

EMPLOYEE EVALUATION OF
COMPENSATION IN CHINA:

The case of a branch bank

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Abstract

This thesis discusses the compensation incentives in a Chinese commercial bank (it will be mentioned in the thesis as “the Bank”). We analyze the payment policy, the status of employee’s salary, the performances of the Bank, and performance indicators for the appropriate compensation by the Bank. Data were collected through a questionnaire sent to the employees of a small town branch of one of the largest Chinese banks.

As observed in the study, the mechanism of base salary combined with performance salary is well established in China. However, four main problems still exist, (i) the overall level of salaries and employee benefits is still low, (ii) the lack of awareness in payroll strategy, (iii) inadequate welfare and (iv) the shortage of long-term incentive plans.

In order to compensate the weaknesses as found in this thesis, some solutions are proposed, such as the implementation of a more democratic pay system, more weight of long-term incentives, strengthening the pay management of senior executives, and determining a reasonable goal for a comprehensive performance evaluation.

Keywords: Commercial Bank, Human Resources, Compensation, Incentives

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Executive summary

As an important part of the motivation mechanism, pay incentives impact directly on the effectiveness of the agent's behavior, thereby affecting the bank's operational efficiency.

This study is based on the analysis of incentive theory and incentive pay, presenting a detailed view of China's incentive compensation system (analyzing the example of the Bank's branch). Further, through conducting a questionnaire of the Bank, and then calculating and analyzing the collected data, recommendations are drawn for improvement combined with the international advanced incentive model.

The first part of this thesis describes the background and meaning of pay incentive system, reviews the domestic and international researches on the status of incentive compensation, and finally lists the research ideas and structures. The second part begins with the definition of incentive, followed by analyzes of its necessity and effectiveness, and introduces the incentive compensation model at home and abroad. The third part introduces the Bank's pay and welfare system. The fourth part, through collection and SPSS analysis of the survey data, indicates the factors that impact on the employees' incentive compensation. Then, we identify some weakness such as the lack of long-term incentives, the overall level of salaries and employee benefits at a lower level. Finally, combining with outstanding foreign incentive experience, theoretical recommendations are given to the entire banking industry in China.

1 Introduction

1.1 Background

As the world economy became more global, a large number of foreign banks came into the Chinese market, while Chinese commercial banks also gradually entered foreign markets. Since 2005, Chinese commercial banks have been gradually restructuring and listing. A new force emerged in the banking industry, the joint-stock commercial banks. Because of their different composition, they face less government intervention than the state-owned commercial banks, so they are more market-oriented, the business philosophy is more open, better reflecting the freedom in bank management. Thus, the joint-stock commercial banks that explore Chinese banking industry have become the source of advanced management ideas and management methods in this industry. As is well known, without an effective incentive compensation system, advanced operations and management are not viable. Reasonable incentive compensation systems are Chinese joint-stock commercial banks guarantee to operate orderly at home; meanwhile, it is the power source of the future development of Chinese joint-stock commercial banks, as well as the significance of this study.

Joint-stock commercial banks include non bank-owned capital shares, resulting in China's reform and opening up in the late eighties. Nowadays, national joint-stock commercial banks are: Bank of Communications, Merchants Bank, CITIC Bank, etc, a total of 13. Besides these typically joint-stock commercial banks, until 2010, China's four state-owned banks were also gradually restructured, becoming into joint-stock commercial banks (Shen and Liu, 2003).

The Bank analyzed in this study is one of the largest State-owned commercial banks, officially reformed to become joint-stock commercial banks in 2004. The new bank fully inherited the former bank's assets, liabilities, claims, liabilities and staff, business change.

Nowadays, many successful foreign companies focus on incentives. In the United States, firms such as IBM, and Microsoft, place emphasis on boosting staff morale, to

generate greater achievements and new glory. It is believed that incentives for business management have a very important and significant positive effect.

As an important part of the motivation mechanism, compensation incentives are expected to impact the effectiveness of the incentive effect of the agent, thereby affecting the bank's operational efficiency. From the 1960s, western countries began to try to implement stock options as the main incentive compensation. Stock options include the functions of reward incentive and ownership incentives, as the agent can obtain performance-related income. This policy avoids the agent's short-term behavior, and solves the problem of inadequate incentives. Therefore, as a long-term incentive tool, it plays an important role in incentive compensation. Currently, more than 50% of US banks use a long-term incentive plan. In 1999 the 50 highest-paid presidents enjoyed average stock returns of 94.92% of total compensation (Zhang and Peng, 2009).

Commercial banks are special enterprises that attract internal savings, which play a very important role in the national economy. The special nature of commercial banking business determines its incentives are even more important than for other companies. Bank-designed incentives can motivate employees to take action to help banks effectively, to reduce the agency costs of commercial banks; to solve internal control problems and improve the efficiency of commercial bank management; they can contribute to the sane development of commercial banks, and to the good functioning of the national economy (Yang and Ma, 2004). At present, Chinese state-owned commercial bank reform has entered a critical period, as joint-stock commercial banks are in full swing. Commercial banks are the core of the financial sector, its reform success is not only related to the commercial banks of their own health development, but also will directly affect the state-owned bank reform process, thereby determining the financial system, or even the whole economic reform success or failure (Cao and Lin, 2005). Reform of commercial banks is an important part of the corporate governance structure. Effective incentive mechanisms are needed to improve the corporate governance structure.

In December 2001, China formally joined the WTO (World Trade Organization),

China has gradually lifted restrictions on foreign banks, so they are on an equal footing with the competition. Foreign banks, with effective incentive mechanism to attract talent, result in a brain drain of Chinese banks, which led to the decline in the competitiveness of banks (Wu, 2002). Therefore, Chinese commercial banks are required to study how to design rational and effective incentive mechanism to stimulate banks to maximize the potential of staff, not only do the requirements of sound corporate governance structure, but also attract talents and retain talent to meet the encourage banking competition.

