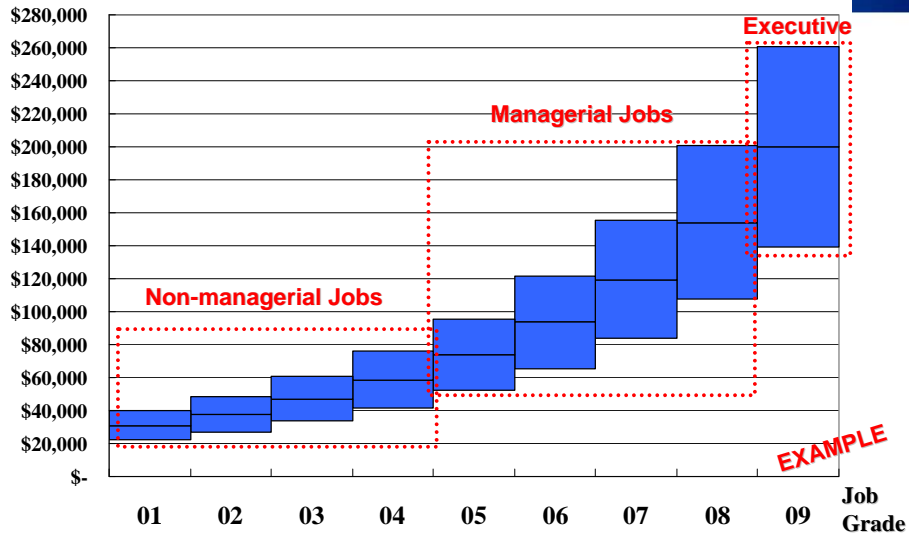
Salary Structure

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

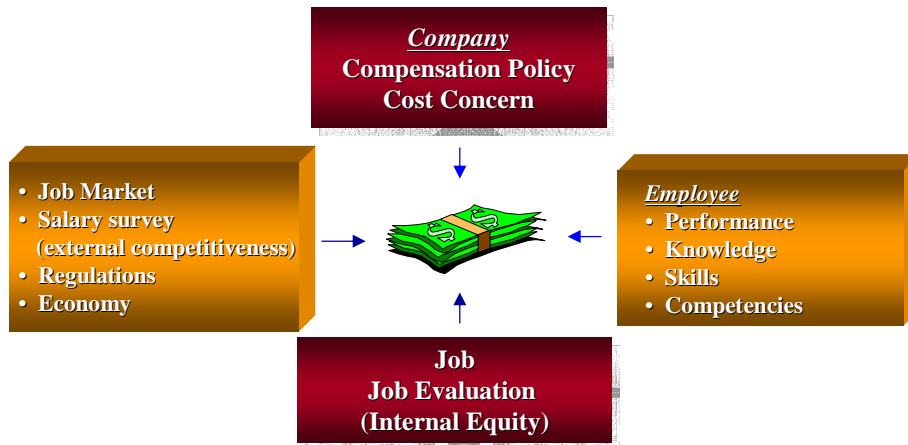
Salary Structure



Salary Structure

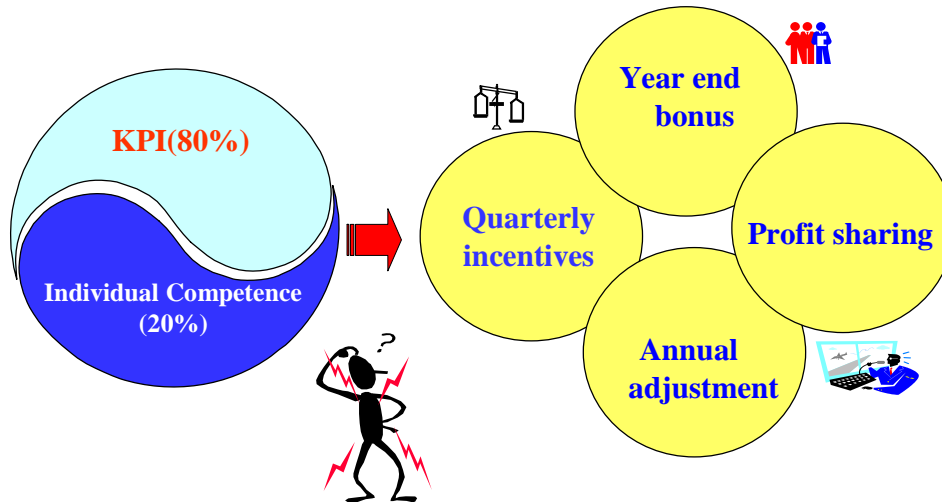


Deciding Variable Compensation

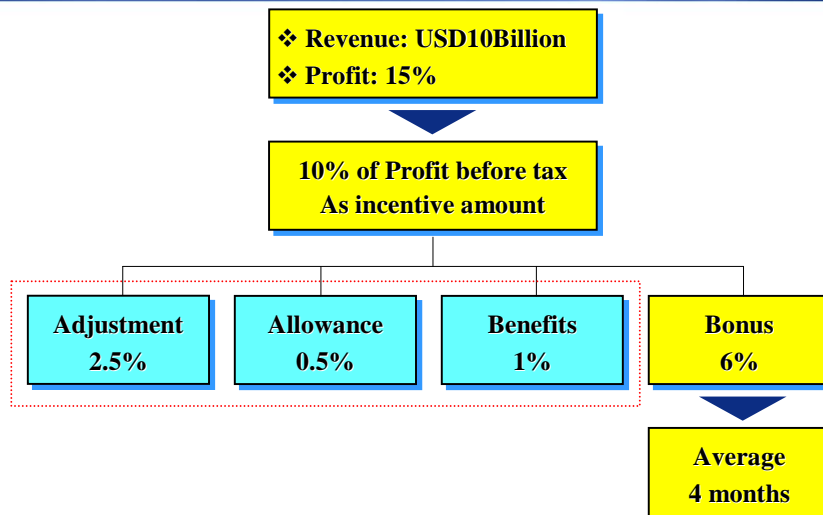


5.7. Linking Rewards with Performance : Pay for Performance Plans

Rewards linked with Performance



Performance-based Incentive Amount and Allocation



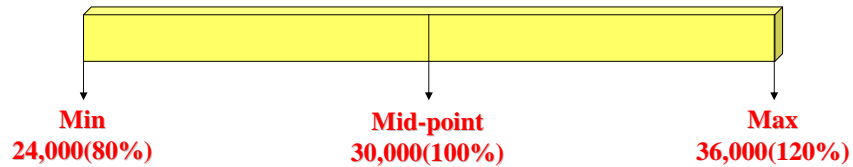
Performance-based Bonus

Rating	Excellent	Outstanding	Good	Acceptable	Need Improvement
Weight	2	1.4	1	0.6	0
Bonus (months)	8	5.6	4	2.4	0



Compa-Ratio, CR

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



- ❖ Tom's salary is 27,000 ,the Compa-Ratio is: $27,000/30,000 \times 100\% = 90\%$
- ❖ Individual
- ❖ The same grade
- ❖ The whole department
- ❖ The whole company

Performance-based annual salary adjustment

Focus Areas (Low salary but high performance)

CR Rating	<75%	75-85%	85-95%	95-105%	105-115%	115-125%	>125%
A(10%)	12 %	10 %	9 %	8 %	7 %	6 %	5 %
B(20%)	9 %	8 %	7 %	6 %	5 %	4 %	3 %
C(40%)	7 %	6 %	5 %	4 %	3 %	2 %	1 %
D(20%)	4 %	3 %	2 %	1 %	0	0	0
E(10%)	0	0	0	0	0	0	0

EXAMPLE

Service Years and Performance Decides Profit Sharing

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

Performance Rating	A	B	C	D	E
	* 1.3	* 1.1	* 1	* 0.9	* 0.7

Summary

Pay systems are tools, and like any tools, they need to be evaluated in terms of usefulness in achieving an organization's objectives.

Prof. George Milkovich, Cornell University



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.

