

**Research on the Impact of Performance-based Remuneration Systems on
Productivity Performance of Local Industries**

Chinese Taipei's Experience

By

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Chinese Taipei

1.0 Background and Introduction

After several years of rapid and almost unhampered growth, the global economic landscape is changing. Rising food and energy prices, a major international financial crisis and the related slowdown in the world's leading economies are confronting policymakers with new economic management challenges. Managing a business through the downside of an economic cycle is challenging for multinational organisations. They must effectively manage the compensation and benefit costs of a global workforce during periods of intense profit pressure and divergent inflation rates.

Watson Wyatt's 2008 study on North American multinational organisations reveals that in the face of volatile market conditions they are most concerned with the impact of rising global inflation on people costs in non-United States operations. To manage pressures of profitability they are focused on the areas where they have immediate and direct control. Multinationals are planning to move more operations offshore to lower cost regions. They also plan to address the costs of governance and support by regionalising benefits, compensation and Human Resource (HR) staff in order to increase efficiency and stay close to the market.

Attracting, motivating and retaining top talent in an increasingly competitive global marketplace is an ongoing struggle. Multinational firms face varying challenges around the world. In some countries, tightening labour markets are exacerbating on-going cost pressures and causing companies to take a total rewards approach. In addition, firms are increasingly shifting to more centralised compensation and benefits structures. This helps ensure that key employees

and executives around the world share the same incentives. At the same time, CEO pay remains under the microscope. Companies are responding by deemphasising stock options while stressing actual share ownership. They are also taking a “portfolio” approach that mixes various performance-based incentives into a compelling and balanced total pay package. Increasingly, companies are adapting similar models further down the organisation chart in an effort to motivate and align workers at all levels.

In the changing environment, management focused largely on how to control costs without affecting talent and productivity and which remain as an important concern. Since then the stakes have changed. There is still a very real war for talent but it is now being waged in more uncertain economic landscape. Winning the talent war requires innovative and aggressive strategies for attracting and retaining high-performing individuals. These strategies are getting harder to implement in today’s economic climate. The primary reason some companies struggle to attract and retain critical-skills and top-performing employees is because they have not adopted long-term talent management strategies that allows them to stay ahead of competition.

Companies need to recognise the dynamics of the marketplace to better serve their talent needs. For example, salary effectiveness, delayed retirement for baby boomers, increasing immigration rates, untapped workforces in inner cities and outsourcing to foreign locales are all potential solutions to talent shortages. However, companies need to figure out how to leverage them. Executing a talent management strategy is the key to success and the point is those companies need to create a work environment where individuals thrive.

Organisations need to take a good hard look at themselves and develop programs that turn weaknesses into strengths as well as enable it to build its own brand.

The key to understanding what drives engagement and therefore what keeps people on board is simple; listen to employees, solicit feedback in a variety of ways such as surveys, focus groups and blogs. This will enable the dialogue to identify recruitment needs, career development and other programs that will identify retention strategies. In short, it is important to understand what these companies have done to address their need for talent. They have analysed their labour markets, gained an understanding of what attracts and motivates talent and focused their efforts on targeted programs to fit their needs.

2.0 Chinese Taipei's Economic Performance and Labour Cost

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 engineering, science, technology and high value-added manufacturing. Chinese Taipei's economy achieved considerably high economic growth from the 1960's to 1980's under import substitution industrialisation strategy, expansion of export-oriented labour-intensive light industries strategy and import substituting heavy industries strategy. The success of the strategy is reflected in the changing composition of production with the share of industrial products increasing while that of agricultural products had decreased. Exports grew at an annual average rate of 17.7% while GDP grew at an average rate of 9.3% during the transition from an agriculture-based economy to a production-based economy. However, the increasingly competitive global economy pushes firms to make use of all of their

available resources as a means of achieving competitive advantage.

In the early 1990's, service-based economy became prominent and thus supported Chinese Taipei's industrial structure. Nevertheless, the manufacturing industries comparative advantage was steadily slipping away. From 1987 to 1997 the industrial output as a share of GDP decreased from 47.1% to 34.9%, while for manufacturing industries, the share of GDP fell from 38.9% to 27.7%. During this period, Chinese Taipei found that the only avenue available was for industries to upgrade to higher technology with capital and technology intensity replacing the no longer viable labour intensity of the past. In view of this, the government launched the "Ten Newly Industries Program" which helped the economy towards hi-tech orientation.

To develop Chinese Taipei as a knowledge-based economy and recognise the rise in globalisation means that cost-savings in production can no longer support continuous economic development. At the beginning of the 21st century the government implemented a series of programs such as "The Challenge 2008 National Development Plan", "The New Ten Projects" and the "Plan to Develop Knowledge-based Economy" which would add value to high-tech and traditional industries as well as encourage innovation and foster new ventures as a means to maintain global competitiveness.

2.1 Economic Performance, 2008

Since 1979, the World Economic Forum's (WEF) annual **Global Competitiveness Reports** have examined the many factors that enable national economies to achieve sustained economic growth and long-term prosperity. Today's volatility underscores the importance of competitiveness supporting economic environment that can help national economies to weather these types of shocks in order to ensure solid economic performance in the future. A nation's level of competitiveness reflects the extent to which it is able to provide rising prosperity to its citizens. Their goal over the years has been to provide benchmarking tools for business leaders and policymakers to identify obstacles to improve competitiveness and stimulate discussion on strategies to overcome them. For the past several years, the World Economic Forum has based its competitiveness analysis on the Global Competitiveness Index (GCI), a highly comprehensive index for measuring national competitiveness which captures the microeconomic and macroeconomic foundations of national competitiveness.

WEF defined ***competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country.*** The level of productivity in turn, sets the sustainable level of prosperity that can be earned by an economy. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. The productivity level also determines the rates of return obtained by investments in an economy. Since the rates of return are the fundamental drivers of the growth rates of the economy, a more competitive economy is one that is likely to grow faster over the medium to long term.

The concept of competitiveness thus involves static and dynamic components. Although the productivity of a country clearly determines its ability to sustain a high level of income, it is also one of the central determinants of the returns to investment which is one of the key factors explaining an economy's growth potential. The competitive performances of Asia Pacific economies continue to encompass the entire gamut, from highly competitive countries to the most challenged. Singapore, Hong Kong (11th) and Australia (18th) continued their ascent in the rankings while Japan, Korea (13th) and Chinese Taipei (17th) dipped in their positions. Nine Asia Pacific countries are among the top 30 led by Singapore and followed by Japan, Korea, Hong Kong, Chinese Taipei, Australia, Malaysia (21st), New Zealand (24th)—and this year China enters the top 30 displacing Thailand (34th).

Based on the GCI scores (Table 1), Chinese Taipei was at 17th place, down three places from last year, draws its greatest competitive strengths from its education sector and related business innovation. With regards to education, Chinese Taipei has high enrollment rates at all levels and the education system gets good marks for quality (although the quality rating is weaker than in past years). In addition, companies provide a high level of continuing on-the-job training, ensuring that the workforce can adapt to the rapidly changing economy. Relating to innovation, Chinese Taipei has a large pool of scientists and engineers and it benefits from high expenditure by companies on Research and Development (R&D) and strong collaboration between research institutions and the business sector in innovation. All of these have enabled Chinese Taipei to be first worldwide in terms of the patenting per capita of new inventions. On the other hand, Chinese Taipei's financial markets represent a comparative

weakness with concerns about the soundness of banks (ranked 117th) and the restriction of capital flows (78th). Similarly, public institutions could be further strengthened. The drop to three places in the rankings is due a large part to the deterioration of various aspects of the institutional environment, relatively low public trust in politicians, some concerns about a lack of judicial independence and increasing complaints about the regulatory burden faced by companies operating in the economy.

