

Human Resource Management in China

# Reward Systems in China

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*A search for the most favourable reward system in a Chinese Foreign Invested Company.*

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## **Preface**

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## **Executive Summary**

This study investigated the attitudes of Chinese employees in a Foreign Invested Company (FIC) in Suzhou, China. The goal was to gather an insight of whether Western models of reward systems, especially those that reward according to relative contributions of the employee to the company, were applicable in the specific Chinese context. The study was based on earlier research by Bozionelos and Wang (2007) conducted in a new Chinese State-owned enterprise (SOE). Since Western influence is likely to be higher in an FIC compared to an SOE, results may be different in this ownership form. Research shows that this is neither the effect of employees preferences, nor of selection procedures by companies (see for example Gamble; 2006 or Farrell & Grant; 2005).

It was hypothesized that considering specific Chinese cultural characteristics, Group Based Performance Related Reward Systems (GBPRRS) were to be appreciated most. The results of the study proved that in contrast with expectations, Individual Based Performance Related Reward Systems (IBPRRSs) enjoyed the most appreciation. An important empirical phenomenon in this study was the low importance of some Chinese cultural characteristics (such as Guanxi and Mianzi) in the company, while many scholars still emphasize their relevance in this regard. This study suggests further research in this field to investigate if there is indeed a trend, backed by longitudinal data, that suggests that the importance of the cultural influences in Chinese businesses is declining.

Companies should take knowledge of the fact that China should be approached with utmost care and consideration when applying home-grown Business Models, since China might not be as different in this respect from their home markets.

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## Introduction.

In the past few decades, China underwent a transformation from a socialist economy to a more market-led, open economy. The now highly export-oriented economy made China the second largest beneficiary of foreign direct investments (FDI) in 2003. China's economy is growing as one of the fastest in the world, between 1980 and 1997 even with 10 per cent annually, outperforming for example Japan and South Korea (International Labour Office, 2000). This transformation to a market-oriented economy is the result of many political and economic reforms, which Deng Xiaoping started in 1978. Recently, China surpassed Germany and became the world's largest exporter with a total of \$130.7 billion in December 2009 (*The New York Times*, 11 January 2010).

The new policy opened the door for western firms to enter the potentially huge Chinese market, introducing new management practices. As a result, Chinese employees now face issues such as job insecurity, worsening terms and conditions, but also more career choices, job mobility and better rewards (Cooke, 2004). Consequently, employment relations are changing, requiring different Human Resource Management (HRM) practices that suit the new situation. It is therefore critical to investigate whether new, western management practices are applicable in a different economic system, such as China. Hence, the importance of studying HRM in China.

A part of the new practices the Foreign Invested Companies (FICs) introduced since the late 1970s were new reward systems. Previously, the reward systems in China were based on collectivistic beliefs, seniority, political loyalty and position (Child, 1994; Ding and Warner, 2001; Cooke, 2004). They did not reward performance which led to low motivation, productivity etc. Foreign companies introduced Performance-Related Reward Systems (PRRSs), which link pay directly to performance of employees, work-units or groups. The question is how applicable these practices are in different economic systems, particularly when bearing in mind how dissimilar the backgrounds of domestic (socialistic) and foreign (capitalistic) firms in China are.

### *Contribution*

An important issue in China is retaining employees. Many scholars see this as the most important goal for HR departments in China since there is a significant shortage of skilled Chinese employees (for example Melvin, 2001; Lewis, 2003). Several studies indicate that FICs rely more on salaries than on fringe benefits, compared to domestic firms. Also, the studies show that employees in mainland China and Hong Kong regard to hard cash as the most important factor for retention (Chiu *et al*, 2002; Ding *et al*, 2006). Therefore it is important to know how employees value their reward systems to optimize it to the preferences of the employee and consequently enhance productivity. This raises the question whether a company should hire employees to fit the reward system they are using.

Therefore, this study investigates the attitudes of Chinese employees in an FIC towards traditional reward systems, individual based Performance-Related Reward Systems (PRRSs) and group based PRRSs, to find out which reward system is preferred most. When these attitudes are known, this enables companies to evaluate the fit between their employees and reward systems. Adjustments might enhance motivation and therefore productivity. The study builds on previous work by Bozionelos and Wang (2007), which investigated the attitudes towards an Individual Performance based system in a new Chinese State-Owned Enterprise (SOE).

The practical relevance in this study lies in the fact that it provides a better understanding, especially for FICs, of how Chinese employees view. This should provide insight for the companies into whether their systems fit their employees, *or* whether their employees fit their systems. In other words, this study can help companies decide if they should change their system, or if they should focus on the selection of other employees. Thus, the aim is to provide a framework of characteristics of rewards systems and Chinese employees to provide an optimal fit for companies/employees.

The theoretic relevance lies in the fact that there has been very limited research in this specific field of the Chinese economic system. It is important to understand whether Western (reward) systems can be implemented in a Chinese context. This study contributes and extends the field of reward system research, adding to the work of Bozionelos and Wang (2007), and providing a better understanding of the dynamic Chinese labour market.

The hypothesis that underlies this study is that in China's FICs, the employees are more susceptible to PRRSs, than the work of Bozionelos and Wang (2007) in a SOE suggests. In stark contrast to the outcomes of their study, I expect that employees in FICs favour the group-based systems.

To understand the current situation in Human Resource Management in China I first elaborate on the previous reward system from before the 1990's and the current state of HRM in China (Chapter 1). Next, I explain the meaning and the use of the new Performance Related Reward Systems (Chapter 2). In Chapter 3, I will develop several hypotheses and a conceptual model for the research to be done in an FIC, building on the previous study of Bozionelos and Wang (2007). Chapter 4 provides insight into the methodology and a ground for the choices made. In Chapter 5, the obtained results are first analyzed by straightforward descriptive statistics and correlations. Next, to provide a more in-depth understanding of the results, the innovative method of fuzzy-set Qualitative Comparative Analysis by Charles C. Ragin is used. This thesis will conclude with a discussion of the results (Chapter 6) and the limitations of the study and suggestions for further research (Chapter 7).



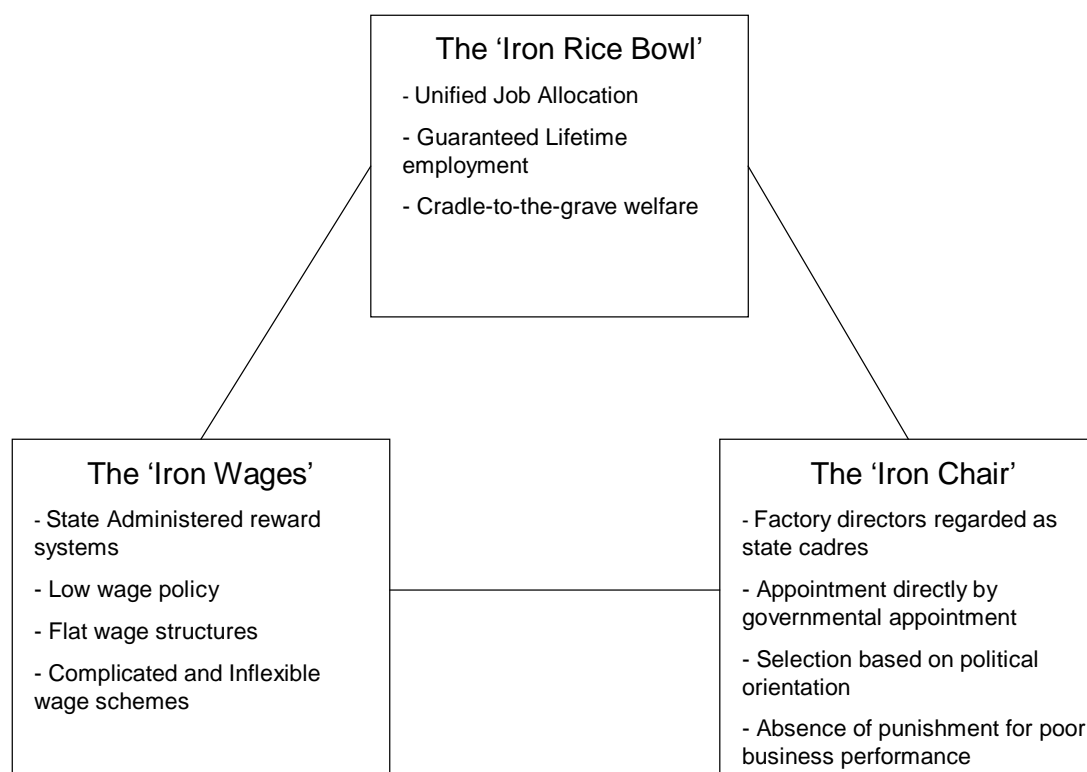
## 1. Literature Review: China's HR-system and Reward Systems

To be able to investigate which reward system is preferred most, I will first provide some background on Human Resource Management in China and reward systems over the years.

### 1.1 The 'Three Old Irons'.

When Mao seizes control of China in 1949, he installs a new, Soviet based employment system, also known as the 'Three Old Irons' (*jiǔ sān tiè*) which is represented in figure 1 below. Mao found the previous system insufficient for socialist development. The 'Three Old Irons' consist of the 'Iron Rice Bowl', 'The Iron Chair' and 'The Iron Wage' (Ding and Warner, 2001).

Figure 1. Characteristics of the 'Three Old Irons' (Ding and Warner, 2001)



#### 1.1.1. The 'Iron Rice Bowl'.

The 'Iron Rice Bowl' basically embodies the Chinese idea of lifetime employment. It consists of three pillars: unified job allocation by the government, guaranteed lifetime employment and cradle-to-the-grave welfare. It was based on earlier Chinese experiences (Confucianism), Soviet practice and

Japanese experience in Manchuria. Before Mao's reign, China embodied a dual reward system consisting of monetary and material rewards (Warner, 1996).

The unified job allocation system first started to emerge in the early 1950s. Mao started his first labour market reforms with the Socialist transformation (1950-1956) in which all private-owned companies became State or Collective Owned Enterprises. To cope with the economy's employment problem, the result of a shortage of skilled workers and the effects of years of civil war in which the communist gained command, the government started organizing labour planning and placed many workers in rapidly expanding construction, transportation and industrial sectors. Centralized recruiting and allocation was thought to fulfil the needs of labour in the industries and solve the employment problems. Consequently the external labour market dampened (Lewis, 2003). The state gained control by unifying the procedures and regulations for labour bureaux at all levels. The labour allocation process started with central and local annual plans on labour quotas, which were distributed to the labour bureaux which in turn allocated them to the enterprises under their supervision. If enterprises needed extra workers, they had to submit a recruitment plan specifying the number of workers and qualifications needed. Enterprises were not allowed to hire new workers on their own (Ding and Warner, 2001).

As a 'benefit of socialism', workers were guaranteed they would have a lifetime job security, as unemployment was considered a characteristic of capitalism. A worker would never lose his job unless he broke the law or severely damaged the work-unit through misconduct (Yuan, 1990). This was simply achieved by a prohibition from the government for enterprises to fire workers. Achieving performance goals was not important. Even when a worker was suspended for misconduct, he or she still received his base pay. The worst-case scenario for a worker was retraining through labour (Ding and Warner, 2001).

The third and final pillar of the 'Iron rice bowl' was the provision of welfare benefits by enterprises ranging from baby-minding facilities to retirement homes, from schools to health insurance and even housing. This way, workers were not only bound to their work-unit professionally, but also personally. Job transfers were rare, if not impossible by for example the household registration system (*hukou*), which, in almost every case, simply prohibited people from moving between cities and from the country to the urban areas, and tied people to their place of birth (Ding and Warner, 2001).

On the short-term the 'Iron rice bowl' system seemed to work quite well as by the end of the Socialist transformation, over 4 million workers were allocated through means of this system (Yuan, 1990). However, the overwhelming negative results came soon and reached their peak in the Cultural Revolution (1967-1977). In the long run it became obvious that the system caused massive

overstaffing, loss of motivation among employees, low work morale, absenteeism, inefficient use of work time and waste of energy and raw materials (Holton, 1990; Zhu and Dowling, 1994; Warner, 1996; Ding and Warner, 2001). A well known saying at the time, which is connected to communism in general is 'they pretend to pay us to work and we pretend to work' (*Anonymous in Ding and Warner, 2001*).