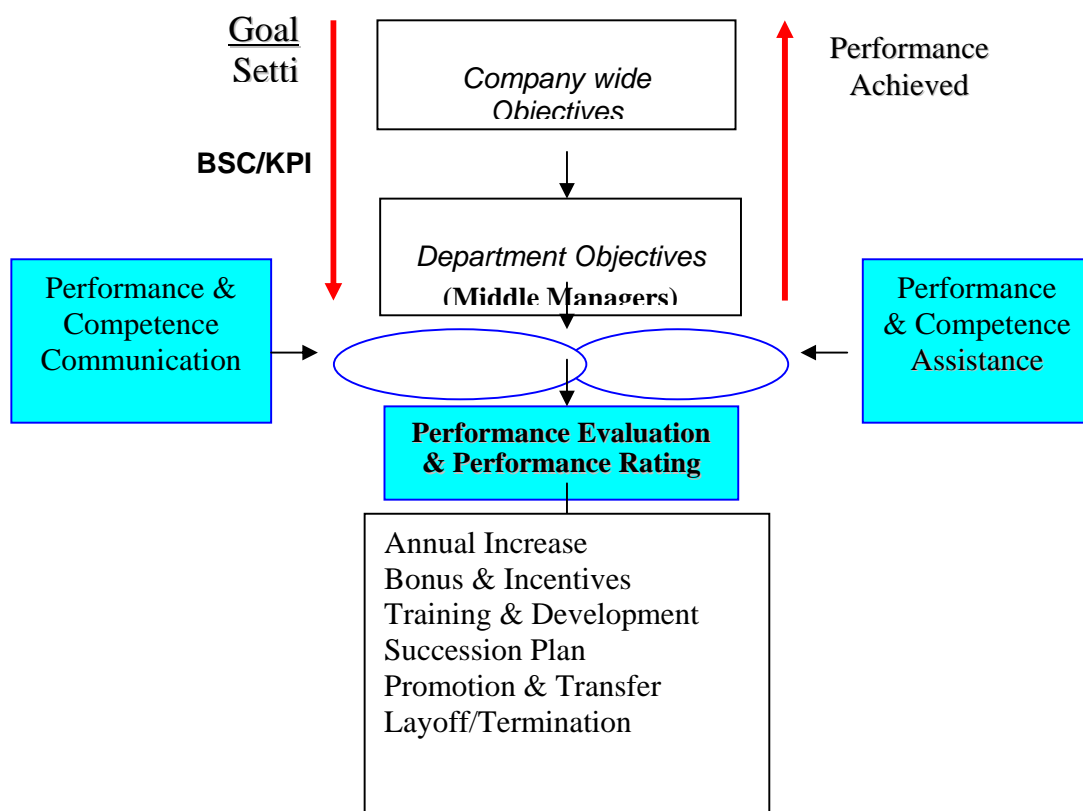
Pay for performance programs are gaining in popularity in the Chinese Taipei's organisations. The survey of Watson Wyatt found more than two-thirds of surveyed companies in consumer products, high-tech, and pharmaceutical industries paid a performance -related bonus to employees. Variable bonus was most 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.

6.1. Framework of Performance Measurement & Management Practice

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



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

Rating	Compa-Ratio					
	75%	Q1	Q2	Q3	Q4	125%
Excellent	12%	11%	10%	9%	8%	7%
Outstanding	10%	9%	8%	7%	6%	5%
Good	8%	7%	6%	5%	4%	3%
Fair	4%	3%	2%	1%	0%	0%
Need to Improve	0%	0%	0%	0%	0%	0%

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

Rating	Bonus Weight	Year-end Bonus (Month)
Excellent	2	8
Outstanding	1.5	6
Good	1	4
Fair	0.5	2
Need to Improve	0	0

Note: Data for illustration only

Table 7: Profit Sharing–Stock Bonus Align with Performance

Seniority \ Grade	1yr	1-3yr	3-5yr	5-9	10yr
9	160	320	480	640	800
8	130	260	390	520	650
7	110	220	330	440	550
6	90	180	270	360	450
5	70	140	210	280	350
4	50	100	150	200	250
3	0	60	90	120	150
2	0	40	60	80	100
1	0	20	30	40	50

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: 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.

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 unfit 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.