Key economic highlights of Chinese Taipei include:

- Total population (millions), 2007.....22.7
- GDP (US\$ billions), 2007.....383.3
- GDP per capital (US\$), 2007.....16,060.0
- GDP as share (%) of world total, 2007.....1.06
- Average unemployment rate from January to August 2008, is 3.93%.
- The Consumer Price Index (CPI) from January to September 2008, is 105.01, climbed 4.1%, markedly higher than the same period of previous year.
- Chinese Taipei's energy efficiency continued its steady rise with the natural resource energy consumption elasticity ratio down from 0.78% in 2004 to 0.73% in 2006, demonstrating the slowing growth rate of domestic energy consumption.

Table 1: Global Competitiveness Index, WEF, 2008

	Rank (out of 134)	Score (1-7)
GCI 2008-2009	17	5.2
GCI 2007-2008 (out of 131)	14	5.2
GCI 2006-2007 (out of 122)	13	5.3
Basic requirements	20	5.5
Institutions	40	4.7
Infrastructure	19	5.5
Macroeconomic stability	18	5.8
Health and primary education	20	6.2
Efficiency enhancers	18	5.1
Higher education and training	13	5.5
Goods market efficiency	14	5.2
Labour market efficiency	21	4.8
Financial market sophistication	58	4.5
Technological readiness	15	5.3
Market size	16	5.1
Innovation and sophistication factors	8	5.3
Business sophistication	12	5.3
Innovation	7	5.2

Source: The Global Competitiveness Report 2008-2009, World Economic Forum

From a list of 15 factors, respondents were asked to select the five most problematic for doing business in Chinese Taipei and to rank them between 1 (most problematic) to 5 (least problematic). The top 3 in Chinese Taipei are policy instability, inefficient government bureaucracy and inflation. The details are as the follows:

1. Policy instability.....	19.8
2. Inefficient government bureaucracy.....	15.8
3. Inflation.....	11.9
4. Tax regulations.....	11.0
5. Restrictive labour regulations.....	7.5
6. Government instability.....	6.7
7. Tax rates.....	6.3
8. Foreign currency regulations.....	5.3
9. Access to financing.....	4.9
10. Corruption.....	3.2
11. Inadequate supply of infrastructure.....	2.6
12. Inadequately educated workforce.....	2.0
13. Poor work ethic in national labour force.....	1.6
14. Crime and theft.....	0.7
15. Poor public health.....	0.7

2.2 Labour Cost Competitiveness in Chinese Taipei

Higher productivity and lower unit labour cost is essential for increasing a firm's competitiveness. During the last five years productivity in all industries in Chinese Taipei improved gradually. However, during the same period unit labour cost decreased. When the growth of productivity is positive compared to a negative growth in unit labour cost there is a possibility for wage increases.

Some in a society attribute job losses or gains to differences in compensation. People in some countries complain about losing manufacturing jobs to China,

Mexico and other countries. Table 2 reveals that the hourly wages for Chinese manufacturing work are 2.8% (\$6.43/hour) of those paid in the United States (\$23.82/hour). However, the value of what is produced also needs to be considered. Data from U.S. Department of Labour, Bureau of Labour Statistics shows that manufacturing productivity in China is about 10% of that of U.S. workers while Mexican workers productivity is 25% of U.S. workers.

Labour cost is increasing in Chinese Taipei but productivity is also increasing. In a highly competitive environment many businesses moved out of Chinese Taipei to China and other regions. The main reason is labour cost. This is the same situation as the United States. Labour cost in China is only 10% for those in Chinese Taipei.

Table 2: Hourly Compensation Costs for Production Workers in Major Manufacturing Countries (USD)

No	Country	Hourly Pay	Index
1	China	0.67	3
2	Philippines	1.07	4
3	Mexico	2.75	12
4	Brazil	4.91	21
5	Poland	4.99	21
6	Hong Kong	5.78	24
7	Hungary	6.29	26
8	Chinese Taipei	6.43	27
9	Czech Republic	6.77	28

No	Country	Hourly Pay	Index
10	Portugal	7.65	32
11	Singapore	8.55	36
12	Israel	12.98	54
13	New Zealand	14.47	61
14	Korea	14.72	62
15	Greece	16.10	68
16	Spain	18.83	79
17	Japan	20.20	85
18	United States	23.82	100
19	France	24.90	105
20	Italy	25.07	105
21	Canada	25.74	108
22	Ireland	25.96	109
23	Australia	26.14	110
24	United Kingdom	27.10	114
25	Luxembourg	27.74	116
26	Finland	29.90	126
27	Austria	30.46	128
28	Switzerland	30.67	129
29	Sweden	31.80	133
30	Belgium	31.85	134
31	Netherlands	32.34	136
32	Germany	34.21	144
33	Denmark	35.45	149
34	Norway	41.05	172

Source: U.S. Bureau of Labour Statistics, January 2008

3.0 Union and Labour Management Relations in Chinese Taipei

3.1 Impact of Government Policy on Firm People Management Strategy

- **Labour Pension Act (Executed in 2005 July)**

- Changed 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 where employee's monthly salary should 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 Agreements, yearly negotiations are made for annual increments and bonus quantum but it is rare in this case.

3.2 Labour Management Relations in Chinese Taipei

In Chinese Taipei labour management is based on the main 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 is 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 that strong and therefore have minimal bargaining power. Existing workers always rely on the state through the function of regulation instead of the unions through the mechanism of collective bargaining. For the past five years the organisation rate of industrial unions declined to around 49 - 50%.

- **Labour-Management Conference**

For enhancing employee and employer relationship the government linked this mechanism to overseas investment and IPO approval and working hour arrangements. It means that when a certain company wants to invest overseas or join the financial open market, if the company fails to run this mechanism or follow the regulations the authorities 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 it shall be with the prior consent of their trade unions. If there is no trade union in the business entity, then the agreement of the Labour-Management Conference will apply.

- **Labour Representative on Board**

According to the regulation, in the state-owned enterprise, trade unions can select their members to be a member of the Board. The number of labour representatives should not be less than 20% of the total position for the government share. When employees have a seat on 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 and collective bargaining is popular. Labour conditions are the core issue in bargaining events.

- **Labour Dispute and its Settlement**

As for the labour disputes, labour contract disputes are the most common. For settlement there are different kinds of procedures 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 among those in the 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 programs.

3.3 Employment and Labour Force Indicators¹²

Chinese Taipei had been ranked 13th position out of 55 economies in the World Competitiveness Yearbook 2008 for overall competitiveness which is an improvement of 5 positions from 18th in 2007. The employment and Labour Force Indicators are selected from the World Competitiveness Yearbook to show Chinese Taipei's competitiveness in the areas of employment, labour cost and labour market as follows:

Employment Indicators

EMPLOYMENT	WCY 2007		WCY 2008	
		Rank		Rank
Employment				
Total Employment in Millions	10.11	27	10.29	28
Percentage of Population	44.20	30	44.84	34
Employment-Growth				
Estimates: Percentage change	1.70	35	1.81	36
Employment in the Public Sector				
Percentage of Total Employment	9.67	13	9.24	11
Unemployment Rate				
Percentage of Labour Force	3.91	11	3.91	11
Long Term Unemployment				
Percentage of Labour Force	0.71	9	0.53	10

¹² Selected Competitiveness Indicators on Employment and Labour Force, World Competitiveness Yearbook, 2008