Another problem with the system was the frequent mismatches of employees who received training. This was due to the fact that government officials often allocated employees regardless of their training. Mao favoured political experts, who showed their loyalty to the party, above technical experts. The results were an even greater loss of morale and productivity (Ding and Warner, 2001).

### *1.1.2. The 'Iron Wages'.*

Before Mao's reign, China embodied a dual reward system consisting of monetary and material supply. When Mao came to power, the system was regarded not suitable for the development of the socialist system. To bring an end to this system, it was reformed in two waves from 1953 to 1956 (Cooke, 2004). The first wave brought an end to the system by introducing a salary based reward system and a grading system to classify employees' level of reward based on labour (Tien, 2000). To increase productivity, a nationwide Soviet-style wage-grade system was introduced in the second wave which embodied the formal implementation of the pay-scale system. It decreased the differences between wages and levelled the wages in different sectors (Cooke, 2004). At the end of these reforms, the wage-systems were under direct government control. It consisted now of three subsystems: (1) Eight-scale wage structure for production workers (mining, energy, heavy industries, etc.), (2) The post or job-type wage system for light and service industries, (3) Responsibility wage system for managerial and technical personnel in enterprises (Henley and Nyaw, 1987).

Besides the wage, there were bonus and piece-rate systems which contributed to productivity and motivation of the workers. However, during the 'Cultural Revolution' these systems were thought to be anti-socialist and they were abolished. All material incentives were now replaced by 'spiritual encouragement' only (Yuan, 1990). Also during the Cultural Revolution, wage gaps between production and intellectual workers were greatly reduced. A factory owner would only earn three to four times as much as an ordinary line-worker. Enterprises had no autonomy to adjust wage levels in order to satisfy their business needs. As rewards were not linked to performance anymore, it was no tool for motivating employees (Ding and Warner, 2001). Korzec (1992; 55) describes the wage system after the cultural revolution as being 'too low' (*di*), 'too egalitarian' (*ping*), 'too complicated' (*luan*), and 'too inert' (*si*).

Wages were intentionally kept low to keep the prices low. This way everybody could eat and rural labourers were discouraged to migrate to the cities. Wage adjustments were very scarce and

even if they turned up, they were very low. Hence the term Iron Wages. For example between 1957 and 1977, costs of living increased by 13.5 percent, while real wages decreased by 5.5 percent. Wage adjustments were very scarce and even if they turned up, they were very low (Cooke, 2004).

### *1.1.3. The 'Iron Chair'.*

In the years of Mao's reign, enterprise directors were appointed highly centralized by the government. Everybody wanted to climb the social ladder as soon as possible as political status, information access, income and welfare benefits were all determined by ones ranking in the bureaucratic hierarchy (Yan, 1995).

The major criterion for promotion was a combination of 'redness' (political loyalty) and 'expertness' or seniority (Tung, 1982; Walder, 1995). Walder (1995) found explicit evidence that 'redness' leads to sufficiently more benefits as well. Directors only had two responsibilities: (1) to implement state policy and (2) to take care of firms' daily operations. Since most of the times 'redness' was far more important, the results were poor management, especially during the Cultural Revolution. Because this importance of redness, many directors relentlessly implemented party policy even at the cost of the enterprise. Since the system lacked sufficient punishment for poor performance, everybody climbed the ladder and nobody was demoted (Ding and Warner, 2001).

Salary increases and promotions were all allocated by the government and mostly based on redness and seniority. Besides the power to redistribute rewards, the communist system gave party administrators the power to allocate valued jobs. This has long been recognized as a central pillar in communism as a system of social control. The reason for this is the unusually high degree of organizational penetration and control over citizens (Walder, 1995). As a result, better salary or other posts were no reason to switch jobs for employees. Reasons for the desire to switch jobs were mostly for life matters, such as working closer to home, or to work together with a close relative or friend (Davis, 1990).

For employees who did want to change jobs, work-unit leaders were a basic form of bureaucratic resistance. These leaders normally refused workers' requests to leave jobs and work elsewhere because of the perceived difficulty in obtaining government permission to refill the empty positions. The state wanted to minimize labour mobility for the sake of state planning and labour control. One way to fight the resistance in changing jobs was the use of 'Guanxi' to influence decision makers. Literally, 'guanxi' means 'relation', however its essence is a set of interpersonal relations that facilitate the exchange of favours between people (Bian, 1997) (For more details about Guanxi, see part 1.3 of this thesis).

The first step was to obtain permission from current work-unit leaders. Next, one needed permission from the desired work-unit or company. Then, permission from government officials having authority over these work units had to be obtained, not only for leaving the current work unit, but also for determining the level of the future work unit. In the end, the higher the rank of the official one could contact, the higher the rank of work units that one could work for (Bian, 1997).

The already mentioned household registration system (*hukou*) also prohibited people moving up the social ladder. For example Kirkby (1985) found that only a very small group of rural-born had a chance to move up to cities, and therefore better jobs. This only occurred by military mobilization, marriage or the attainment of higher education and subsequent job assignments.

## 1.2 China in transition.

The legacy of Mao, after he died in 1976, consisted of immensely overstaffed companies, a workforce that lacked motivation, low productivity, low morale, unemployment and poverty. When Deng Xiaoping came to power in 1978, he recognized these problems and embarked on numerous experiments to improve the situation. These experiments resulted in the 'Open door' policy, which was aimed at attracting foreign direct investments, and the 'Four Modernizations' of (1) agriculture, (2) industry, (3) science and technology and (4) defence (Ding *et al*, 2000). To implement these policies, numerous reforms were necessary.

### 1.2.1. Employment System reforms.

By 1978, millions of young people returned to the cities from the country were Mao send them during the Cultural Revolution to 'learn from the peasants'. The unified job allocation system was not able to deal with such a huge amount of 'young waiting for job assignments'. Note that 'unemployed' was carefully avoided as it does not match the socialist ideal of the 'right to work'. Between 1978 and 1981 the 'three-in-one' policy was introduced which encouraged enterprises and residential districts to set up 'labour service companies'. These were meant to retrain employees and unemployed and provide job placement services. Also private-businesses were encouraged and flexible employment patterns (contractual and temporary workers) were allowed (Zhu, 1992; Ding and Warner, 2001). All these measures were aimed at the huge unemployment problems.

In the second stage of reforms, labour contract systems were first piloted in the Special Economic Zone (SEZ) Shenzhen. In order to attract foreign direct investments (FDI) Foreign Invested Companies (FICs) were allowed by law to hire their own workers on contractual basis. In 1982 these measures were expanded to new recruits of State-Owned Enterprises (SOEs). These measures did not apply to old workers (Korzec, 1992).

By the mid-1980s decentralization started to take form. SOEs were now granted permission to adjust their workforce to efficient amounts by hiring new employees on contractual basis and dismiss unqualified or surplus workers. Warner (1996) found that because initially the reforms were only aimed at new workers, a 'one factory, two systems' model began to evolve. In this system old workers still enjoyed the benefits of the 'Iron rice bowl', where new workers did not. Where contractual workers had to perform, otherwise they would lose their jobs, old workers felt no need to do so and still lacked morale and motivation. A good example was found by Ding and Warner (2001) who write about the saying that 'When contractual workers are working, permanent workers are just looking'. This discrimination of workers increased work floor conflicts.

Attempts to change this discrimination encountered heavy resistance from permanent workers who were afraid to lose their job security and concerned about the uncertainty and competition of market forces (Ding and Warner, 2001).

By 1992, steps were taken to establish the 'Socialist Market economy'. Enterprises were granted more decision-making authority, to be able to compete on the globalizing market and to establish modern enterprises. The labour law of July 1994 obliged all employees, regardless of the ownership form of their firm, to be placed on labour contracts (Ding and Warner, 2001). This was the final step from a centrally organized labour market to a market oriented one.

### *1.2.2. Reward system reforms*

The first step in the reform of the reward allocation system was set in 1978, which saw the reinstatement of piece-rates and bonuses. The measure was aimed at improving the dramatic productivity and motivation problems. Enterprises were granted more autonomy on bonus distribution, though with a limit. They were allowed to pay bonuses from their profit, with a max of two months' pay. This ceiling was replaced by a 'bonus-tax' system in 1984 which struck firms that paid more than one-third of their annual wages in bonuses (Ding and Warner, 2001).

The reforms of 1985 introduced the 'structural wage system' in the public sector (hospitals, universities, etc) with as its main component the position of the employee in the organization. It was based on knowledge required, responsibility assumed, work intensity involved and working conditions. The wage package consisted of 4 parts, namely basic wage (about 40 RMB per month for everybody), position wage, longevity pay (accrues each year by around 6 RMB to a max of 40 years) and rewards for outstanding performers. It was aimed against the everlasting problems of low morale and motivation and to move China away from its Soviet-style system. Other aims were to increase the wage gap between technical/professional workers and administrative/line workers. The problem with this system was that position is not always a good predictor for competence and

performance, as it was for the most part based on seniority and 'redness' as mentioned earlier (Cooke, 2004).

By the same time, total wages, not just bonuses, in enterprises became more linked to performance, to solve the problem with productivity, motivation and morale in this sector. Wage control was decentralized from the government to local labour and industrial bureaux, which set up performance targets. The problem with these targets was the bargaining about setting them between enterprises and their supervising bureaux. Since profitability was for the most part affected by the access to cheap resources and loans, which in turn were controlled by the government, workers' performance did not make much of a difference. This caused the system to not fully fulfil its goals. The system also did not punish poor performing firms sufficiently, which further degraded the effectiveness of the reform. In the end, SOEs wages were still far below FICs and private firms, which caused problems with retaining skilled employees (Ding and Warner, 2001).

The mid 1990s saw the latest reforms in reward systems. In the public sector, fixed and flexible wages were introduced in 1993. New systems were developed for each type of public service (Cheng, 2000). It was mostly aimed at motivating employees to improve the performance of the organization. Also, wages for jobs that were difficult to recruit for (dirty, dangerous, remote areas) were raised (Cooke, 2004)

In 1992, autonomy over reward systems was further decentralized to local governments and a minimum wage level was established. SOEs were now allowed to design their own reward systems. The most popular systems turned out to be based on post and skill level (Warner, 1995). Standards were now determined by the SOEs rather than on the national wage scale. At the same time annual salary systems linked to profit sharing schemes were allowed for directors to increase managerial motivation to increase profitability and to separate their interest from ordinary line-workers (Ding and Warner, 2001).

### *1.2.3. Promotion system reforms*

To cope with the problems of poor performing managers who lacked competence, the 'Iron chair' also became a subject of reforms. The first stage in the early 1980s was characterized by the introduction of the 'factory director responsibility system'. This provided the directors with more autonomy to appoint and dismiss middle-management. Directors were held responsible for the financial performance of the firm by contracts with labour bureaux, which set targets as described above. Directors lost state protection by the introduction of a clause that the director could be dismissed if his targets were not met.

In 1988 SOEs were decoupled from the state and were now responsible for the own losses and profits. Allowance of recommendation for directors by a worker congress and by making short-lists of directors to recruit, introduced more competition for posts (Ding and Warner, 2001).

When the 'Socialist market economy' became established, complete fair competition, labour contracts, open appraisal systems and direct appointment were introduced. 'Redness' was no longer (formally) critical for promotion, though the new main criteria still, besides capability, dedication and achievements, for a large part depended on 'virtue' which is basically a sound political view. Hence, hardly anyone can be promoted to top levels without party membership (Zhu, 1993; Gan and Lu, 1997).

In addition, Walder (1995) introduced a dual path model which showed that there are two different career paths developing in China. His survey shows that individuals who received higher education move into a professional elite of high social prestige. Individuals who on top of their high education, also carry out a high degree of political loyalty enter an administrative elite with social prestige, authority, and material privileges.

The most important point to draw from the previous elaboration on the history of HRM in China is that these structures were deep-rooted in the Chinese society. Work-units which everybody was obliged to join were not just a part of one's work-life, but also his social life. It seems therefore not unlikely they still play a role in one's appreciation of a reward system.