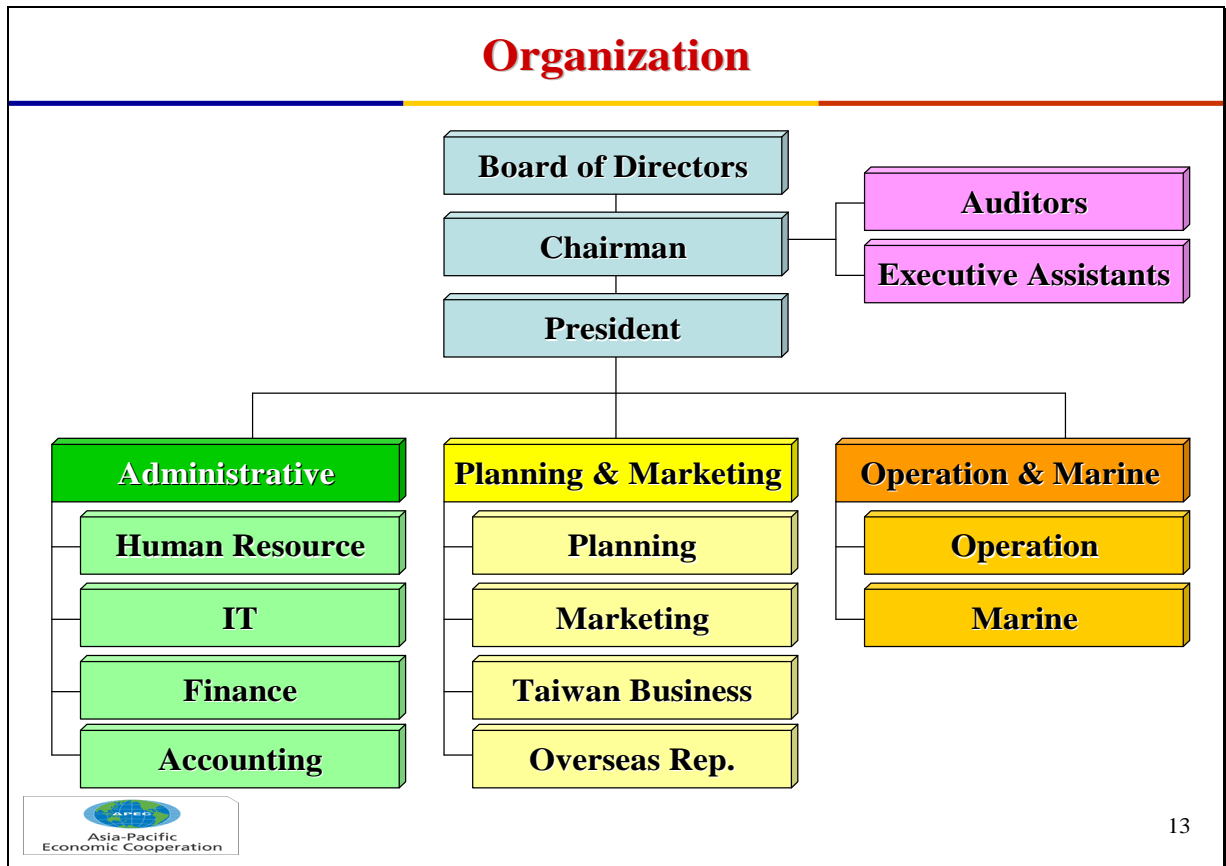
This case illustrates how competence-based HR practices can help an organisation to enhance/improve its business performance by implementing business reengineering process in a dynamic environment. Since human capital is embedded in individual employees, even the company can reengineer business model, 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.