EMPLOYMENT	WCY 2007		WCY 2008	
Youth Unemployment		Rank		Rank
Percentage of Youth Labour Force (Under the age of 25)	10.31	15	10.65	19
Employment By Sector				
Agriculture (% of Total Employment)	5.9	49	5.5	49
Industry (% of Total Employment)	36.4		36.6	
Services (% of Total Employment)	57.7		57.9	
Labour Regulations				
Labour Legislation (hiring/firing practices, minimum wages etc.) do not hinder business activities	5.77	18	5.94	9
Unemployment Legislation				
Unemployment legislation provides an incentive to look for work	5.54	17	4.97	22
Immigration Laws				
Immigration laws do not prevent your company from employing foreign labour	5.62	35	4.68	43
Working Hours				
Average number of working hours per year	2,256	5	2,256	5
Labour Relations				
Labour relations are generally productive	7.10	18	7.42	9
Worker Motivation				
Worker motivation in companies is high	7.04	13	7.38	5
Industrial Disputes				
Working days lost per 1,000 inhabitants per year (Average 2003-2005)	0.00	1	-	-
Employee Training				
Employee training is a high priority in companies	6.49	17	6.77	13

- Indicators on Labour Cost Competitiveness

LABOUR COST COMPETITIVENESS	WCY 2007		WCY 2008	
		Rank		Rank
Labour Productivity (PPP)				
Estimates: GDP (PPP) per person employed per hour (US\$)	26.73	24	27.75	26
Labour Productivity (PPP) Growth				
Percentage change of GDP (PPP) per person employed per hour	6.12	13	3.82	17
Compensation Levels				
Estimates : Total hourly compensation for manufacturing workers (wages + supplementary benefits) US\$	6.30	23	6.43	24
Unit Labour Costs in Manufacturing				
Percentage change	-2.37	7	-5.37	2
Remuneration in Services Professions				
Gross annual income including supplements such as bonuses in US\$:				
• Bank Credit Officer	22,900	29	22,900	30
• Department head	62,000		62,000	
• Primary school teacher	22,000		22,000	
• Personal assistant	11,900		11,900	
• Call center agent	12,400		12,400	
Remuneration of Management				
Total base salary plus bonuses and long-term incentives, US\$				
• CEO	221,385	16	204,029	13
• Engineer	60,103		57,518	
• Director Manufacturing	116,215		111,431	

Remuneration of Management	WCY 2007		WCY 2008	
Total base salary plus bonuses and long-term incentives, US\$		Rank		Rank
• Human Resources Director	99,423		99,033	
LABOUR FORCE INDICATORS				
Labour Force				
Employed and registered unemployed millions	10.52	27	10.71	28
Labour Force				
Percentage of Population	45.99	36	46.66	37
Labour Force Growth				
Percentage change	1.46	23	1.82	20
Part-Time Employment				
Percentage of total employment	0.97	45	2.99	42
Female Labour Force				
Percentage of total labour force	42.45	35	42.91	35
Foreign Labour Force				
Percentage of total labour force	3.15	26	3.22	24
Skilled Labour				
Skilled labour is readily available	6.29	12	6.77	1
Finance Skills				
Finance Skills are readily available	6.41	27	6.71	16

- **Labour Market Indicators : Availability of Skills**

LABOUR MARKET : AVAILABILITY OF SKILLS	WCY 2007		WCY 2008	
		Rank		Rank
Attracting and Retaining Talents				
Attracting and retaining talents is priority in companies	7.48	18	7.03	24
Brain Drain				
Brain drain (well-educated and skilled people) does not hinder competitiveness in your economy	5.39	27	4.59	34
Foreign High-Skilled People				
Foreign high-skilled people are attracted to your country's business environment	5.00	29	4.90	26
International Experience				
International experience of senior managers is generally significant	5.48	27	5.68	21
Competent Senior Managers				
Competent senior managers are readily available	5.57	29	6.06	18

Among the employment and labour market areas where Chinese Taipei is strong at (in the top quartile of the ranking of 55 economies) and had contributed to Chinese Taipei's world competitiveness includes, Employment in the Public Sector, Unemployment Rate, Long Term Unemployment, Labour Regulations, Working Hours, Labour Relations, Worker Motivation, Industrial Disputes, Unit Labour Costs in Manufacturing, and Availability of Skilled Labour.

4.0 Performance Management and Development

4.1 Performance Management and Development Mechanism

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 organisation evaluate employees performance? There are four reasons:

- (1) appraisals provide information upon which promotion and salary movements are decided;
- (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 helps managers better manage and improve the firm's performance.

Evaluating performance is a difficult but essential supervisory skill. The manager and not the HR usually does the actual appraising. The manager must be familiar with basic appraisal techniques, understand and avoid problems that can in conducting 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 Measurement Process

The performance management process comprises three steps:

- (1) define the job and set up evaluation criteria;
- (2) manager appraisal performance;
- (3) provide evaluation feedback.

Defining the job means ensuring that you and your subordinate agrees 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 the manager should provide feedback to subordinates. The company makes plans for further developments required. Sometimes, appraisal fails because the subordinates don't know ahead of time exactly what is expected of them in terms of good performance. Others fail because of problems with the forms or procedures used to actually appraise the subordinate. 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 value to operation performance rather than daily activities. They must be focused on task processes.

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 provide feedback periodically. However, the term KPI generally refers to a comprehensive, organisation wide goal-setting and appraisal program comprising six steps:

1. Set the organisation's goals

Based on the company's mission, values, vision and short-term, long-term strategic objectives, the management team establishes a company wide plan for next year and sets 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 department goals with all subordinates. Managers ask employees to set their individual goals. They may and may not have key performance indicators. However, 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 work.

They should provide actual results and comments to employees so that they can improve them in the near future.

Setting up KPIs and PIs would require following the "SMART" rule. Be specific, measurable, acceptable, realistic and timely. An example is "increase number of key accounts in the 2008 financial year by 10% compared to the 2007 financial year."

4.3 Model of HR Strategy-Firm Performance Relationship¹³

HR strategy here is defined as the degree to which the firm utilises High Performance Work Systems (HPWS). The strategic human resource literature (Bamberger & Meshoulam, 2001) has generally identified two major HR strategic types:

- High performance work systems characterised by employee empowerment, selective employment policies, extensive training and development, pay-for-performance and
- Control-based work systems characterised by high levels of standardisation and centralised decision making, seniority-based pay, specific and limited job assignments, evaluation based on behaviours rather than outcomes and limited training.

There are variants on these themes but these typically involve some hybridisation of the high performance and control-based systems. This study analyses the impact of HR systems on firm performance. An important view in recent years has been the resource-based view of HR strategy which holds that crucial knowledge and abilities reside within the employees of the firm and that HR systems that promote the acquisition and utilisation of such knowledge will enhance organisational effectiveness especially in the highly competitive, dynamic and turbulent environment most organisations face in a period of globalisation and rapid technological change.