### **1.3 HRM in present-day China.**

Despite the numerous changes in policy over the last years, much discussion is going on between scholars whether the reforms in China were effective. Becker and Huselid (1998) state that high-performance HR systems consist of decentralized decision making, rigorous recruitment and selection by hiring competent employees, performance-contingent reward systems, extensive development and training activity and commitment to employee involvement. Delerey and Doty (1996) add that combinations rather than individual practices may serve as a competitive advantage.

Case study evidence shows that in SOEs there are still problems with overstaffing (Verma and Zhiming, 1995; Benson and Zhu, 1999), an informal labour market with hardly any competition where most workers find their jobs through relatives and friends resulting in a far from optimal workforce (Ip, 1995; Cooke, 2004), reward differences are still low and performance appraisals flat because managers are reluctant to differentiate their workforce resulting in poor motivators (Warner, 1999). Managers tend to fall back to the tradition of progressing employees on the basis of age and length of service rather than on training and education (Child, 1994; Cooke, 2004). Communication between



departments and between departments and employees is low because information is considered a personal possession resulting in low employee involvement (Glover and Siu, 2000).

Since the reforms however, there is a trend towards more western HR policies mainly because of the decentralization of control and the western management styles that joint ventures (JVs) and foreign invested companies (FICs) introduced in China. It must be noted here though, that Chinese culture and the history of the economy is very different from the West. First, western companies are characterized by a historical revolution from industrial relations to employee relations, from personnel management (PM) to HRM. Chinese companies did not take part in this revolution. Their starting point was a socialist society, opposed to a capitalist society in the West (Warner, 1993). This starting point brings problems such as a shortage of skilled local managers. Second, western HR systems are, according to many writers, based on individualism were the Chinese society, not just because of socialism, but also ancient traditions, is based more on the collective (Guest, 1992). Unlike Christianity, which puts individuals in reference to God, the Chinese relate individuals to their significant others such as family and work relations. The 'self' is identified, recognized and evaluated in terms of one's relations to the groups and communities to which one belongs (Bian, 1997). Pye (1991) uses the term 'Confucianism-Leninism' where the individual is subordinated to the group or larger collective. Confucianism advocates an equal distribution of wealth. This egalitarianism causes a certain inertia due to a lack of motivation. With the introduction of Western motivation theories, the mentality is changing, though old habits die slowly. However, Chinese employees can now often earn individual bonuses but they tend to share these with colleagues out of fear of becoming a target for jealousy (Jacobs, Guopei and Herbig, 1995). Hofstede (2001) places China higher on collectivism as Western societies. Although especially youngsters are now individualizing; clan, family and work-groups are still of great importance.

The reforms are also complicated by deeply rooted mechanisms in Chinese culture, with as its most important concepts 'Guanxi' and 'Mianzi'. 'Guanxi' signifies the relational ties within a Chinese social group. Its literal meaning is '(interpersonal) relations' (Su and Littlefield, 2001). Each individual holds a certain amount of Guanxi, which depends on the number, strength and quality of relations (Chow and Ng, 2004). Luo (1997) even found that it is such a critical property in Chinese society that it sometimes carries even more weight than laws and regulations. Perhaps the most important feature of Guanxi are reciprocal obligations. To carry out these obligations to others is culturally expected in Confucian traditions and the new ethics in contemporary China (Bian, 1997). Guanxi networks have been found by Bian (2002) to facilitate all three aspects of the occupational process: entry into the labour force, inter-firm mobility, and reemployment after being laid off. Guanxi also influences many different systems within companies, such as bonus allocation,

promotion, training opportunities and resource allocation (Bond and Hwang, 1986; Wong and Slater, 2002; Bozionelos and Wang, 2007). When you have strong relational ties with for example your superior, you might have a better chance in receiving benefits. It is more important who you know, as to what you know.

The concept 'Mianzi' is ones concern for gaining and maintaining 'face' by means of achieving recognition and respect due to achievements and success (Bond and Hwang, 1986). Therefore an 'audience', whether co-workers, family or friends, is required for success which embodies the development of 'Mianzi'. 'Mianzi' is lost by (displaying) under-achievement compared to other group members. Gaining 'Mianzi' is a big motivating force for Chinese workers but can also have negative effects. A study of Hwang *et al* (2003) showed that the fear of losing 'Mianzi' was negatively related to questions asked by students, in fear that their questions might be a sign of lack of appropriate intellect. 'Mianzi' is one of the reasons of the very low amount of dismissals and differences in performance appraisals (Gregory and Wales, 1996; Bozionelos and Wang, 2007). Managers are reluctant to utilize these tools because of the harm it may cause to the Mianzi of their workers.

Many of the discussed studies above are contradicted by other studies which also show positive effects, particularly in relatively developed cities. Zhu and Downing (2002) found that over half of the Chinese enterprises had written job analyses to support other HR activities such as recruitment and selection and a growing emphasis is placed on job-specific information rather than nepotism. Though Cooke (2004) found that a residual element still persists, allowing the state to recruit directly from the labour market. Chinese employees that accept a job in the state sector generally value the welfare benefits many firms in this sector still provide. Zhou and Wu (2003) found that a large majority of big SOEs used formal HR policies and procedures. Also Ding and Warner (1999) found that the role of HR managers became more important in companies as they are now involved in decision making regarding recruitment and selection, dismissal and reward.

#### **1.4 Foreign Invested Companies.**

The current situation of HR in China also has implications for FICs. Since foreign companies in China evolve from other backgrounds and followed a different life-cycle, they are different from domestic Chinese firms. Another important point is that they are far less influenced and have more autonomy over their own actions compared to domestic firms. Therefore, the role HR plays in FICs and how HR is applied in these companies, differs a bit from domestic Chinese companies.

In the early stages of the 'Open Door' policy, the government decided that in order to control foreign companies in China, they were only allowed to enter the Chinese market by means of a joint venture (JV) with a Chinese (state) firm (Cooke, 2004). The largest part of control over these new

formed firms considered the management of their Human Resources. There was a strong pressure from the government not to lay off workers and they tried by means of their local (on-site) personnel to influence the salaries (Child, 1994). In 1978 the government installed the first Special Economic Zone in Shenzhen and later in 14 other major cities, mostly in the South-east and coastal areas (Ding and Warner, 2001). Since the South-eastern and coastal areas in China had the best infrastructure, better educational levels and industrial bases, most FDI was attracted in these regions. Northern and interior regions performed worse on these items. As they lack a consequent exposure to foreign firms, a separation is present within China between its developed urban areas in the South-East and coastal regions being well-developed and relatively rich, and the North and interior regions being poor and under-developed. This effect is strengthened by the fact that there appears to be a brain drain in the Northern and interior regions as Foreign and Chinese enterprises tend to recruit talented people out of these regions to the cities (Ding *et al*, 2000). This separation is most clear in the differences between wages in different regions. Firms tend to hold different compensation schemes for different regions according to their living costs which tend to vary widely. For example in large (coastal) cities such as Beijing and Shanghai they pay 100 percent of their wage scale, in interior cities such as Xi'an they pay middle (about 80 percent) and in small cities and rural regions they pay low (about 60 percent) (Melvin, 2001).

Chiu *et al* (2002) found that rewards in 1995 in FICs were about 33 percent higher as that of SOEs in the same locality, and double that of township and village enterprises (TVEs). Chinese regulations oblige the wage level of JVs to be set at 120-150 percent of the Chinese counterpart.

Since FICs and JVs are less, or not at all, bound to the legacy of the 'Three Old Irons' there is less job security, less social security but higher wage levels as compared to SOEs. This is due to the fact that FICs and JVs are not allowed by law to pay lower wages than the average in that sector and locality (Cooke, 2004)

Overall it can be concluded that HRM in JVs and FICs is more Western-based compared to Chinese firms. Foreign firms did not only bring investment and technology to China, but also introduced knowledge of modern management styles and HR systems. Where FICs have the advantage that they can use expatriates and attract more skilled young workers because of their higher rewards, SOEs tend to have a certain inertia, mainly due to their size. They also tend to suffer from certain reluctance, because of 'Guanxi', 'Mianzi' and Confucian considerations, to accept change (Pye, 1991; Ding *et al*, 2000; Bozionelos and Wang, 2007). Lewis (2003) states that in general, the largest difficulty for both FICs and Chinese enterprises now is still the evident shortage of skilled employees. In his study he found that for every Chinese applicant there are 10 management positions (Lewis, 2003; for more detail: Cooke, 2004). Scholars are still discussing whether this is

beginning to improve or not (for further discussion see for example Ding and Warner, 2001; Lewis, 2003; Cooke, 2004). A result of this difficulty is that retaining employees is one of the most important tasks of the HR department. A very important tool in retention are the reward systems. A difference noticed by Melvin (2001) is that FICs offer higher salaries but lower fringe benefits as JVs and domestic firms. This can be made clear with the Efficiency Wage Theory of Campbell (1993) which states that above-market rewards can increase efficiency and reduce labour costs by better productivity. The productivity is increased by the means of attracting higher quality workers, lower turnover and lower supervision. The reason according to Melvin is that the Chinese part/firm is accustomed to this traditional structure of compensation. Melvin states that FICs pay more because they notice that the Chinese employee is very focused on cash. Her explanation for this phenomenon is that they might not fully understand for example stock-option schemes, shared ownership, profit sharing, etc. Melvin's study is confirmed by a more extensive study by Chiu, Luk and Tang (2002). They found that the 5 most important tools for retaining Chinese employees were (1) base salary, (2) merit-pay, (3) the year-end bonus, (4) housing provision and (5) cash allowance. According to these scholars, the reason is that in a developing country such as China, 'the newness of having money' earns respect in society. As previously seen, the community in China is very important, which strengthens this effect.

The argument above underlines the importance of the reward systems in FICs. It is probably more important here, compared to domestic firms, since the studies by Melvin and Chiu, Luk and Tang show that they rely more on salaries and less on fringe benefits. To optimize the reward systems of these firms it is important to understand how employees feel and what they appreciate most. Hence the importance of this study.

## 2. Performance Related Reward Systems

The theory of Performance Related Reward Systems (PRRSs) is inevitably linked to two concepts: the notion of equity, or 'norm of distributive justice', and the notion of equality. The 'norm of equity' is the belief that individuals should be rewarded in proportion to their contributions, with those performing better being offered better rewards (Harris, 1999). This conforms in most cases to the feelings of most (Western) individuals regarding to rewards (Hills, Scott, Markham & Vest, 1987). Rewarding employees according to their performance will motivate them to exert extra effort, function as a role model, which in turn should enhance overall organizational performance (Baruch *et al*, 2004; Lawson, 2000). In PRRSs, base pay is directly linked to one's performance and therefore there is a direct link between pay expenditures and individual productivity (Henderson, 1989).

In contrast of the 'norm of distributive justice' there is the notion of equality, which suggests that every party should be allocated an equal proportion of the reward, regardless of their contributions. Thus, everybody who performs more or less the same task, must receive the same rewards regardless of their relative contributions (Deutsch, 1975, 1985; Leventhal, 1976). Discussion about PRRSs goes back to the early 1980s and there is still no consensus whether it is effective or not (see for example Gomez-Mejia & Balkin, 1992; Campbell, Campbell & Chia, 1998; Baruch *et al*, 2004).

How can these systems be established and how do they work? First, a firm should analyze the mission, goals and objectives of their employees or work-units. By the end of this analysis they should have a clear view and understanding of all their purposes, products and processes. The second step is to develop and select certain output measures based on (1) the measure's importance, (2) cost and effort to obtain the measure, (3) the time it takes for the measure to notice change, (4) its sensitivity to small changes and (5) its objectivity. Next, input measures, related to the production of outputs (hours worked, material used etc.) should be generated and evaluated. Finally, the performance ratios can be developed. The big advantage of these statistical ratios (for example Invoices processed / invoicing hours, number of individuals trained / training costs, market share / promotional expenditures, etc) is that it eliminates the necessity of subjective superior appraisals. It ensures objective performance measurement based on factual statistical numbers which is likely to increase the basis of support. Since the ratios are fairly simple, they are likely to be sensitive to change, understood, easy to measure and responsive to actions. As research suggests, direct information from the task itself is superior to supervisory feedback. The quality of this feedback is independent from the quality of interpersonal relations (Campbell, Campbell and Chia, 1998).