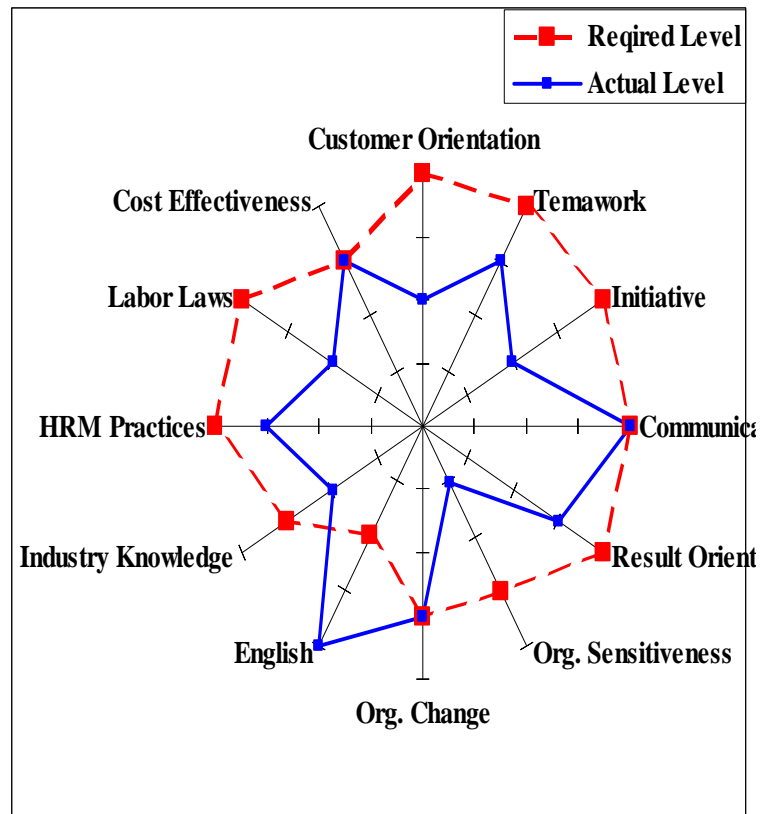
7.1.9 Organisation Chart



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.

Competence Gap



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.



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.

Grade Conversion Table

Grade	Point Range
9	2105-2350
8	1855-2100
7	1605-1850
6	1355-1600
5	1105-1350
4	855-1100
3	655-850
2	455-650
1	255-450

** Data for Illustration Only*



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

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



** Data for Illustration Only* 17

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

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

** Data for Illustration Only*



7.1.15 Enterprise Level Performance-Based Compensation System

Salary Increase Align with Performance

Compa-Ratio Rating	≤ 75%	Q1	Q2	Q3	Q4	≥ 125%
Excellent (10%)	12%	11%	10%	9%	8%	7%
Outstanding (15%)	10%	9%	8%	7%	6%	5%
Good (50%)	8%	7%	6%	5%	4%	3%
Fair (15%)	6%	5%	4%	3%	2%	0
Need To Improve (10%)	2%	0	0	0	0	0

● Q1: 75%-87.5% Q2: 87.5%-100% Q3: 100%-112.5% Q4: 112.5%-125%




** Data for Illustration Only* 21

7.1.16 Performance-Based Bonus Payment

Year-end Bonus Align with Performance					
Rating	Excellent (10%)	Outstanding (15%)	Good (50%)	Fair (15%)	Need to Improve(10%)
Bonus Weight	2	1.5	1	0.5	0
Bonus (Month)	8	6	4	2	0

** Data for Illustration Only*



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7.1.17 Profit Sharing Practice

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

Excellent	Outstanding	Good	Fair	Need To Improve
* 1.3	* 1.1	* 1	* 0.9	* 0.7

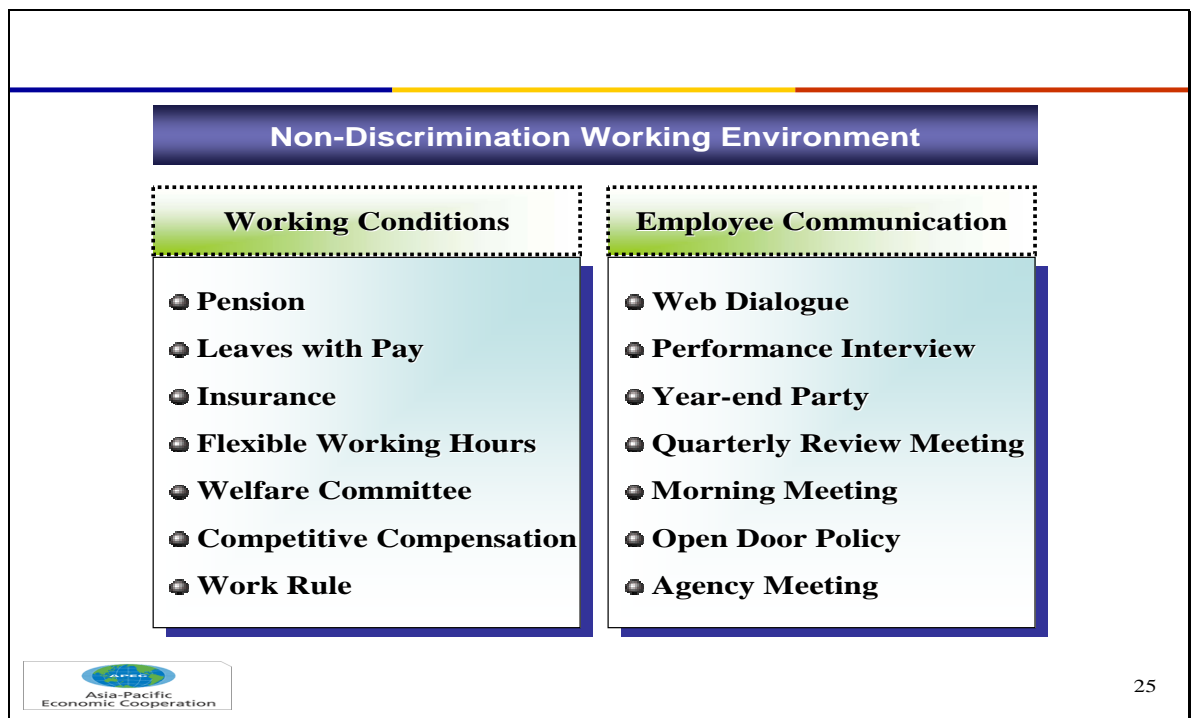
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7.1.18 about Management in the Company