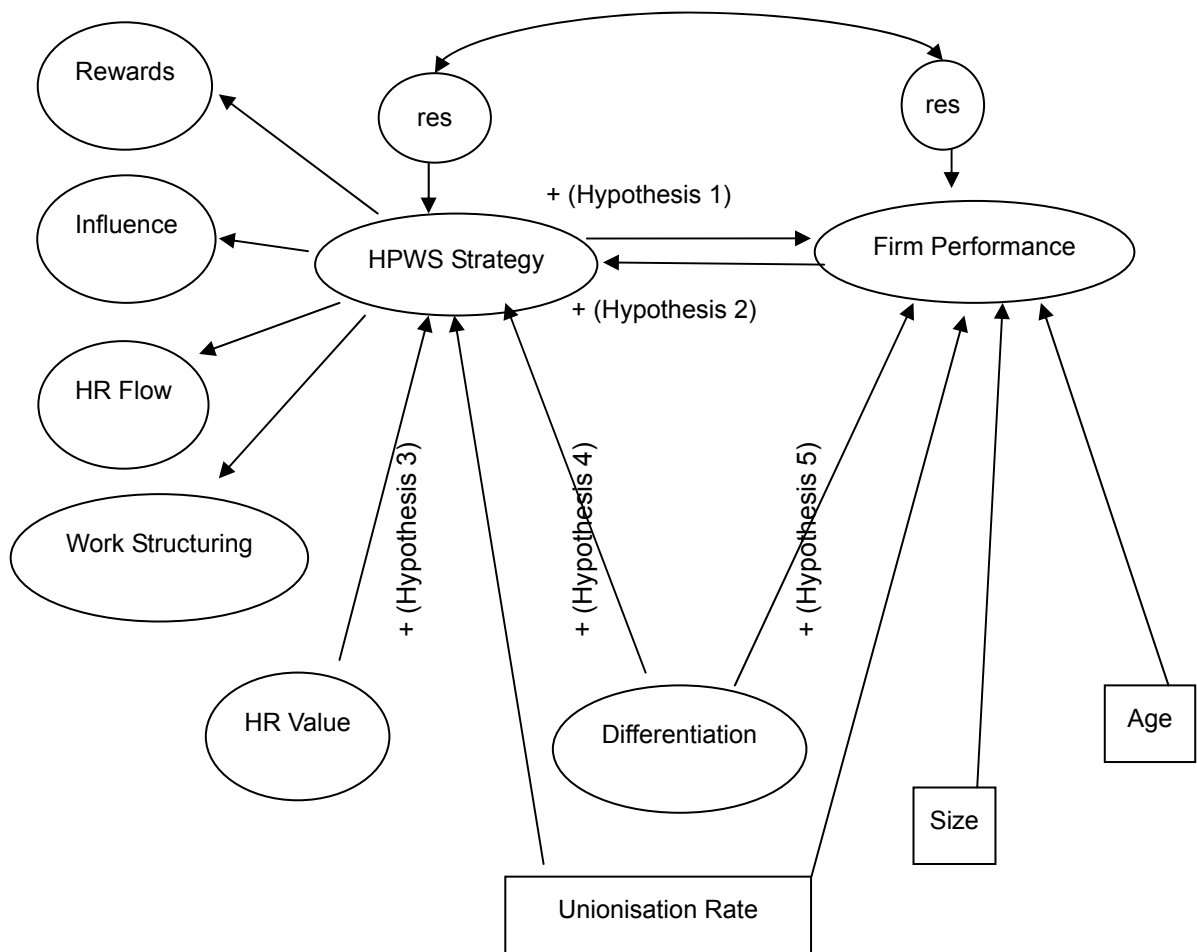
With Chinese Taipei's high level of economic development, workers, particularly younger ones, are more individualistic and less deferential to superiors so

¹³ Abstracted from the study on "Human Resources Strategy and Firm Performance : Taiwanese Firms in China and Taiwan" by Shyh-Jer Chen, John Lawler and Johngeok Bae.

cultural inhibitors to the effective implementation of HPWS are less prevalent. Although control-based work systems may remain dominant in Chinese Taipei many smaller-sized enterprises, newer and larger companies competing more extensively in the global market and involved in the high-technology industries being promoted by the government are more prone to view HPWSs positively (Huang 2001).

A model of the HR Strategy-Firm Performance Relationship was developed to evaluate the relationship between HR Strategy and firm performance using data from domestic and Chinese operations of firms in Chinese Taipei. The structural model is summarised in Figure 1. Firm performance and HPWS strategy are the principal dependent variables in the model, the circles marked “res” associated with each indicates the residual term. HR strategy is reflected in four broad HR sub-systems of HR Flow, Reward Systems, Employee Influence, and Work Structure. Following convention, the ovals represent latent variables, while the rectangles represent observed variables. The expected signs of the relationships are noted, along with references to hypotheses as appropriate.

Figure 1 : Model of HR Strategy on Firm Performance



The hypothesis is:

1. HPWS strategy will positively impact firm performance
2. Firm Performance will positively impact HPWS strategy
3. Perceived HR value will positively impact HPWS strategy
4. Differentiation will positively impact HPWS strategy
5. Differentiation will positively impact firm performance

The findings establishes that HPWSs contribute to organisational effectiveness in Chinese Taipei as the effect is strong and positive. Hence, the study provides support to the mounting evidence that HPWSs can work well in advanced East Asian economies.

5.0 Reward & Incentives Framework and Guidelines

For surviving and ensuring excellence, a 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 a happy and harmonious organisational climate can help attract employees to the organisation and retain those that the organisation wants to keep. Within an organisation, 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. Organisations use compensation to motivate people to:

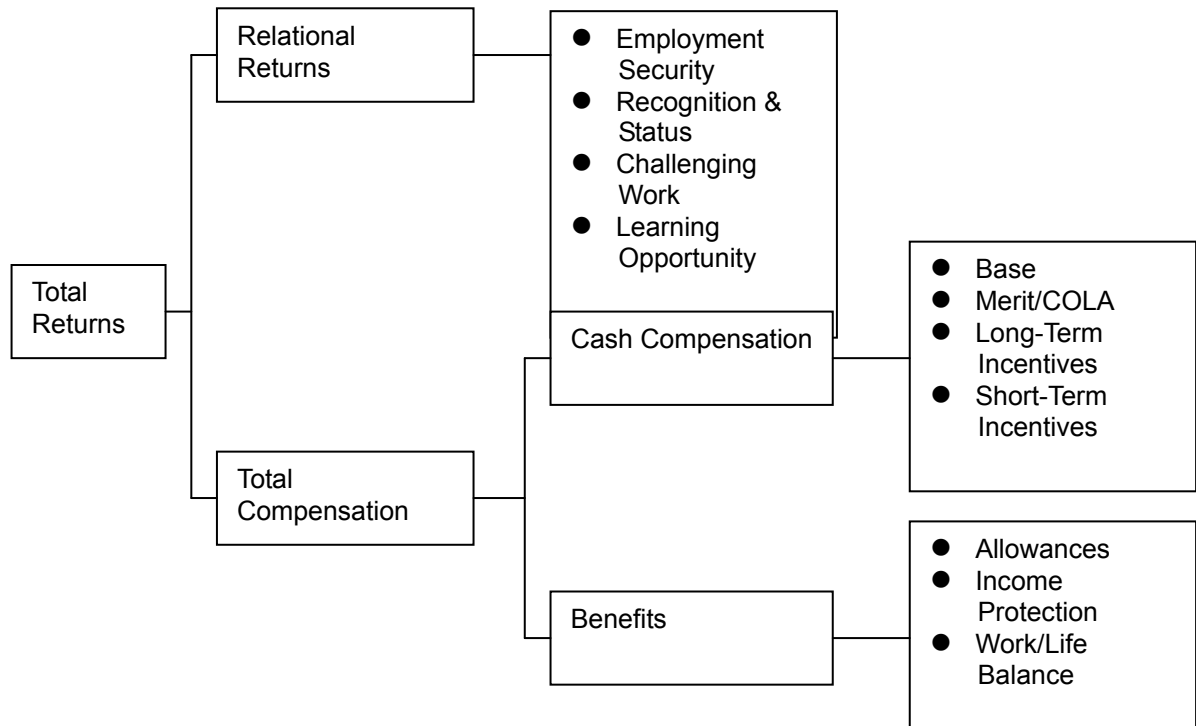
- (1) join the organisation;
- (2) stay with the organisation; and
- (3) to perform at high levels.

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. Secondly, output-based pay motivates workers to put forth effort instead of merely showing up for work. Mahoney (1989) pointed out that there are three basic determinants that should be included in a wage formula; job, performance, and person (including individual's skill, knowledge etc).