PRRSs can be based on individuals or on groups. Individual Based PRRSs (IBPRRSs) have the advantage above group based that it embraces the 'norm of distributive justice' in its utmost form.

Since it motivates employees individually, there is a good chance that outstanding performers will arise. In turn, they might set good examples and serve as a role model for other employees, which could enhance firm's overall performance. Group Based PRRSs (GBPRRSs) tend to ignore individual outstanding performers, which might cause them to put less effort into their job and just 'go with the flow' (Campbell, Campbell & Chia, 1998). Group Based systems might also allow group-members to not fully participate in all the processes, i.e. the free rider problem, which might lead to in-group dissatisfaction and conflicts. However, besides the disadvantages of Group based systems they also have some advantages. First, it is generally a lot easier to measure group performance as compared to individual performance since jobs tend to be interrelated, unique individual contributions are hard to measure and employees tend not to be fully in control of their own results (Deming, 1986).

Second, individuals are not likely to agree with a disappointing evaluation and therefore lower reward. The complex system of self-evaluation makes it difficult for employees to accept lower appraisals from their supervisors as their own. This individual defensiveness is greatly reduced by the use of Group Based systems, where employees are not individually reviewed and not solely responsible for the outcomes (Campbell, Campbell & Chia, 1998).

Third, Individual Based PRRSs might cause employees to focus only on 'rewarded' tasks and become single-minded and inflexible. Group Based systems encourage employees to not only think about their own outputs, but also about achieving the unit's mission which requires good overall performance. Thus, in this system, many of the disadvantages of individual rewarding, such as measurement problems, acceptance problems, individual defensiveness and jealousy, are overcome. Also, for the case of China, it is not unlikely that employees would appreciate a Group Based PRRS more, since the 'group' (for example, family, friends, work unit) carries far more importance in China's economic system as it does for example in Europe, where the economic systems is more characterized by individualism (Campbell, Campbell & Chia, 1998). Table 1 shows a comparison between the two sorts of PRRSs and the traditional system as described in Chapter 1.

Table 1: Features of reward systems.

<i>Item</i>	Reward System		
	<i>Traditional system</i>	<i>Individual Based PRRS</i>	<b>Group Based PRRS</b>
<b>Based on notion of:</b>	- Equality	- Equity	- Equity and Equality
<b>Base of measurement</b>	- Party-directed reward- scale system	- Individual Employee	- Group or Work-Unit
<b>Base for rewards</b>	- Seniority - Political loyalty - Post/position - Qualifications	- Individual performance	- Group or Work-Unit performance
<b>Advantages</b>	- No jealousy, every- body is (somewhat) the same - Represents the socialist ideal	- Higher motivation - Higher productivity - Role models	- Higher motivation - Higher productivity - Relatively easy to measure
<b>Disadvantages</b>	- Low morale - Low motivation - Low productivity	- Jealousy - Individual defensiveness at performance appraisals - Hard to measure in- dividual performance - Single-mindedness	-Ignores outstanding performers - Free-rider behaviour

### 3. Problem statement, Hypothesis and Conceptual Model

The previous elaboration on HRM in China and modern reward systems, culminates to this study's problem statement:

*'Which reward system in a Chinese foreign invested company (FIC) is favoured most by its Chinese employees?'*

To investigate this problem statement the following research questions will have to be answered:

1. How are the attitudes of the Chinese towards their current reward systems?
2. How do the Chinese ideally see their reward system, which one do they favour most?

To answer these questions, the here following hypotheses, conceptual model and, in part 4 methodology, will be applied in this study.

In this study, employees' attitudes are viewed from the 'rational perspective' (Mamman *et al*, 1996). This means that, when faced with a choice between reward systems, employees will choose the one that is perceived to yield the maximal satisfaction. In this case, attitudes can be positive or negative and represent the liking of a reward system. The reward system that is evaluated most positive, is preferred most by the employees

Performance related rewarding corresponds to the notion of equity as it differentiates the allocation of rewards with the relative contribution of the members. Therefore it contrasts with the notion of equality (Bozionelos and Wang, 2007). This is especially the case for individual based PRRSs, as group based PRRSs place more emphasis on the collective, and thus equality. When an individual demonstrates a positive attitude towards the notion of equality, the more likely it should be that the individual expresses a negative attitude towards individual based PRRSs as opposed to group based PRRSs and vice versa. Also, when an individual demonstrates a positive attitude towards the notion of equity, the more likely it should be the individual expresses a positive attitude towards individual based PRRSs as opposed to group based PRRSs. It is also more likely that when an individual expresses negative feelings towards equity and positive feelings towards equality, his attitude towards traditional reward systems based on position, seniority and political correctness will be more positive. Therefore I pose the following hypothesis:

*Hypothesis 1a:* The attitude of Chinese employees towards the notion of equity will be *positively* related to their attitudes towards Individual based PRRSs.



*Hypothesis 1b:* The attitude of Chinese employees towards the notion of equity will be *negatively* related to their attitudes towards Group based PRRSs

*Hypothesis 2a:* The attitude of Chinese employees towards the notion of equality will be *negatively* related to their attitudes towards Individual based PRRSs.

*Hypothesis 2b:* The attitude of Chinese employees towards the notion of equality will be *positively* related to their attitudes towards Group based PRRSs.

Collectivism implies that individuals see themselves primarily as members of a group and secondary as individuals. It places an emphasis on belongingness, self-sacrifice, co-operation and strong group relations (Kagitcibasi, 1997). Confucian Dynamism or long-term orientation stands for the extent to which a society incorporates the values of Confucius. This value also places a large emphasis on the group and tells the individual to submit itself to the needs of the group (Hofstede, 2001). Therefore the cohesion and interpersonal relationship are expected to be of some importance in the Chinese work floor. Since individual and group based PRRSs introduce competition and self-interest it is expected that employees will show a more positive attitude towards equality-based rewarding (traditional systems) than to equity-based rewarding (individual systems) with group-based systems as a 'golden mean'.

There have been several studies showing that the Chinese tend to distribute rewards according to the equality principle, which is in line with collectivism and Confucianism (see for example Bond *et al.*, 1982; Hui *et al.*, 1991; Leung and Bond, 1984). Though these studies were experimental or scenario based, or used samples from Hong Kong because of difficulties in accessing Chinese enterprises. In a more recent study by Giacobbe-Miller *et al.* (2003), Chinese and US managers were compared and it was found that Chinese managers tend to distribute rewards more according to the equality-principle as their US counterparts do. However, this also was a scenario-based study and did not assess the attitudes towards equality or equity directly. In their recent study, Bozionelos and Wang (2007) found that Chinese employees in SOEs express a rather neutral attitude towards equity (slightly positive) and equality (slightly negative). The results were  $M=2.99$ ,  $SD=.31$  for attitudes towards equity and  $M=1.94$ ,  $SD=.54$  towards equality on a 5-items Likert scale. This might be different in a Foreign Invested Company (FIC) because of a larger exposure to western practices. Also, in previous part we have seen that FICs in most cases offer more salary and rely less on fringe benefits as their Chinese counterparts do. Therefore, I expect to see a more positive stance toward

equity and a more negative stance towards equality based systems, as compared to the study performed by Bozionelos and Wang (2007). I state the hypothesis that:

*Hypothesis 3:* Chinese employees working in this FIC will express a more positive attitude towards equity based systems as compared to equality based systems.

The results from the study of Bozionelos and Wang (2007) suggest that despite all the reasoning in favour of equality based systems, Chinese employees do show positive attitudes towards equity based (individual) systems ( $M=4.09$ ,  $SD=.47$ ). Since they performed their study in a new Chinese SOE, I expect that in a FIC, results are at least equal, if not higher, since employees in these companies have been exposed more to the western way of doing things, as compared to employees in SOEs. Although, I expect that they most favour the 'golden mean', presented by the Group-based PRRSs as they represent both collectivistic/Confucianistic ideals, and equity ideals. Therefore I post the hypothesis that:

*Hypothesis 4:* Chinese employees will choose Group-based PRRSs as their ideal reward system.

As Bozionelos and Wang (2007) previously stated, it can be significant to provide information about antecedents of the attitudes of Chinese employees. Therefore, I also consider some cultural dimensions and characteristics. This information can help to design techniques to change employees' attitudes toward different reward systems in order to implement the systems successfully. Collectivism and Confucianism both place an emphasis on group harmony. Zhou and Martocchio (2001) described group- or intrapersonal harmony as maintaining good relationships with other people, avoiding confrontation, and striving for collective instead of personal gains. Their research found that Chinese managers find this more important as their US counterparts. Individual based PRRSs should be seen by Chinese employees as potentially harmful to this group harmony as they introduce competition and personal interest. The opposite holds for traditional systems and I expect that again, Chinese employees in a FIC will most favour the 'golden mean' presented by the group-based PRRS as it presents collectivistic/Confucianistic ideals and equity ideals. Therefore I expect that:

*Hypothesis 5a:* Concern for group harmony will be negatively related towards attitudes on individual based PRRSs.

*Hypothesis 5b:* Concern for group harmony will be positively related towards attitudes on group-based PRRSs.

Besides the general cultural dimensions of collectivism and long-term orientation, we must also consider features that are specific to, or predominantly mentioned in Chinese society. These features might be able to further support the accounting of attitudes of Chinese employees towards their reward systems. This because, as Hofstede (1993) states, cultural dimensions can only influence work attitudes and behaviours within a specific cultural context. Work attitudes and behaviours can only be completely understood if underlying causes are examined. The two features that Bozionelos and Wang (2007) describe, and I also consider important, are 'guanxi' and 'mianzi'.

As already mentioned in previous parts, 'guanxi' literally means 'relation'. However, its essence is a set of interpersonal relations that facilitate the exchange of favours between people. Lots of research shows the significance of 'guanxi' throughout the Chinese society (for more detail see paragraph 1.3). Since we have already seen that it also impacts the allocation of rewards, it is not unlikely that the concern for the impact of 'guanxi' on performance appraisal (PA) affects the attitudes toward reward systems. When employees believe that 'guanxi' affects PAs, their trust in the fairness of the evaluation will diminish. This trust in fairness is crucial to the successful implementation of reward systems. As a result, I pose the following hypothesis that:

*Hypothesis 6a:* The belief that 'guanxi' will affect PA will be negatively related towards the attitudes of Chinese employees to individual based systems

*Hypothesis 6b:* The belief that 'guanxi' will affect PA will be negatively related towards the attitudes of Chinese employees to group based PRRSs.