- 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:



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.

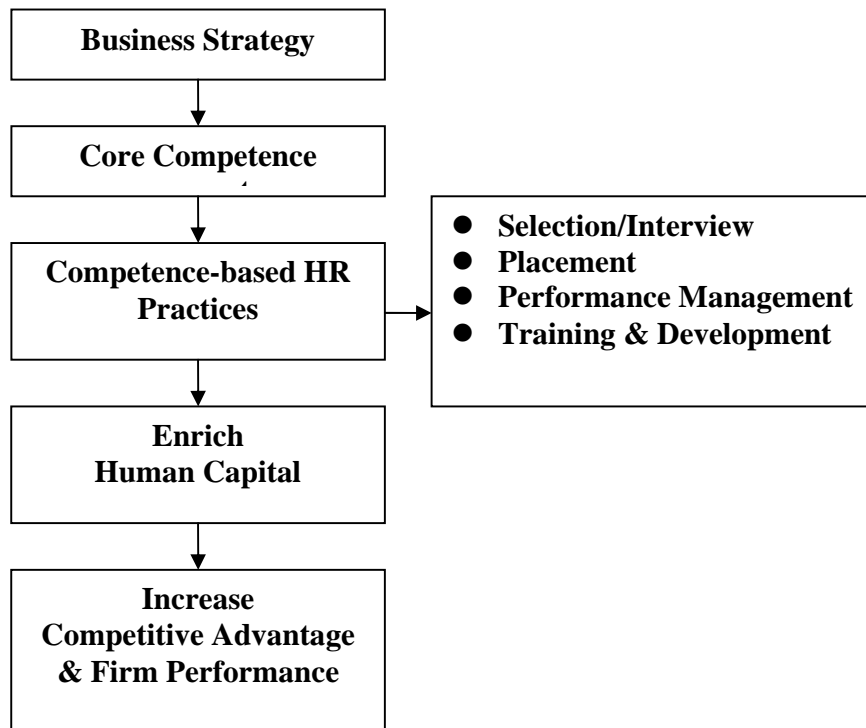
Given that reality and difficulties mentioned above, in order to speed up the organisational change, CEO decided to invite external consultants to start the reengineering project in 2000. The project scope included developing the bank's business strategy, key performance indicators, core competence, 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).

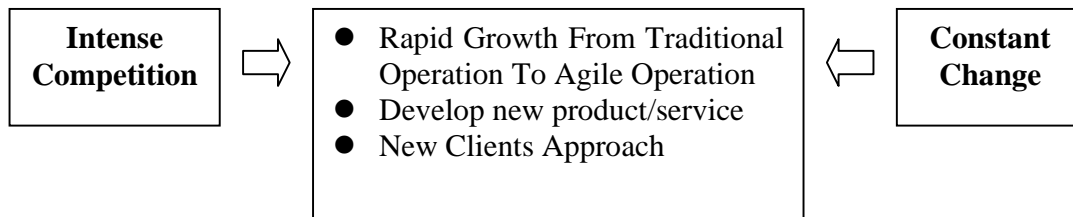
Figure 5: Reengineering Process



8.3 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, develop new product/service, and approach new clients (see Figure 6).

Figure 6 : Business Strategy



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).

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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.

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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 unfit 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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