5.1 Reward and Incentives 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 (Figure: 2).

Figure 2: Total Returns for Work



Source: G. T. Milkovich & J. M. Newman (2008) *Compensation*

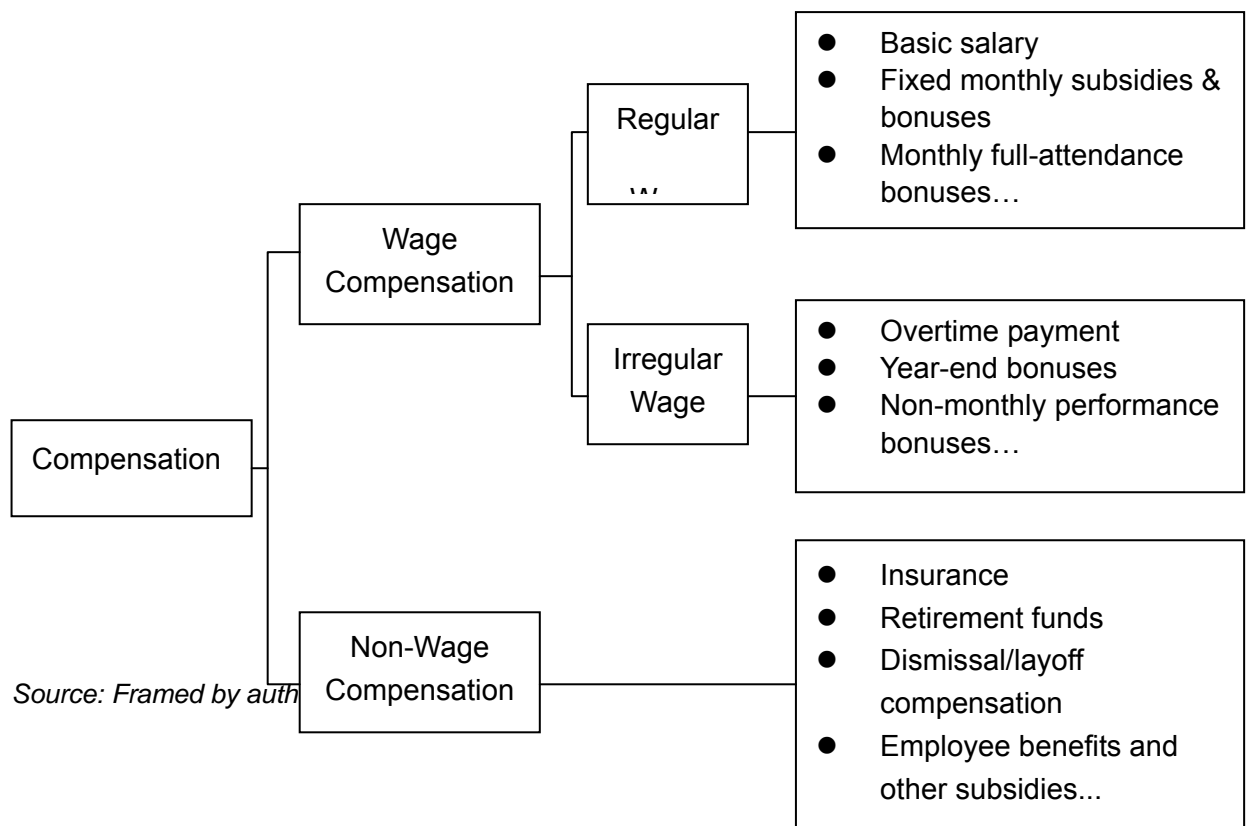
Bergmann, Scarpello & Hills (1998) provided a specific definition of compensation. They defined compensation as: Compensation = Salary + Employee Benefits + Non-recurring Financial Rewards + Non-pecuniary Rewards. Chu (2001) expanded Mahoney's model and demonstrated a four-factor model for Chinese Taipei's compensation theory. In his theoretical model, there are four key elements involving in job-based factor (focus on internal equity, compensation is reflected as 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 i.e. DGBAS and Watson Wyatt.

According to DGBAS¹⁴ 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 3).

¹⁴ 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 and Census Bureau combined in Taiwan.

Figure 3: Compensation in Chinese Taipei based on DGBAS's Definition



Based on DGBAS's definition and its survey, the compensation formulation is as follows: Compensation = RW (regular wage) + IW (irregular wage). Table 3 shows the proportion of regular and irregular wage to average monthly earnings by industry in Chinese Taipei.

Table 3: Proportion of Regular and Irregular Wage to Average Monthly Earnings by Industry in Chinese Taipei

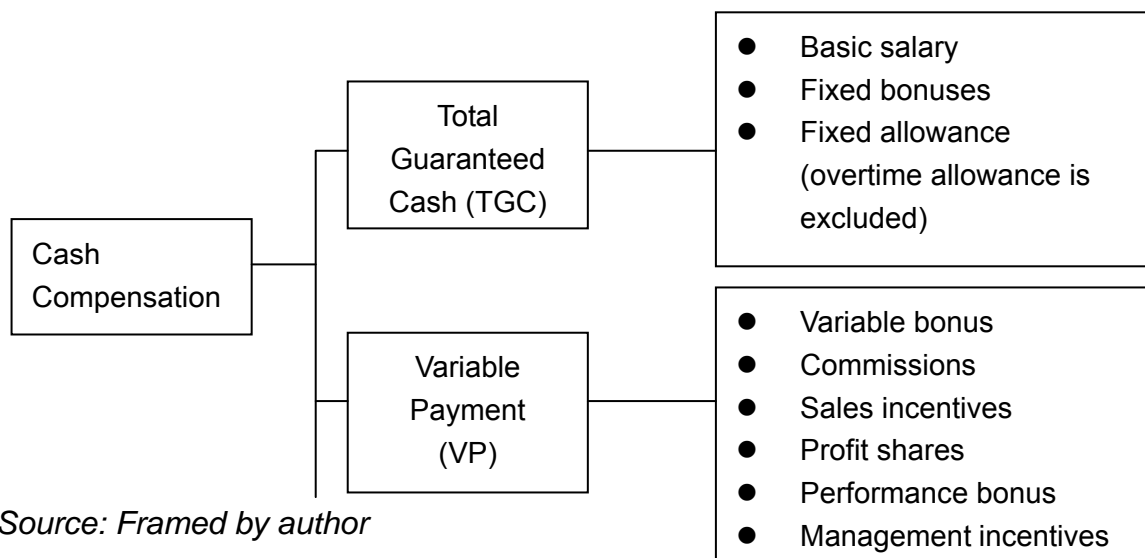
Unit: %

Industry	2004		2005		2006		2007		2008	
	RW	IW	RW	IW	RW	IW	RW	IW	RW	IW
Total	82	18	84	16	88	12	87	13	86	14
Industrial Sector	81	19	83	17	87	13	85	15	85	15
Mining & Quarrying	83	17	84	16	81	19	83	17	86	14
Manufacturing	86	14	87	13	89	11	88	12	88	12
Electricity, Gas & Water	80	20	82	18	80	20	78	22	78	22
Construction	70	30	69	31	68	32	67	33	66	34
Service Sector	91	9	92	8	92	8	92	8	90	10
Trade	86	14	87	13	87	13	86	14	83	17
Accommodation & Eating- Drinking Places	92	8	90	10	88	12	89	11	87	13
Transportation, Storage & Communication	80	20	80	20	78	22	77	23	75	25
Finance & Insurance	73	27	75	25	72	28	71	29	70	30
Real Estate & Rental & leasing	87	13	88	12	86	14	85	15	84	16
Professional, Scientific, Technical Services	85	15	89	11	87	13	86	14	83	17
Health Care Service	83	17	84	16	80	20	78	22	77	23
Cultural, Sporting & Recreational Services	88	12	92	8	86	14	85	15	85	15
Other Services	90	10	90	10	91	9	90	10	88	12

Source: Calculated by author with DGBAS, Earnings and Productivity Statistics data.

Referring to the human resource consulting firm Watson Wyatt's definition, there are two components included in the compensation model; total guaranteed cash and variable payment. The total guaranteed cash comprises basic salary, any fixed bonuses, and any fixed allowances, such as car allowance, and shift allowance, but does not include overtime allowance; the variable payment includes variable bonus, commissions, sales incentives, profit shares, performance bonuses and management incentives (Figure 4 – Compensation Model).