'Mianzi', is ones concern for gaining and maintaining 'face' by means of achieving recognition and respect due to achievements and success (Bond and Hwang, 1986). Therefore an 'audience', whether co-workers, family or friends, is required for success which embodies the development of 'Mianzi'. 'Mianzi' is lost by (displaying) under-achievement compared to other group members. Since the concern for loosing 'mianzi' is such a strong motivator and loosing it is a major concern (Bond and Hwang, 1986), it is not unlikely that this concern affects attitudes toward reward systems. Since individual based PRRSs differentiate individuals, personal performance, and thus failure, 'mianzi' becomes very noticeable. This might induce a threat to Chinese employees. The effect might be less strong in a group based system, were not individuals' but small work units' or other groups'

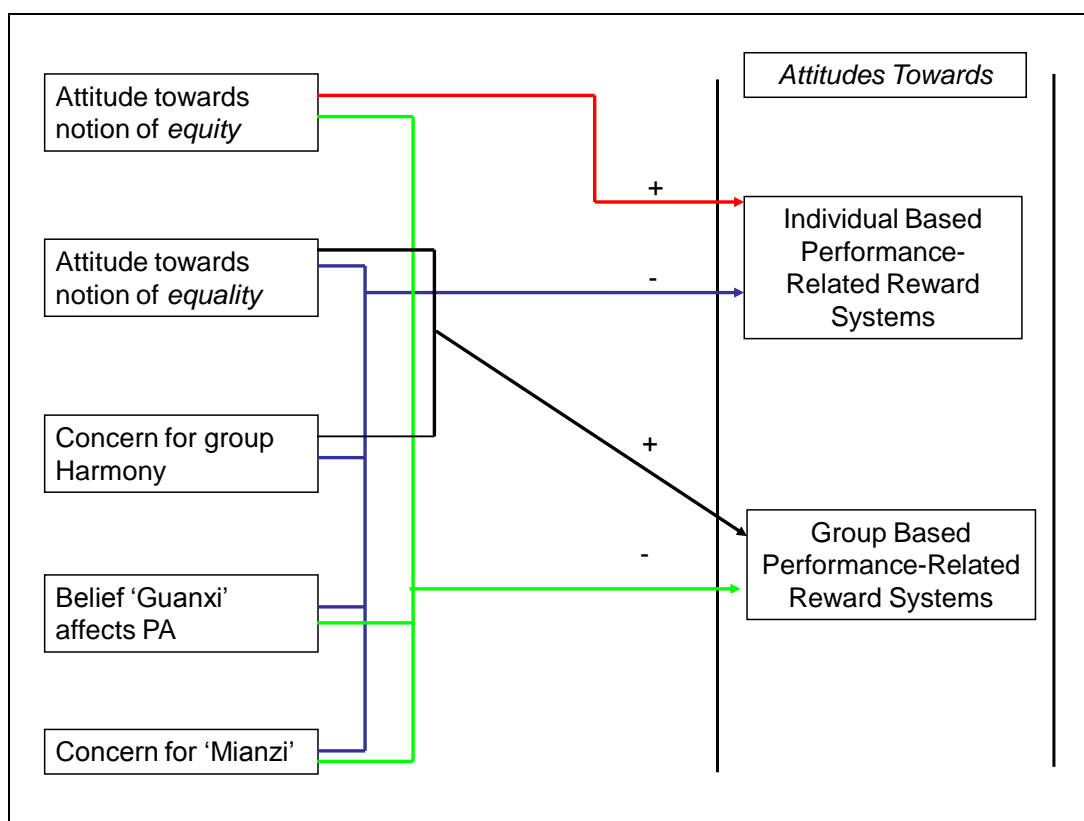
performance is measured. In this situation, individuals attract less attention. Still, however, group members are not unlikely to notice under-performance. Since in traditional systems performance was not at all -or at least far less- important, the concern for loosing 'mianzi' is probably positively related to these systems. Therefore I place the hypothesis that:

*Hypothesis 7a:* The concern for loosing 'mianzi' will be negatively related towards individual based systems.

*Hypothesis 7b:* The concern for loosing 'mianzi' will be negatively related towards group based systems

The hypotheses above are combined in the conceptual model below.

*Figure 2: Conceptual Model*



#### *Control variables*

In the study I will control for demographic characteristics (country of birth, age, gender and tenure at the company). As already mentioned in previous parts of this study, China's development towards a

modern market-economy is not in every part of the country as far as in the coastal regions and larger cities. Historically, the south-eastern and coastal areas in China had a better infrastructure, better educational levels and industrial bases, compared to the north and interior regions. Therefore the majority of the FICs located themselves in these regions. As these less developed regions lack a consequent exposure to foreign firms, a separation is evolving within China between its developed urban areas in the south-east and coastal regions and the north and interior regions. This effect is strengthened by the fact that there appears to be a brain drain as foreign and Chinese enterprises tend to recruit talented people out of these regions to the cities (Ding *et al*, 2000). I therefore find it likely that employees in the more developed regions are more familiar with western practices as the less developed regions. From own experience I can say that the people in these modern (western-alike) cities very much want to live a 'western' life. I think it is not unlikely that the Chinese also in their jobs want to look more like western employees. Unfortunately, during the course of my stay in Suzhou, it became clear that the company would not give me permission to investigate other facilities in China.

## 4. Methodology

In order to explore the complex field of attitudes of employees, the research was made up of a theoretical and an empirical part. This section describes the methodology used for the research. For the theoretical part scientific databases at Erasmus University have been accessed. The internet, books, magazines, papers, publications, and other similar sources have been obtained to get a broad insight in the historical background of HRM in China, applied reward systems and attitudes of employees. The following chapter about the chosen research design is mainly based on research and studies performed by Babbie (2007).

### 4.1 Issues in Cross-cultural research

The data-collection will be carried out in China by the means of an on-line web-survey. As the data-collection took place in a different culture as my own, I participated in cross-cultural research. Norms, values and customs tend to differ from Western Europe. The following is a description of how I dealt with the possible difficulties caused by this difference.

First, there is a difficulty of language. Since I am not a native Chinese speaker, and the Chinese are not native English speakers, there is ground for ambiguity and misunderstanding. This ground is further enhanced by the probable use of English terms which might have a different meaning in China. This is the issue concerning construct validity: used constructs might have different meanings across cultures. To tackle this issue I used a two-way solution. First, I will keep the questionnaire as simple in language as possible. Nonetheless, this will not mean the questionnaire will be infantile, which might offend the respondents. The second part of the solution is about the translation. Since I also study Chinese language and culture at Leiden University I asked Mr. Cong to help me translate the questionnaire into Chinese (language and writing). Mr. Cong is a Chinese language teacher from Beijing Language and Culture University who speaks both English and Chinese (Mandarin). However, his English is not outstanding. Therefore I also asked another teacher who is both a Dutch and Chinese native speaker, to translate the Chinese back to Dutch, to check if this Dutch translation is consistent with the English questions.

Another issue has to do with the actual responses. Triandis (1972) already established the existence of cultural-specific approaches to answering Likert-scale questions. There is more recent and specific evidence on the case of China by Chen *et al.* (1995) that Asians in general may use a different response style as compared to for example Westerners from Canada, U.S.A. or Europe. In Confucian philosophy moderation is highly valued and people are encouraged to take 'the middle road'. This could be, together with the high degree of collectivism, the reason that Chen *et al.* (1995)

found that Chinese respondents use the midpoint(s) of Likert-scale questions far more often than Canadians or Americans. Jerzak *et al.* (1996) found that Chinese participants rarely use the “strongly disagree” (<5%), unless the item was negatively worded. However, even then the Chinese used “strongly disagree” far less than their American counterparts. Although the different use of response style could be a reflection of culture-specific ideas, like Confucianism or Collectivism, it can also mean that the items have little or no meaning for the participants. Therefore it could be possible that the items I use in my questionnaire, which originate from the Western world, are of low meaning to the Chinese. Though, when I told Mr. Cong my research was about reward systems he immediately confirmed that it was a delicate subject for the Chinese. This can also be seen on the social status one can derive from his financial means as seen in earlier parts in this thesis. I therefore do not believe the questionnaire will have low meaning for the respondents. Still, I have to try to minimize the overwhelming use of midpoints. Therefore I will avoid the use of 5-point Likert-scales. They will be replaced by 6-point scales; hence there will be no midpoint. The scale will range “strongly disagree”, “disagree”, “slightly disagree” and the same for “agree”. By not using the mid-scale respondents are forced to take an opinion about whether they agree or disagree. By expanding the questions to 6-point scales, I try to avoid the respondents from hesitation to answer.

## 4.2 Method

The company in which the study was carried out is specialized in producing highly engineered fluidics systems and components, as well as fire and safety products. Global headquarters is located in Northbrook (IL), USA. The study was conducted in Suzhou (Jiangsu), China, which is part of the quickly developing area surrounding Shanghai (100 km to the east). The location in Suzhou is a subsidiary, a production facility but also serves as a headquarters for China. The sales department however is located in Shanghai. All white-collar employees were invited to participate by an e-mail from the HRM department which included a link to the online-questionnaire. The e-mail provided the information that it was my study, not the company, and that individual responses were not made known to the company. Anonymity was completely assured. The full questionnaire can be found in Appendix 1 (English) and 2 (Chinese). I was introduced in the company as an intern for a month, whose main target was research for his thesis. This way I hoped to be considered an outsider to reduce response bias. The time to respond to the questionnaire was 4 weeks. After two and three weeks, reminders were send.

The questionnaire has been filled out by 46 out of 62 white-collar employees, a response rate of 74.2%. There was one respondent from Taiwan, and one from Macau, the rest were all Chinese from the mainland. Sadly, the company insisted to remove the questions about specific birth regions

(province) and the kind of birth ground (city, town or village), due to sensitive issues that might occur. 27 respondents were male, 19 female which is 58.7% and 41.3% respectively. Average age was 29.67 years, varying from 23 to 38, and employees' tenure at the company was 2.41 years on average. Participants represented all departments located in the company such as finance, HRM, operations, planning etc. As mentioned, the sales department was located in another facility.

Unfortunately, specific data on how the reward system exactly worked, could not be obtained as the company considered the information too sensitive. It is known however that bonuses can be earned by the employees when certain training courses are completed or a certain degree of loyalty has been reached (1 year, 3 years and 5 years). The questionnaire shows that the employees feel that their current reward system is mainly based on individual performance (82.6%) and post within the company (73.9%). A large part of the respondents also marked the performance of their department (52.2%) and tenure at the company (41.3%) as important determinants of their reward.

### *Measures*

The questionnaire started with basic demographic information (Age, Sex, Country of birth, Tenure), even though this information was not used in analyses. The questions were used to 'warm-up' the respondents and to not start off immediately with difficult questions, as suggested by Sue and Ritter (2007). This part of the data was not used as it is unethical to discriminate on the basis of age, sex or origin. Next was a multiple response question to investigate what employees *thought* their current rewards were based on. Next were the measurements of the attitudes and beliefs of the respondents.

**Attitudes towards notion of equity.** This construct is measured by statement 1 and 2, developed and used by Bozionelos and Wang on the basis of literature from among other Deutsch (1985). The scores of both statements were added to calculate the total scores on the attitudes towards equity-based rewarding. A higher score indicates a positive attitude and vice-versa. The Cronbach alpha was .42.

**Attitudes towards notion of equality.** This was also assessed with two statements, 3 and 4, developed and used by Bozionelos and Wang on the basis of relevant literature. Scores on the items were added to calculate the total score on equality based rewarding. The Cronbach alpha was .53.

**Attitudes towards individual- and group-based performance-related reward systems.** This construct was measured by statements 5 to 8. 5, 6, and 7 were developed and used by Bozionelos and Wang and statement 8 was added by myself to also investigate group-based systems. Scores on statements



5 to 7 were added to calculate total scores. The Cronbach alpha for attitudes towards individual based PRRS was .65.

**Concern for group harmony** was measured by statements 9 to 11, developed and used by Bozionelos and Wang. The scores will be treated in the same way as the scores on the previous items. Cronbach alpha was .77.

**Belief that Guanxi affects Performance Evaluation.** This construct was measured by statements 12 to 15, developed and used by Bozionelos and Wang. Scores on individual items were again added to calculate total scores. Cronbach alpha was .79.

**Concern for losing face (Mianzi).** The last two statements, 16 and 17, measure this item and were developed and used by Bozionelos and Wang. The scores on both statements were added to calculate total scores. Cronbach alpha was .97.

The questionnaire concluded with two multiple response questions to investigate what employees *wished* their reward system was based on. The second question asked for the possible opinion of the respondent's best friend, to provide an opportunity for the respondents to distance themselves from the answer and to provide a benchmark for the previous question.

## 5. Results

This section described the statistical analysis of the obtained dataset. To further analyze the results, the comparative method by Charles Ragin (1987) is used to provide a deeper insight into which combinations of attitudes result in the appreciation of a certain reward system.

### 5.1 Statistical Analysis

The descriptive statistics and Pearson correlations of all the variables in the study are presented in Table 2. One-tailed testing was used since the study, besides studying if there are relations, also explores whether the relations are negative or positive. Significant relations are marked by (\*).

*Table 2: Descriptive Statistics and Inter-correlations*

	<i>M</i>	<i>SD</i>	1	2	3	4	5	6	7	8
<b>1. Age (in years)</b>	29,67	3,29	-							
<b>2. Tenure (in years)</b>	2,41	1,18	,344**	-						
<b>3. Attitude towards Equity</b>	4,75	,81	,082	,017	-					
<b>4. Attitude towards Equality</b>	2,28	,89	-,138	,160	-,085	-				
<b>5. Concern for group harmony</b>	2,57	,77	,026	,175	,015	,219 <sup>+</sup>	-			
<b>6. Belief that Guanxi affects performance evaluation</b>	3,09	,92	-,095	-,110	,063	,266 <sup>*</sup>	,591**	-		
<b>7. Concern for loosing Mianzi</b>	2,90	1,17	,133	,006	,138	,176	,416**	,410**	-	
<b>8. Attitude towards IBPRRS</b>	4,90	,62	,111	,018	,171	-,284 <sup>*</sup>	-,199 <sup>+</sup>	-,254 <sup>*</sup>	-,138	-
<b>9. Attitude towards GBPRRS</b>	4,43	,86	-,130	-,049	,240 <sup>+</sup>	-,019	,064	,021	-,178	,141

N = 46

\*\* . Correlation is significant at the 0.01 level (1-tailed).

\* . Correlation is significant at the 0.05 level (1-tailed).

<sup>+</sup> . Correlation is significant at the 0.1 level (1-tailed).

Hypothesis 1a stated that the attitude of the employees towards the notion of equity-based rewarding will be positively related to their attitudes towards individual based PRRSs. Correlation between the two variables is ( $r = .171$ ) but not significant ( $p = .128$ ), therefore hypothesis 1a is not supported. Hypothesis 1b stated that the attitude towards the notion of equity-based rewarding would be negatively related towards the attitude towards group-based PRRSs. The results indicate the opposite. There seems to be an even stronger relationship towards group-based systems as to

individual systems ( $r = .240$ ), although not significant ( $p = .054$ ). As a result, hypothesis 1b is not supported as well.

Hypothesis 2a, which tested whether the attitude towards equality-based rewarding was negatively related to individual-based PRRSs was supported ( $r = -.284$ ,  $p = .028$ ), slightly stronger even as in the Bozionelos and Wang (2007) study ( $r = -.22$ ,  $p < .05$ ). This last point supports the idea that in a Foreign Invested Company the aversion towards equality based reward systems is stronger than in a State-Owned Enterprise. No support was found for Hypothesis 2b that attitude towards equality-based rewarding was positively related towards group-based PRRSs due to strong insignificance ( $r = -.019$ ,  $p = .45$ ).

To test Hypothesis 3, whether employees express a more positive attitude towards equity-based systems than towards equality-based systems, a dependent *t*-test was used, to compare the means. The hypothesis was supported as the *t*-statistic was significant  $t(45) = 13.35$ ,  $p \leq 0.05$ . The mean score on equity-based rewarding was higher ( $M = 4.75$ ,  $SD = .80$ ) than the score on equality-based rewarding ( $M = 2.28$ ,  $SD = .89$ ). These results represent a strong deviation from the Bozionelos and Wang (2007) study. They also found that the attitude towards equity-based systems ( $M = 2.99$ ,  $SD = .31$ ) was more positive than the attitude towards equality-based systems ( $M = 1.94$ ,  $SD = .54$ ), however both mean-scores circled around the neutral stance of 3. In this study, where the mean score would be 3.5, there is a clear positive attitude towards equity-based systems (positioned around 1.25 point from the mid-scale) and a clear negative attitude towards equality-based systems (also positioned around 1.25 from the mid-scale). This supports the idea that in a FIC, the attitude towards equity (e.g. more Western) systems is more positive than in a state-owned enterprise.

A dependent *t*-test was also used to test Hypothesis 4, whether employees would choose group-based PRRSs as their preferred reward system before individual-based systems. The *t*-statistic value was significant  $t(45) = 3.193$ ,  $p \leq 0.05$ , but the mean of individual-based systems was higher than the mean on group-based systems (by .46). This suggests the opposite of the hypothesis since employees seem to favour an individual-based reward system more than a group-based system. These results are supported by the outcomes of the multiple-response questions at the end of the questionnaire (see Appendix 3), where 95.7% of the employees included individual performance as a desired base for their rewards, where only 78.3% also marked group performance as a desired base (See appendix 3). In the control question, which inquires for the employee's best guess about his or her best friend, the percentage that desires group performance as a base for rewards is even lower at 67.4%, where individual performance is the same at 95.7%.

Testing Hypotheses 5a to 7b, the influence of group harmony, guanxi and mianzi, only found significant support for hypothesis 6a, the other relations were insignificant (ranging from  $p = .093$  to

$p = .444$ ) and therefore the related hypothesis not supported. Hypothesis 6a states that the belief that Guanxi affects performance appraisal is negatively related towards attitudes of the employees to individual PRRSs ( $r = -.254, p = .044$ ). This supports the idea that since individual performance is measured by performance appraisal (by supervisors), a good relation with a supervisor is believed to possibly generate better rewards. This undermines the believed effectiveness of a performance related reward system, as the relation with a supervisor is considered more important than performance. Therefore the attitude towards PRRSs of an employee might be negatively affected.

## 5.2 The Comparative Method.

The statistical analysis of the dataset showed many insignificant relations. As seen, many of the hypotheses were not supported. However, there were relations that were only slightly insignificant, which might be a result of the relatively small dataset (for example relations *Attitude towards GBPRRS \* Attitude towards Equity*, *Concern for Group Harmony \* Attitudes towards Equality* and *Concern for Group Harmony \* Attitude towards IBPRRS* are significant at the .1 level, see table 2, p.37). Another reason might be that the variables cannot be considered in isolation, but need to be grouped together to produce reliable results as they belong to each other. This is also called a 'set relation'. The statistical analysis supports this idea as it shows strong correlations in between for example Group Harmony, Guanxi and Mianzi (see Table 2, p. 37). To test whether or not this presumption is true, a different, relatively unknown method was used to analyze the data: the Qualitative Comparative Analysis (QCA) by Charles C. Ragin (1987). On his website Ragin describes the QCA as:

*'Qualitative Comparative Analysis (QCA) is a new analytic technique that uses Boolean algebra to implement principles of comparison used by scholars engaged in the qualitative study of macro social phenomena.[...] By formalizing the logic of qualitative analysis, QCA makes it possible to bring the logic and empirical intensity of qualitative approaches to studies that embrace more than a handful of cases -- research situations that normally call for the use of variable-oriented, quantitative methods. Boolean methods of logical comparison represent each case as a combination of causal and outcome conditions. These combinations can be compared with each other and then logically simplified through a bottom-up process of paired comparison. [...] The data matrix is reformulated as a "truth table" and reduced in a way that parallels the minimization of switching circuits. These minimization procedures mimic case-oriented comparative methods but accomplish the most cognitively demanding task -- making multiple comparisons of configurations -- through computer algorithms. The goal of the logical minimization is to represent -- in a shorthand manner -- the information in the truth table regarding the different combinations of conditions that produce a specific outcome.'*

Ragin, at: <http://www.u.arizona.edu/~cragin/fsQCA/> (Accessed 11.08.2009)

Ragin started developing this method to solve the problem he faced working with relatively small datasets and out of frustration caused by statistical methods. These methods encourage investigators to simply increase the sample size to strengthen their analysis, thereby ignoring issues of comparability. QCA is able to determine the different contexts (in this study: combinations of Equality, Equity, Group Harmony, Guanxi and Mianzi) in which a cause influences a certain outcome (here: the attitude towards reward systems).

Ragin states the following about set relations:

*'[...] set relations described in theories are usually transformed by social scientists into hypotheses about correlations between variables, which are then evaluated using standard correlational techniques (e.g., multiple regression analysis), oriented toward the evaluation of the "net effects" of causal variables. [...] theory that is formulated in terms of set relations should be evaluated on its own terms, that is, as statements about set relations, not about correlations.'*

Ragin, 2006

Traditional QCA is based on 'crisp' set relations. This means that the set relation is binary with only two possible categories, either membership (value '1') or non-membership (value '0'), or in case of this study: agree or disagree. The data however, provides more information: it also includes a degree of membership: strongly agree, agree or slightly agree and the same for disagree. This makes it possible to use the 'fuzzy-set' analysis as it allows for degrees of membership of categories. Following Kent (2008), fuzzy sets still record a value of 1 for membership and 0 for non-membership, but it also allows for other scores. He lists several conditions that make a study lend itself for a fuzzy-set approach, which are the main reasons I chose to use this analysis. The conditions relevant to this study and an explanation why, are listed below:

1. ***There are hypotheses or at least justifiable hunches about the underlying causal structure of an outcome being studied.*** See the strong positive correlations among 'Concern for Group Harmony', 'Concern that Guanxi affects Performance evaluation' and Concern for losing Mianzi' as presented in Table 2, p. 37. The applicability to this study is strengthened by the quote posted above by Ragin (2006) considering set relations. In chapter 3, where the hypotheses were constructed, the variables were separated from each other: each hypothesis considered the relation between *one* variable and reward systems, instead of considering the possibility of a set relation.

2. ***It is expected that the causal structure is complex, equifinal (there are different pathways to an outcome) and conjunctural (conditions are often sufficient only in combination).*** This assumption was already made in the beginning of this paragraph 5.2, that variables cannot be considered in isolation (as analyzed with the correlation tests that was largely insignificant), but need to be grouped together to produce reliable results as they belong to each other.
3. ***The number of cases is too low for frequentist techniques to be applied.*** The number of 46 respondents is indeed considered low, as most statistical analysis are based on  $N > 100$ , which is also the case in the study by Bozionelos and Wang (2007) on which this study is based.

To use the data gathered by the Likert-scores in the fsQCA program, they had to be recoded: from ranging 1 to 6, to ranging 0 to 1. A simple method was used:  $X_{\text{new variable}} = (X_{\text{old variable}} - 1) / 5$ . The new categories therefore became:

- 0.0: strongly disagree,
- 0.2: disagree,
- 0.4: slightly disagree,
- 0.6: slightly agree,
- 0.8: agree,
- 1.0: strongly agree.

This resulted in a new dataset presented in Appendix 4, table 5. Next, using the fsQCA computer program<sup>1</sup>, a so called Truth Table is constructed, consisting of all possible combinations and their outcomes (1=agree, 0=disagree) (See App. 4, table 6). A value of 1 indicates a fuzzy set membership score of 0.5 or above and 0 a score below 0.5. The truth table for IBPRRS (outcome variable 'xx') shows that only 6 combinations exist (of the possible  $2^5 = 32$  combinations). This is called the effect of 'limited diversity', the problem that not all possible combinations can be found or exist in reality. Combinations that do not exist are assumed by Ragin to combine elements that are unlikely to occur, and can therefore not result in 'agree' to the dependent variable based on the studied variables. Therefore, the 'remainders' or the 26 combinations that do not exist are not included in the following minimization process.

The combinations that do exist can be summarized in the following primitive sums-of-products equations. The primitive sums-of-products equation represents all combinations of variables that

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<sup>1</sup> Available at: <http://www.u.arizona.edu/~cragin/fsQCA/software.shtml> accessed at 06.10.2009

result in an agreement with IBPRRS (or GBPRRS when the other dependant variable is chosen) that were found in the data. Therefore, only these combinations *empirically* exist. An uppercase letter represents value 1 (present/agree) to variable A, B, C, D or E, and a lowercase letter represents value 0 (absent/disagree):

$$\text{IBPRRS (xx)} = \text{Abcde} + \text{AbcDe} + \text{AbcdE} + \text{AbcDE} + \text{AbCdE} + \text{ABCDE}$$

$$\text{GBPRRS (yy)} = \text{Abcde} + \text{AbcDe} + \text{AbcdE} + \text{AbcDE} + \text{AbCdE} + \text{ABCDE}$$

Unfortunately, the above equations are the same, meaning no distinction can be made between Individual- and Group-based systems. However, the question whether employees prefer Individual- or Group-based systems has already been answered, as the mean of IBPRRS was significantly higher (by .46) as GBPRRS. The question here is which conditions have an influence on constructing an attitude towards a pay system, not which is preferred most.

### *Boolean Minimization*

The primitive sums can be simplified using Boolean minimization. This is useful as the primitive sums-of-products equation lists overlapping, complex information which does not identify the most important variable that consistently play a role in the relation towards the outcome variable. For example in the equations above combination Abcde can be observed, as well as combination AbcDe. The difference in the combination is variable 'D'. It might be confusing to see that in one case 'D' is positively evaluated (represented by *uppercase* letter D), while in the other case 'D' is negatively evaluated (represented by *lowercase* letter d).