Figure 4: Compensation in Chinese Taipei based on Watson Wyatt's Definition



5.2 Reward and Incentives Guidelines

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 organisations. 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 that 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 organisations 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, organisations in the private sector are putting heavier proportion on performance-based payment than the public sector.

6.0 Performance-Based Remuneration in Chinese Taipei

Pay for performance programs are compensation plans that pay employees on the basis of some performance measure. This performance measures might include such things as individual productivity, team or work group productivity, department productivity, or the overall organisation'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 organisational profitability and employee professional goals.

To ensure 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 Chinese Taipei's organisations. The survey of Watson Wyatt found more than two-thirds of surveyed companies in consumer products, high-tech, financial services, 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.

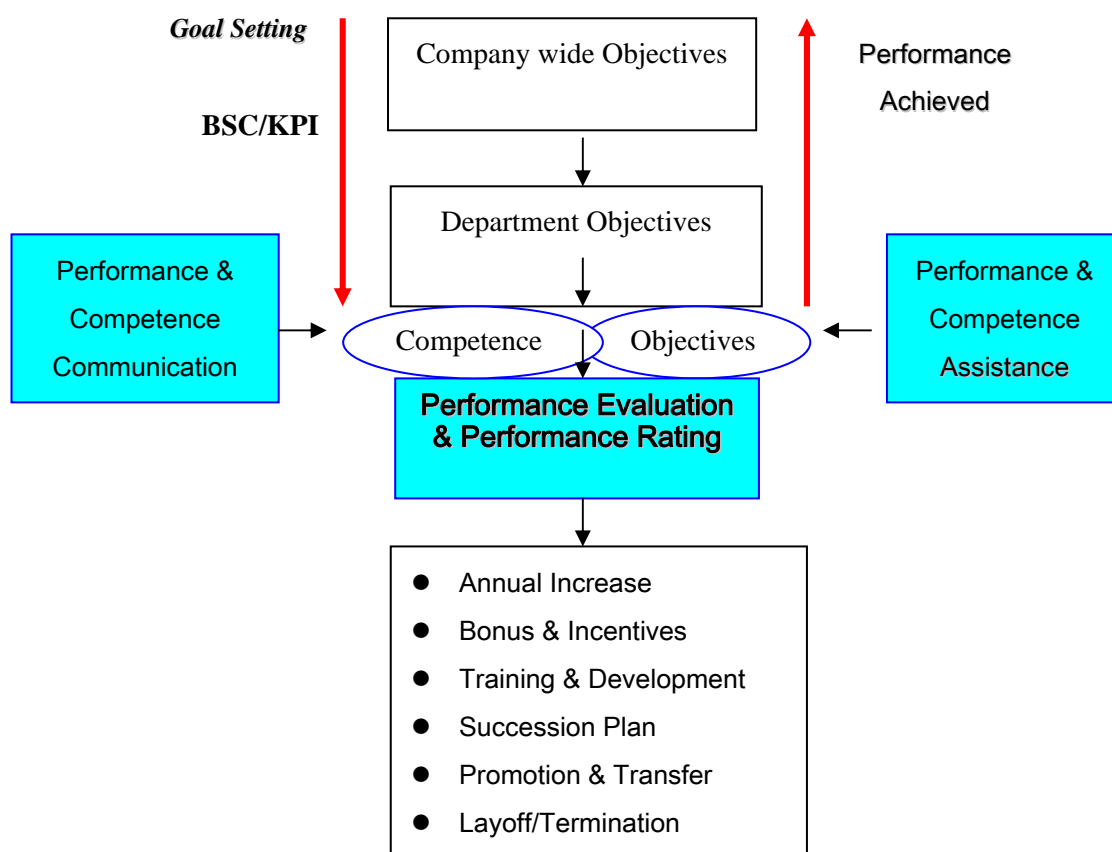
6.1 Impact of Performance-based Remunerations

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 or organisation's performance declines so too does the reward. This has led to enhanced performance and higher productivity. Thus, there is an incentive to keep efforts and motivation strong. Some of the motivating factors are reflected in the enhanced morale in terms of reduction in absenteeism, lower medical bills and less staff turnover.

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. It is also found that many performance-based incentives are based on cost reduction in terms of savings and reduction of wastages. As an example, if the department's utilities bills are reduced from US\$10,000 per month to US\$8,000 per month then the savings of US\$2,000 will be shared based on an agreed savings formula or if at the production floor, there are reduction of wastages in terms of raw materials, then the amount of reduction in wastages will also be shared between management and employees.

Performance measure and management is essential for implementing performance-based compensation system effectively and efficiently. If there is 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 shown in Figure 5.

Figure 5: Framework of Performance Measurement and Management



When a firm carries out a 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 extending 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 competencies and individual competencies and its level for employees. Ensure that each employee is clear about competence in terms of knowledge, skills, 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; and

(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. Management will organise 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 cases, there are only 3 levels for performance rating, outstanding, success and poor. The rating ratio in 5 levels model maybe is 10%, 20%, 40%, 20%, 10%; in 3 levels could be 15%, 70%, 15%. The final result of the performance review is to link to:

(1) compensation adjustment such as base salary increase (including annual or monthly increment), bonus such as profit share (including cash bonus and stock bonus), year-end bonus and for a few companies in hi-tech the bonus is based on performance and is 2 or 3 times more than the annual compensation (Table 4-6).

Table 4: Salary Increase Align with Performance

Compa-Ratio \ Rating	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 5: 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 6: Profit Sharing–Stock Bonus Align with Performance

Seniority \ Grade	1yr	1-3yr	3-5yr	5-9yr	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

6.2 Experience of Manufacturing Industry

32 enterprises in Chinese Taipei were surveyed to focus on how enterprises implement their performance-based compensation scheme and maintain their excellence when facing global challenges and enhancing competitiveness. These target enterprises comprise those from petrochemical, high-tech, automobile and food. Among these companies, 46% have strong linkages of compensation to performance, 25% have a normal linkage and 29% are beginning to moving to performance-based system smoothly but are facing strong resistance from the trade union, employees or incompetent managers.

Regarding the performance management system, all the surveyed companies have a rule for carrying out the performance measurement and management. Many companies involved in this study need to select the essential factors for performance review which is similar to KPI but is worded in different terms. This was discussed and set at the beginning of the year then reviewed quarterly. Most of the performance indicators are tangible e.g. sales volumes, financial income, cost, productivity, turnover, complaints, and other countable objectives. HR managers, line managers, and employees were interviewed in this study. Around 50% of the surveyed companies used performance indicators and competence as a measurement to determine employees performance. The others relied either on indicators or competence only.

No matter how many rating levels they had the result of performance is to link salary increment, performance bonus or year-end bonus, profit share and human resource practice such as promotion, training, or replacement to performance. For example in some companies, when the employee was rated as outstanding and is a fast-track worker, these employees will be promoted to a higher position in 1 or 2 years compared to those employees who were rated as satisfactory will only be promoted in 3 to 4 years time.

Most of the companies surveyed do not have trade unions. Only 32% companies have in-house trade unions and 11% of them have collective agreements. Labour management conferences are being used in most of the companies and through these conferences both parties (employees and employers) have a chance to communicate with each other to focus on labour relations, working conditions and productivity issues.

6.3 The Case of a Petrochemical Company

The organisation is an 18-year-old private company located in north Chinese Taipei. Its core business is petrochemical. There are 320 employees and eight departments in its head office. Due to the business cycle every 5 years the company encountered a lot of challenges leading the management team to study the necessity and possibility of reengineering the operational process, organisational structure and to strengthen human resources in order to overcome the severe challenges. Union representatives asked the management team to communicate with them and get their approval on decisions pertaining to change in working conditions, salary increase and annual bonus.

Given the reality and difficulties mentioned above, to speed up the organisational change the CEO decided to invite the union to start the reengineering project. The project scope included company wide KPIs, department KPIs, individual KPIs, core competence, annual bonus scheme and salary increase mechanism.

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 advantage in the marine industry. Second, based on the strategy, the management team developed firm level KPIs as an infrastructure to implement departmental and individual KPI. Third, human resource professionals proposed performance-based compensation program to enrich the company's human capital and increase its competitive advantage. There were a lot of communications with union to reduce resistances.

Business Strategy

In the changing and uncertain environment, it is necessary to review current business strategy. CEO and management team redefined business strategy after diagnosing internal and external issues. We have labeled rapid growth from traditional operation to agile operation. As 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). The company

developed company wide core competence, innovation as an infrastructure to implement human resource practices and increase competitive advantage.

Performance Management and Development

Employees performance rating is determined through personal goals and individual competencies. At the year-end, managers set KPIs with employees based on company wide and departmental KPIs for the following year. At the same time, managers described the job competencies level based on employees annual performance rating which is based on 80% KPI achievement and 20% competence level. The company intended to build up a culture that both results and behaviors are important in the organisation. In another words, not only is the company expected to achieve its annual business goals but also needs to demonstrate the behaviors, attitudes, skills of employees based on their job and rank. Managers review employees annual performance based on the competence model and provide the feedback of the gap for the purposes of ensuring that employees improve within a certain period.

The company used balanced scorecard as a tool to manage its strategy and firm level performance. They set up company wide KPIs in 4 aspects namely, finance, customer, process, and organisational learning. The results of the KPIs are as the follow:

- Revenue increased 10% compared to last year
- Cost down 12% compared to last year
- Customer retention rate up to 90%
- Customer satisfaction rate 85%
- No lost time occupational injury accident

- 20 reengineering cases reported
- min 60 hours training/learning for each employee
- Key talents ready rate 70%

From the company wide KPIs they were cascaded to department and individual level as the respective department's KPI. In this issue the union did not have any comments. They understood that the KPI system is a key driver to increase the firm's competitiveness. However, they requested that employees with excellent results be given a fair share of returns in the form of bonuses, salary increase, benefits, and other working conditions for improvement.

Performance-based Compensation

The company adopted a performance-based compensation system to drive organisation and individual performance. A highly differentiated bonus and salary increase system were implemented. As introduced in the main part, top performers received 2 times bonus compared to normal performers. Low performers did not receive any bonuses. With regards to annual salary increase, a matrix of compa-ratio and performance rating were used in determining the individual's increase rate (Table 7).

Table 7: Matrix of Compa-Ratio

Compa-Ratio \ Rating	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%

Compa-ratio = individual's actual salary/his job grade's mid point salary

Until September 2008, the company's sales grew by 17.5%. Company wide KPI achievement rate is around 98.2%. Management believed they can achieve the challenging objectives. In 2007, the results exceeded the targeted objectives.

This case illustrates how performance-based compensation can help an organisations enhance and improve its business performance by implementing with business reengineering processes in a dynamic environment. Since human capital is embedded in individual employees the company can reengineer business models, business processes 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 performance-based compensation as a tool for managers to drive competitiveness.

Finally, organisation culture implies the importance of a shared understanding between the organisation and employees. Integrating organisational culture with reengineering process will enhance the company's competitive advantage which can be built in a unique way – “social complexity”. The organisational effectiveness depends largely on managers and employees. It is important for organisations to realise that organisational 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, a 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 and the skills of those people are critical. He also argued that the organisation, its employees and how they work are the critical success factors in the new economic world. In general, performance-based compensation is definitely the key to foster a firm's competitive advantage. The model is increasingly popular and is being used as the foundation of human resources management systems. Understanding the value of performance development and performance-based compensation model in various HRM systems will help firms to judge how best to apply them within the organisation.

6.4 Enterprise Level Survey of Performance-based Compensation System

Ten 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 ten enterprises comprise five from the service sector and five from the industry sector. Among these ten companies, five have strong linkages of compensation to performance, three have a normal linkage, one is beginning to move towards performance-based system smoothly while one is trying to move to performance-based system but is facing strong resistance from the trade union.

Regarding the performance management system, all the case companies have a rule for applying performance measurement and management. Some companies decided different rating levels for different job position. For example, for a manager, there are only three rating levels. However, the subordinates level has a five rating levels. Many companies involved in this study need to select the essential factors for performance review, it is basically a KPI but is explained in different terms. They will discuss and set it at the beginning of the year, then adjust or modify it monthly or seasonally. However, one company's performance review is decided by the leader of the department or unit and no indicators are developed among the companies that have performance indicators, 70% or 80% based their results of those indicators while the rest is based on competence or behaviour. In one of these cases, the performance is based on: employee potential 25%, track record (performance) 35%, others (including competence 15%, integrity and development 25%).

No matter how many rating levels they have, the result of performance is linked 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 in one of the case companies, when the employee was rated at an outstanding level, he is on the fast-track, he will therefore be upgraded to a better position within a 1 to 2 year period compared to an employee who is rated as satisfactory, would require 3 to 4 years to reach a higher level.

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) get a chance to communicate with each other to focus on labour relations, working conditions, and productivity issues.

These 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.

6.5 The Application of Competence-based HRP model: The Case of a Transportation Company

The organisation is a 50-year-old private company located in Taipei. Its core business is transportation focused in Asia. There are 200 employees and twelve departments in its head office, 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 capital 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 effective. Most of the employees and managers have not received annual bonus and salary increases for the past three years.

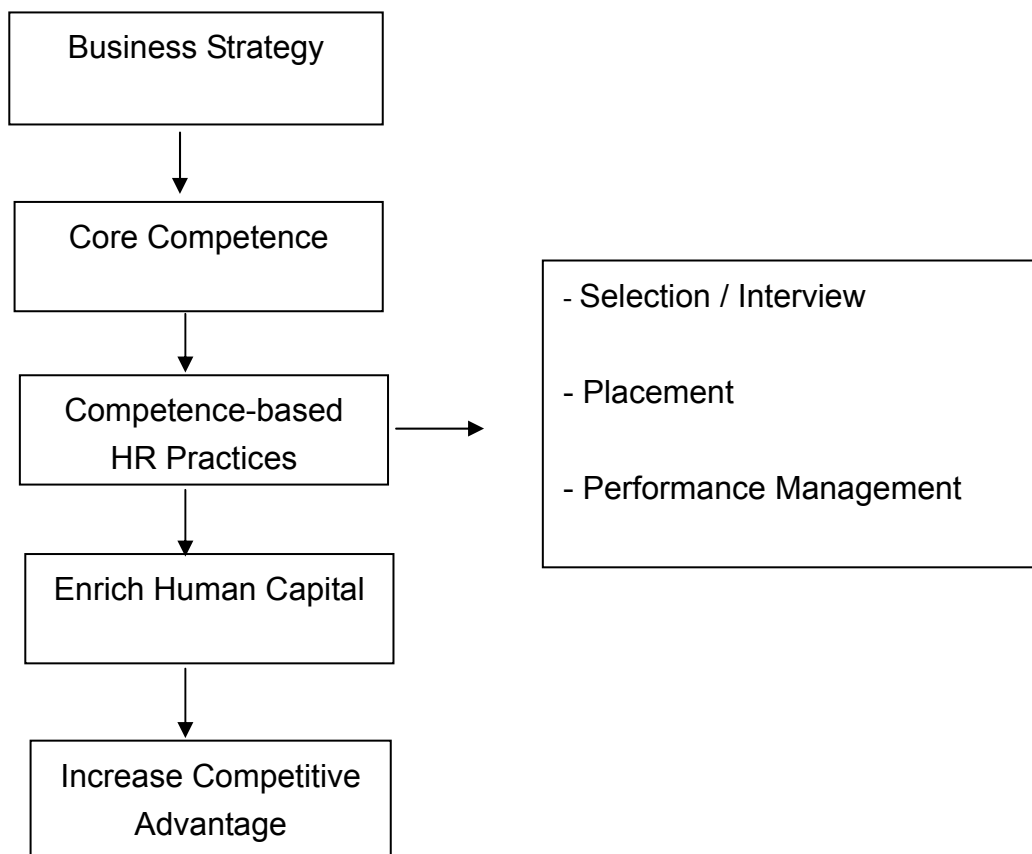
Given the reality and difficulties mentioned above, to speed up the organisational change, the CEO decided to invite external consultants to start the reengineering project in 2005. The project scope included business strategy, company wide core competence, competence-based human resource practices and increasing firm performance. The study addresses previously neglected areas of competence-based human resource practices role in the business reengineering process in an attempt to increase understanding of this increasingly important key topic. To accomplish this objective, several aspects were explored:

- What is human resource 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 improve the firm's human capital?