To eliminate this ambiguity, Boolean minimization can be used to simplify and clarify the outcome. Dusa (2007) explains the Quine-McCluskey algorithm which is the mathematical base of Boolean minimization. This algorithm simplifies logical expressions (e.g. a sums-of-products) to obtain a minimum sums-of-products. The algorithm is based on two main properties:

- Any logical expression can be rewritten using the distributive law
- The reunion of A with *a* (*NOT A*) is always equal to 1 (or TRUE)

Dusa (2007) provides a simple example with the expression  $ABC + aBC$ . This can be rewritten to  $(A+a)BC$ . As  $A + a$  equals 1 and  $1 \times BC = BC$ , the result is BC. Ragin (1987) explains Boolean minimization as follows, more or less the same as Dusa (2007):

*'If two Boolean expressions differ in only one causal condition yet produce the same outcome, then the causal condition that distinguishes the two expressions can be considered irrelevant and can be removed to create a simpler, combined expression.'*

Ragin 1987, p. 93

Ragin (1987) states that when this rule is applied to the primitive sums-of-product equation, the results are the 'prime-implicants'. A prime implicant of a function (in this case the primitive sums-of-products equation) represents all combinations resulting in a score of '1' on the outcome variable. It cannot be covered by a further minimized and therefore more general implicant. In this study, the prime-implicant represents all combinations of behavioural features in the dataset that result in a positive attitude towards PRRs. The prime-implicants are calculated using the fsQCA computer program mentioned earlier, which generates the following result (see Appendix 4, figure 2 for the generated output):

**Prime-Implicant for existence:  $Abc$  ( $a \sim b \sim c$  in the output)**

$Abc$  implies that when an employee has a positive attitude towards the notion of equity while not sympathizing with (a) the notion of equality and (b) does not have the belief that PRRs might harm the group harmony, he sympathizes with PRRs. The employee could support PRRs since he believes group harmony is not harmed. Whether the employee thinks that Guanxi can affect his performance appraisal, or he might risk his Mianzi, is no factor in his support for PRRs.

### 5.2.1. QCA Summary.

The fuzzy-set Qualitative Comparative Analysis identified the combination of behavioural characteristics that leads to a positive attitude towards Performance Related Reward Systems. The QCA complements to the statistical analysis as it gives more information on the cultural factors used in Hypothesis 5 to 7, which were not supported by the statistical analysis. Partially in line with this statistical analysis, it showed that Guanxi and Mianzi indeed do not play a role in the construction of the attitude towards reward systems. However, the concern for group harmony is still important. Employees are only positive when they believe that the group harmony will not be damaged by the new systems. This might be an indication that the importance of the deep-rooted cultural characteristics Guanxi and Mianzi is declining, further research however is necessary as this study lacks the longitudinal data to investigate this trend. It is perhaps not surprising considering previous reflections in this study, that an appreciation of the notion of Equity, in which everybody is rewarded according to his/her contribution, is necessary to appreciate a reward system that is based on this notion. However, now there also is empirical evidence that this notion indeed plays a role in the



attitude towards PRRS. The other way around holds for the disapproval of the notion of Equality, where everybody is rewarded equally, regardless of their contributions.

## 6. Discussion and Limitations

Combining the results from the statistical analysis and the Qualitative Comparative Analysis, several results are identified. Most importantly, the study shows that group-based Performance Related Reward systems were not the most preferred system, as was expected in the introduction and hypotheses. Results of the multiple-response questions at the end of the questionnaire showed that 95.7% of all respondents favoured individual performance as one of the bases for rewards. A large majority of 78.3% *also* checked departmental performance as a desirable base. To answer the study's Research Question, which system was preferred most in a Chinese FIC, the testing of hypothesis 4 provided proof that individual systems are most preferred. As expected, attitudes towards PRRS in this study, conducted in a Chinese Foreign Invested Company, are stronger than results from the study of Bozionelos and Wang (2007) which was conducted in a new Chinese State-Owned company. Where in their study attitudes towards these systems were fairly neutral, in this study they were strongly positive. Therefore it proves that among different ownership forms, the applicability of PRRS may vary.

Next, the fuzzy-set Qualitative Comparative Analysis showed that in line with the statistical analysis only the cultural characteristic 'Concern for Group Harmony' still plays an important role in the composition of the attitude towards the new Western reward systems. This implies that the importance of the cultural concepts of Guanxi and Mianzi, that are widely considered to be deep-rooted in Chinese culture, is not important in FICs, at least in the appreciation of one's reward systems.

### 6.1 Limitations

The company studied in this research was a Foreign Invested Company (FIC) in Suzhou, China. Results are limited to this ownership form, although information about a new State-Owned Enterprise is available in the study of Bozionelos and Wang (2007). It is unsure whether the results can be generalized towards other ownership forms such Chinese private firms, small- and medium enterprises or joint-ventures. It might be valuable to compare the results of this study to those conducted in other ownership forms to see whether the results can be generalized.

Unfortunately, it was not possible to conduct research in other facilities of the company in the Shanghai-Suzhou area, let alone in other parts of China. Therefore it is not sure whether results can be generalized to other parts of China, far from the Shanghai area, where different cultural features might play a role. The facility studied does seem a good representation of a general production facility in modern parts of China. Future studies could focus on situations in for example

Hong Kong (which has been under British rule for a hundred years) or Wenzhou (which is somewhat separated from the rest of China by natural obstacles).

It is important to note that the age of the respondents varied only between 23 and 38. It might very well be possible that older employees, who might be more affected by previous HR systems, have very different opinions.

Finally, the acquired dataset was not large compared to for example the study of Bozionelos and Wang (2007) which counted 106 respondents. Although the dataset was further analyzed using Ragin's Qualitative Comparative Analysis, it might prove valuable to study a larger dataset.

## 6.2 Discussion and Conclusion

The overall conclusion drawn from this study is that Chinese employees are becoming more and more Western-orientated. The importance of some Chinese cultural characteristics in the appreciation of Western systems is less in FICs compared to SOEs, at least in the appreciation of one's reward system, though some persist. This view is supported by Luo (2007, p. 31-32), who states that indeed the future importance of cultural characteristics such as Guanxi (and Mianzi) is debatable. With regard to Guanxi, he differentiates between blood-based Guanxi (with family members and close friends) and socially-based Guanxi (with colleagues, distant friends etc.). Luo expects that blood-based Guanxi will remain important as it is less vulnerable to the increasing strength of institutional law, which is increasing step by step in China. Socially-based Guanxi however, is susceptible to the increasing strength of institutional law. However, he highlights that in other East Asian countries such as Japan and South Korea, Guanxi is still an important concept in society. Finally he states that:

*'...we will witness greater diversity in terms of the importance of Guanxi to different individuals and organizations.[ ... ]The industrial environment will become more competitive and, consequently, require superior productivity and competency. [...] Firms equipped with better technological and organizational skills will have less necessity to cultivate new Guanxi networks.'*

Luo, Y. (2007) p. 32

So, companies are likely to discover that well institutionalized and formalized performance appraisals are vital to strengthen productivity and competitive strength in China's developing market economy.

The outcomes of this study could also have been the result of other factors. For example, employees that are less concerned with group-orientation, Guanxi or Mianzi could search specifically for jobs in FICs, where they expect these factors play a larger role. Gamble (2006) however, found no

evidence for this assumption. In his study he identified the main reasons for employees to join an FIC which were better pay, working conditions and opportunities for training and promotion. He found no specific differences in the cultural field between employees in FICs and SOEs. Another cause of the difference might be different selection targets between FICs and SOEs. This is also unlikely. As talent in China is still scarce and only 10% of Chinese graduates is suitable for work in an FIC (Farrell & Grant, 2005), companies are unlikely to select for employees with more or less concerns about cultural characteristics. This is in line with some informal talks I had with the IT and HR managers during my internship, who told me that they put a lot of effort into contracting graduates from the better universities, but as soon as they did, they still had to retrain them completely (for 2 years) before they were fit to work at the company.

These conclusions could, and perhaps should, be taken into consideration by companies in China and new companies entering the Chinese market. Since rewards are a very important tool in retention of Chinese personnel, the results of this study can be very valuable in adjusting reward systems to the likings of the Chinese.

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## **Appendix 1: English Questionnaire**

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### **Employee Reward Questionnaire**

This questionnaire consists of 23 questions in 3 different parts. Filling out the questionnaire will take not more than 10 minutes of your time.

Please fill in your answers as honest as possible, and try not to answer as society would like you to.

This questionnaire is completely anonymous; your supervisors will not be informed about your answers. Your answers will be strictly confidential.

1. Age: ..... year.
2. Sex: Male / Female
3. Place of birth:
  - China
  - Macau
  - Hong Kong
  - Taiwan
  - Other
4. I work at this company for ... years now.
5. My salary is based on (multiple answers possible):
  - The number of hours that I work
  - My individual performance
  - My age
  - The performance of my work group, department, division.
  - My loyalty to the company
  - My political views
  - My post within the company

In the next part I would like to present you some propositions. Please fill in if you agree or disagree, and in which degree. Please do not think too long, I encourage you to be impulsive. You can only fill in one answer per proposition. The questions consider your opinions about your pay system. Bear in mind that your answers will be treated completely confidential.

	<b>Strongly Disagree</b>	<b>Strongly agree</b>
1. I think employees that perform very good should be rewarded with higher pay, while those that perform less should be rewarded with lower pay.	1 - 2 - 3 - 4 - 5 - 6	
2. I can accept that peers of mine are paid higher than me, if they make greater contributions to the company than I do.	1 - 2 - 3 - 4 - 5 - 6	
3. I think my pay level should be equal to my peers, as there should not be any gap between peers.	1 - 2 - 3 - 4 - 5 - 6	

4.	I would prefer all my peers to be paid equally regardless of their work contributions.	1 - 2 - 3 - 4 - 5 - 6
5.	I welcome pay to be linked with performance in the organization I work for.	1 - 2 - 3 - 4 - 5 - 6
6.	I am happy to link my individual contribution with my payment.	1 - 2 - 3 - 4 - 5 - 6
7.	I welcome the differentiation of my pay level from that of my peers on the basis of our performance.	1 - 2 - 3 - 4 - 5 - 6
8.	I welcome pay to be linked to the group performance of our work-group	1 - 2 - 3 - 4 - 5 - 6
9.	Competition for pay among colleagues would harm our friendship.	1 - 2 - 3 - 4 - 5 - 6
10.	If my pay level is higher than my peers' our friendship might be harmed.	1 - 2 - 3 - 4 - 5 - 6
11.	I think that pay differentiation could undermine harmonious relationships among colleagues.	1 - 2 - 3 - 4 - 5 - 6
12.	I think Guanxi plays an extremely important role in performance evaluation.	1 - 2 - 3 - 4 - 5 - 6
13.	It is more important to have Guanxi with supervisors than to perform well in order to receive a good performance rating.	1 - 2 - 3 - 4 - 5 - 6
14.	Those who receive good performance evaluations have good Guanxi with their supervisors.	1 - 2 - 3 - 4 - 5 - 6

---

15. I will receive better performance evaluations than my peers who perform better than me if I have stronger Guanxi within the company or personal Guanxi with my supervisor than they have. 1 - 2 - 3 - 4 - 5 - 6

---

16. If I receive different pay from my peers I will associate it with losing Mianzi 1 - 2 - 3 - 4 - 5 - 6

---

17. I will lose Mianzi if my pay level is lower than that of my peers 1 - 2 - 3 - 4 - 5 - 6

---

18. In an ideal situation, I would like my pay to be based on (multiple answers possible):

- The number of hours that I work
- My individual performance
- My age
- The performance of my work group, department, division.
- My loyalty to the company
- My political views
- My post within the company

19. My best friend thinks in an ideal situation, his pay would be based on (multiple answers possible):

- The number of hours that I work
- My individual performance
- My age
- The performance of my work group, department, division.
- My loyalty to the company
- My political views
- My post within the company

The End

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**Thank you for your cooperation!**