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 develop firm level core competence as an infrastructure to implement competence-based human resources practices. Thirdly, human resource professionals conducted several activities to train and help line managers to implement competence-based interview, placement, performance management and training programs. The final purpose is to enrich company's human capital and increase its competitive advantages (Figure 6).

Figure 6: Reengineering Process



Business Strategy

In an ever changing and uncertain environment, it is necessary to review current business strategies. The CEO, management team and consultants of the organisation redefined business strategy after diagnosing internal and external issues. We have identified rapid growth from traditional operations to agile operations, IPO in two years, and approach new clients (Figure 7).

Figure 7: Model of Core Competence



As 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, responsibility, result orientation, cost control &

management, industry knowledge and the ability to use English. The definitions are described as follows:

Customer orientation - Works to clarify and exceeds 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 cooperative. Makes every practical effort to meet customer needs. Is flexible and reacts positively to changes in instructions or plans. Is team spirited. Is supportive of other members of the team and helps them when necessary.

Initiativ - 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, utilising resources, methods, systems and processes. Using the most efficient ways to maximise investment return ratio.

Cost Control & Management - Understands and applies commercial principles. Finds 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.

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, and training and development. Competent human resource professionals recognise 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) as follows:

Intelligence + Education + Experience + Ethics + Interest = Competence

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 provide a basic framework for creating a 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).

Competence-based Selection and Interview

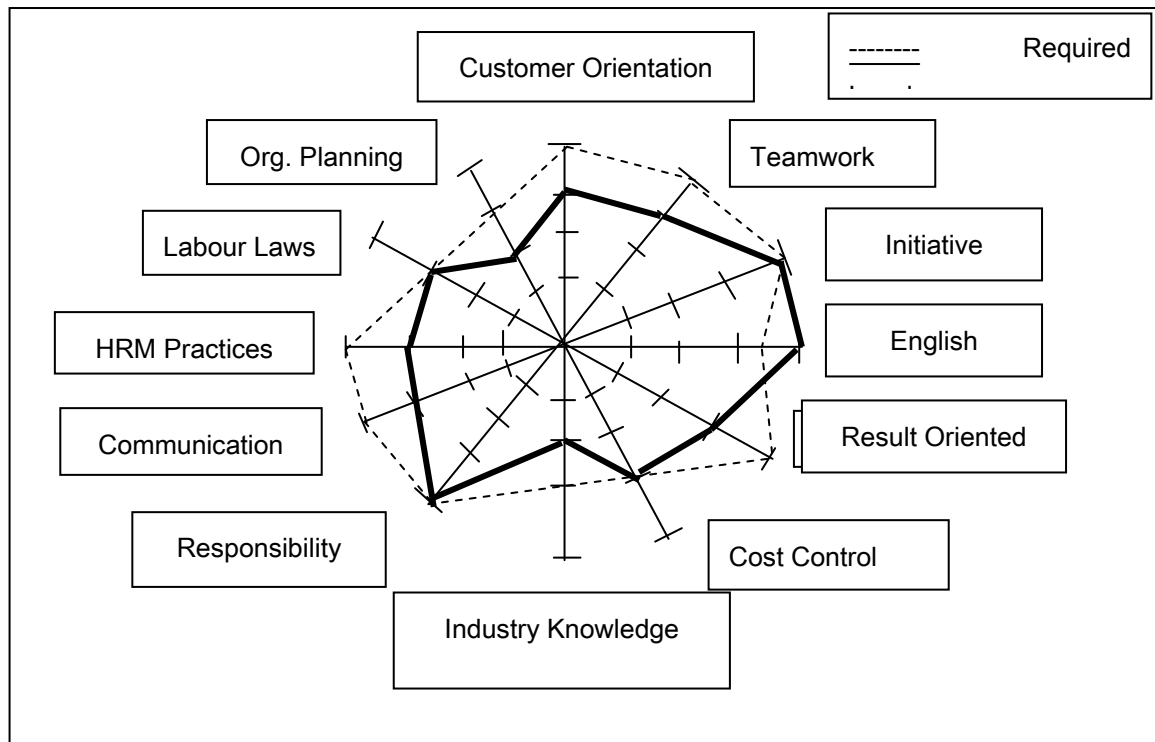
As mentioned, the company adopted competence models to select and interview candidates to identify their competency level. First, line managers will identify all job competencies and levels and send to his/her upper managers for approval. The Human Resources Manager will then work with line managers by conducting the interviews or through other selection tools. After the interview

process, they get together to identify the candidates competency level and the competency gap between the actual and the job required (Figure 8).

Competence-based Placement

The internal transfer, promotion, relocation, termination, succession, plan and other placement practices, uses the competence model to identify candidates competence level. Line managers and HR manager will 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 strengths and weaknesses to increase the likelihood of people-job and people-organisation fitness.

Figure 8: Candidates Competence Gap



Competence-based Performance Management

Employee's performance rating is determined by personal goals and individuals 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 employee's annual performance rating is determined. 80% is for goal achievement and 20% for competency. The company intends to build up a culture that both results and behaviors are important in the organisation. In another words, employees are not only expected to achieve their annual business goals but also to demonstrate their behaviours, attitudes and skills as required based on their job and rank. Managers will review employees annual performance based on the competence model and provide the feedback based on the gap and insist of improvement within a certain period.

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 to the sales team.

Human Capital and Person-Job / Person-Organisation Fit

Sound people management skills in organisations is the key to success. It is the core responsibility for line managers not just the human resources 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 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, Young & 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 the 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).

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 the socialisation processes (Chatman, 1989). Ideally, the two types of fit are important. Organisations should make an effort 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.

The Impact

After two years' of implementation, the Company's sales grew by 20%, 11% turnover for unfit staff, employee satisfaction increased to 23% and customer retention rate increased to 88%. The specific role that competence-based HR practices play in business reengineering processes is explored. It also helped to strengthen person-job/person-organisation fit in a dynamic organisation.

This case illustrates how competence-based HR practices can help an organisation to enhance/improve its business performance by implementing business reengineering processes in a dynamic environment. Since human capital is embedded in individual employees, even the company can reengineer the 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 function should provide competence-based HR practices as a tool for managers and subordinates to use. While standardising 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 by integrating organisational culture

with the 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 realise that organisational 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, a certain degree of fit on the individual, job and organisational level would be important to achieve organisational effectiveness.

As Prefer (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 advantages. 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 there is a need for a dynamic model on 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.

7.0 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 as follows:

1. Many employees, especially those in the services 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 employees but to or cut down the

labour cost. With this objective the design of the system is biased towards employers and thus when the system is implemented, 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 usually challenge and resist this system. If the firm fails to discuss and negotiate the system with the 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 than people-oriented. When a company employs performance-based system there is a fear that employees will only focus on performance and will not be committed to improving quality. This will in turn affect the overall development of company.

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