## Appendix 2: Chinese Questionnaire

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### 工人待遇调查表

本调查表共包含三个部分，二十四个问题。在十分钟以内您便可完成本表的填写。

请尽量诚实地回答表中的问题，而不要按照别人的要求来回答问题。

本调查表是完全匿名的，您的主管不会看到您的任何答案。您的所有回答都将被严格保密。



1. 年龄:
2. 性别: 男 / 女
3. 出生地:
  - 国家:
  - 中国
  - 香港
  - 台湾
  - 澳门
  - 别的
4. 我已经在本公司工作 ... 年了。
5. 我的薪水——包括奖金，是基于下面因素决定（多选）：
  - 我每个月的工作时长
  - 我的个人表现
  - 我的年龄
  - 我所在部门的集体表现
  - 我对公司的忠诚度，换言之，我在公司的服务年限
  - 我的政治观点
  - 我在公司的级别地位

在接下来的部分里，我们将提出一些观点。请填写您对这些观点是否赞成以及在何种程度上赞成。请不要思考太久。我们鼓励您依据您的第一印象来做出回答。每一个观点只能选择一个答案。这些问题体现了您在薪酬支付体系方面的观点。请记住，您的回答依然是机密的。

---

	非常不同意	非常同意
1. 我觉得职员的薪水应该根据其付出的劳动来决定，多劳多得，少劳少得	1	6
	- 2	- 5
	- 3	- 4

---

- 
2. 如果我的同事对公司的贡献比我大，我可以接受他们比我得到更多报酬的事实。 1 - 2 - 3 - 4 - 5 - 6
- 
3. 我认为我应该得到与我的同事一样的报酬，因为同事之间不应该有薪酬方面的差距。 1 - 2 - 3 - 4 - 5 - 6
- 
4. 我更希望不管大家对公司的贡献如何，都应该获得同样的报酬。 1 - 2 - 3 - 4 - 5 - 6
- 
5. 我希望我的报酬可以跟我对所在公司的贡献联系在一起。 1 - 2 - 3 - 4 - 5 - 6
- 
6. 我很高兴我的薪酬待遇与我对公司的个人贡献联系在一起。 1 - 2 - 3 - 4 - 5 - 6
- 
7. 我可以接受这样的事实——基于我们每个人不同的表现，我和我的同事在薪酬待遇方面有差距。 1 - 2 - 3 - 4 - 5 - 6
- 
8. 我更希望把我的薪酬与我们部门的整体表现联系在一起。 1 - 2 - 3 - 4 - 5 - 6
- 
9. 同事之间在薪酬方面的竞争会伤害我们之间的友谊。 1 - 2 - 3 - 4 - 5 - 6
- 
10. 如果我的薪酬水平高于我的同事，我们的友情会被伤害。 1 - 2 - 3 - 4 - 5 - 6
- 
11. 我认为报酬差异会慢慢破坏同事之间的和谐关系。 1 - 2 - 3 - 4 - 5 - 6
-

---

12. 我认为，在工作表现的评估方面，关系非常重要。 1 - 2 - 3 - 4 - 5 - 6

---

13. 如果你想得到一个好的评估结果，那么，跟主管关系好比工作表现好更重要。 1 - 2 - 3 - 4 - 5 - 6

---

14. 那些得到了好的评估结果的人，跟主管的关系都很好。 1 - 2 - 3 - 4 - 5 - 6

---

15. 如果我在公司内有很硬的关系，或者我跟我的主管有很好的个人关系，那么我就可以得到比那些表现比我好的同事更高的评估结果。 1 - 2 - 3 - 4 - 5 - 6

---

16. 我会把“报酬比同事低”当成一件“丢面子”的事。 1 - 2 - 3 - 4 - 5 - 6

---

17. 如果我得到的报酬低于我的同事，我觉得丢面子。 1 - 2 - 3 - 4 - 5 - 6

---

18. 如果有一种理想的工作环境，我希望我的报酬与下面的因素联系起来（多选）：

- 我的工作时长
- 我的个人表现
- 我的年龄
- 我所在部门的集体表现
- 我对公司的忠诚度，换言之，我在公司的服务年限
- 我的政治观点
- 我在公司的级别地位

19. 我最好的朋友认为，在一种理想的工作环境中，他的报酬应该与下面的因素联系起来（多选）：

- 我的工作时长
- 我的个人表现
- 我的年龄
- 我所在部门的集体表现
- 我对公司的忠诚度，换言之，我在公司的服务年限
- 我的政治观点
- 我在公司的级别地位

结束

---

感谢您的合作！

## Appendix 3: Multiple-Response Results

Table 3: Multiple Response for Ideal Situation

18. 如果有一种理想的工作环境，我希望我的报酬与下面的因素联系起来（多选）				
			<i>answered question</i>	<b>46</b>
			<i>skipped question</i>	<b>0</b>
			<b>Response</b>	<b>Response</b>
我的工作时长	(# working hours)		21.7%	10
我的个人表现	(Individual Performance)		<b>95.7%</b>	<b>44</b>
我的年龄	(Age)		6.5%	3
我所在部门的集体表现	(Group Performance)		78.3%	36
我对公司的忠诚度，换言之，我在公司的服	(Tenure at Company)		65.2%	30
我的政治观点	(Political Views)		0.0%	0
我在公司的级别地位	(Post)		71.7%	33

Table 4: Multiple Response for Friend's Ideal Situation

19. 我最好的朋友认为，在一种理想的工作环境中，他的报酬应该与下面的因素联系起来（多				
			<i>answered question</i>	<b>46</b>
			<i>skipped question</i>	<b>0</b>
			<b>Response</b>	<b>Response</b>
我的工作时长	(# working hours)		26.1%	12
我的个人表现	(Individual Performance)		<b>95.7%</b>	<b>44</b>
我的年龄	(Age)		15.2%	7
我所在部门的集体表现	(Group Performance)		67.4%	31
我对公司的忠诚度，换言之，我在公司的	(Tenure at Company)		60.9%	28
我的政治观点	(Political Views)		4.3%	2
我在公司的级别地位	(Post)		67.4%	31

## Appendix 4: Truth Table and Boolean Minimization of Prime-Implicants

Table 5: Dataset after transformation to fuzzy-set values ( $0 \leq X \leq 1$ )

Attitude towards Equity	Attitude towards Equality	Concern for Group Harmony	Belief that Guanxi Affects PA	Concern for losing Mianzi	Attitude towards IBPRRS	Attitude Towards GBPRRS
(A)	(B)	(C)	(D)	(E)	(X)	(Y)
0.7	0.0	0.4	0.4	0.4	0.8	0.6
0.8	0.1	0.267	0.7	0.4	0.733	0.6
0.8	0.2	0.6	0.5	0.2	0.933	0.8
1.0	0.1	0.4	0.3	0.8	0.867	0.6
0.8	0.3	0.2	0.35	0.2	0.733	0.4
0.6	0.4	0.2	0.2	0.2	0.6	0.6
1.0	0.7	0.6	0.85	0.8	0.733	0.8
0.9	0.2	0.267	0.55	0.7	0.8	0.6
0.7	0.2	0.0	0.2	0.0	0.733	0.8
0.8	0.2	0.6	0.5	0.6	0.733	0.8
0.8	0.2	0.2	0.35	0.4	0.733	0.6
0.6	0.2	0.467	0.65	0.2	0.6	0.6
0.8	0.8	0.467	0.5	0.4	0.8	0.8
0.9	0.0	0.0	0.2	0.2	0.8	0.8
0.8	0.3	0.4	0.5	0.6	0.8	0.8
0.8	0.2	0.2	0.3	0.2	0.8	0.8
0.7	0.3	0.333	0.7	0.5	0.733	0.8
0.3	0.5	0.2	0.2	0.8	0.8	0.8
0.9	0.1	0.067	0.3	0.2	0.8	1.0
1.0	0.5	0.2	0.3	0.2	0.8	0.6
0.6	0.2	0.333	0.4	0.8	0.8	0.0
0.9	0.3	0.4	0.6	0.6	0.8	0.6
0.8	0.4	0.4	0.6	0.6	0.8	0.8
0.8	0.4	0.2	0.55	0.4	0.8	0.6
0.5	0.4	0.2	0.1	0.2	0.6	0.4
0.6	0.3	0.4	0.8	0.2	0.733	0.8
0.8	0.1	0.333	0.3	0.0	0.8	0.8
1.0	0.1	0.133	0.15	0.6	1.0	0.8
0.9	0.1	0.2	0.2	0.2	1.0	0.6
0.6	0.4	0.333	0.6	0.3	0.6	0.4
0.7	0.5	0.4	0.15	0.0	0.867	0.8
0.5	0.2	0.267	0.6	0.6	0.933	0.6
0.8	0.2	0.267	0.4	0.4	0.8	0.8

0.7	0.0	0.533	0.5	0.3	1.0	0.8
1.0	0.2	0.467	0.5	0.7	0.4	0.8
0.5	0.3	0.2	0.25	0.1	0.667	0.8
0.9	0.2	0.133	0.25	0.2	1.0	0.6
0.5	0.2	0.467	0.4	0.6	0.667	0.4
0.5	0.0	0.2	0.2	0.0	1.0	0.8
0.7	0.3	0.133	0.4	0.2	0.867	0.6
0.8	0.6	0.4	0.6	0.5	0.733	0.8
0.8	0.2	0.533	0.4	0.6	0.667	0.8
0.6	0.3	0.4	0.45	0.4	0.667	0.6
0.7	0.2	0.4	0.6	0.4	0.667	0.8
0.9	0.0	0.2	0.2	0.2	0.867	0.8
0.7	0.2	0.467	0.45	0.4	0.8	0.8

*N*=46

In case of this study, there are 5 independent variables: Attitude towards Equity (A), Attitude towards Equality (B), Concern for Group Harmony (C), Concern for Guanxi (D) and Concern for Mianzi (E) and two dependent variables (Attitudes to IBPRRS (X) and GBPRRS (Y)) which are analyzed separately. 5 independent variables with two possible outcomes result in  $2^5=32$  possible combinations and therefore 32 rows in the truth table below:

*Table 6: Truth Table for X (=Y)*

Attitude towards Equity	Attitude towards Equality	Concern for Group Harmony	Belief that Guanxi Affects PA	Concern for losing Mianzi	Number	Attitude towards IBPRRS
(A)	(B)	(C)	(D)	(E)		(X)
1	0	0	0	0	16	1
1	0	0	1	0	6	1
1	0	0	0	1	3	1
1	0	0	1	1	3	1
1	0	1	0	1	1	0
1	1	1	1	1	1	0
0	0	0	0	0	0	0
0	0	0	0	1	0	0
0	0	0	1	0	0	0
0	0	0	1	1	0	0
0	0	1	0	0	0	0
0	0	1	0	1	0	0
0	0	1	1	0	0	0
0	0	1	1	1	0	0
0	1	0	0	0	0	0
0	1	0	0	1	0	0

0	1	0	1	0	0	0
0	1	0	1	1	0	0
0	1	1	0	0	0	0
0	1	1	0	1	0	0
0	1	1	1	0	0	0
0	1	1	1	1	0	0
1	0	1	0	0	0	0
1	0	1	1	0	0	0
1	0	1	1	1	0	0
1	1	0	0	0	0	0
1	1	0	0	1	0	0
1	1	0	1	0	0	0
1	1	0	1	1	0	0
1	1	1	0	0	0	0
1	1	1	0	1	0	0
1	1	1	1	0	0	0
1	1	1	1	0	0	0
1	1	1	1	0	0	0
1	1	1	1	0	0	0
1	1	1	1	0	0	0
1	1	1	1	0	0	0
1	1	1	1	0	0	0

Figure 2: Output Generated by fsQCA, for  $x (=y)$

\*\*\*\*\*  
 \*TRUTH TABLE ANALYSIS\*  
 \*\*\*\*\*

File: C:/Users/Ricky/Desktop/Mijn documenten/01 Master Thesis/results/FuzzyTOT.csv  
 Model:  $x = f(a, b, c, d, e)$

Rows: 6

Algorithm: Quine-McCluskey  
 True: 1

--- COMPLEX SOLUTION ---  
 frequency cutoff: 1.000000  
 consistency cutoff: 0.992565

	raw	unique	
	coverage	coverage	consistency
a*~b*~c	0.756506	0.756506	0.985472
solution coverage: 0.756506			
solution consistency: 0.985472			