In recent years, Chinese commercial banks have actively explored the establishment of incentive mechanisms, but because of the history and mechanisms of various factors, Chinese commercial banks incentives mechanism does not really build a substantive breakthrough. The incentive mechanism of Chinese commercial banks are more single, more is to take salary plus bonus as incentives, which require corresponding incentives short-term results to measure, it is easy to induce employees to take more conducive to their short-term, damage the overall banks and long-term interests. In recent years, Chinese commercial banks began to focus on long-term incentives for employees, but its long-term incentives are still at the exploratory stage. This contrast with western countries, they have widely used the stock options for long-term incentives. In the current trends and economic internationalization in the form of accession to the WTO, the banking industry will be more intensely competitive, the existing incentive pay is clearly unable to meet current and future trends. Therefore, China's banking industry needs to design and establish a reasonable and effective incentive mechanism.

1.2 Problem definition

Because of the special social and economic environment, there will be a certain limitation to directly copy the western commercial bank incentive system methods to Chinese commercial banks. In the process of pay incentives designed lead to actual performance, there must be factors that motivate staff, the employees could work hard, thereby improving organizational performance. Therefore, how to build incentives to

adapt to the especially environment in China, is the challenge when designing the pay system for bank staff. But in the existing literature, there are a few comprehensive quantitative researches on the incentives for commercial banks staff salaries. This study will design the questionnaire survey for commercial banks pay system, and then use SPSS to analyze the questionnaire collected information.

1.3 Literature review

Since the last century, scholars of domestic and international economic development have been studying the management of incentive compensation related to the macro-theory.

The earliest pay theory was wage determination (The theory of wages) by Adam Smith and David Ricardo (Kang, 2006). The main view is that the wages required by the workers and their families determine the minimum cost of living. Early theories of salary increased the early development of capitalism. However, the theory only fit the prevailing circumstances, and with the further development of the productive forces, soon emerged relatively better compensation theory (Chen, 2004). Areas in theory of wage determination, putting forward proposals based on the marginal productivity of labor wage determination theory, the theory of supply and demand equilibrium wage, collective bargaining theory of wages, efficiency wage theory and the sharing of economic theory. Among which, the share economic theory by Weizmann (Kang, 2006), is of great relevance. He believes that the shortcomings of the capitalist economy are not the production, but the distribution system is unreasonable, especially the irrational distribution of employee compensation, calls for the establishment and profit linked to "share funds" as the source of wages, workers and employers in the labor market agreement on both sides by sharing in the profits ratio. This theory's contribution to the field is: based on it, produced the theory of profit sharing, employee long-term incentive theory, employee stock ownership plan operators and some other new practice and theory models. In the areas in theory of wage differentials, Adam Smith referred the professional nature and the relationship between income differences in the early theory of wage differentials. In fact, it is the

basis of modern jobs and wage system (above are summarized from following references: Lin, Huang and Sun (2003), Cao and Lin (2005)).

With the development of salary theory, its meaning is expanding, from economics to management areas, which to become a core content of to modern enterprise management system, and "incentive" also has gradually become a research hotspot of compensation management. In the scientific management theory of compensation, Taylor's salary management philosophy, as the representative, it says that to motivate employees to work harder and to better their greatest motivation is the desire to earn more money, thus money becomes a strong incentive for an employer to drive workers to work hard and improve the production efficiency, which breaks the "living wage" law of traditional economics, gives the content of incentive to salary. In behavioral science theory, Maslow's (1954) hierarchy of needs, Frederick and Herzberg's (1959) motivation-hygiene theory (two-factor theory), Vroom's (1964) expectancy theory, Adams (1963) equity theory, also committed to study the incentive compensation management, and incentive compensation theory has had a major impact (above are summarized from following references: Lin, Huang and Sun, 2003; Zhang and Kong, 2003).

In joint-stock commercial banks, as special financial enterprises, then incentive compensation and corporate incentive compensation are linked, but not exactly as in the enterprise incentive compensation model. To analyze the joint-stock commercial banks pay incentive system, not only completely copy theory of compensation management, remain at the theoretical level of analysis, but also need to compare and analyze the pay levels and many business indicators from the micro-level of joint-stock commercial banks, and use research and empirical analysis with data to explain everything. Foreign scholars dedicated to research the nature and form of incentive pay factors of commercial banks, such as Becher (2005) believes that the bank's senior management incentive compensation is the effect of banking deregulation, Magnan (1997) thinks that the linked level of management pay and performance is affected by bank management to the impact of management decision-making power. Similarly, many domestic scholars committed to Chinese

joint-stock commercial banks incentive compensation mechanism, such as Chen's (2004) China's financial institutions, incentive and restrictive mechanism," focused on Chinese bank's incentive compensation system analysis and improvement measures.

Domestic scholars have made in-depth study from different angles of incentive compensation, which can be summarized as the following aspects.

1) In the relationship between incentive compensation and company performance
As the domestic scholars' point of view of academic researchers and data is different, the conclusions are also different, but the mainstream view is that there is no significant positive correlation between incentive compensation and performance of the company. Cao and Lin (2005) through research of the listed company's operators' job conditions, did some empirical researches from operator's stake and business performance, believed that the operator's stake and operating performance was significantly weaker correlation, meanwhile, for the multiple roles operators, the annual salary system operators was significantly weak correlation. Yang and Ma (2004) study suggest that monetary incentives should remain as the most important incentives at present, the annual remuneration of senior management and corporate X-Efficiency was significantly negatively related to annual salary, and increase annual salary will help improve business efficiency. However, the growing monetary compensation will reduce the sensitivity of the enterprise.

For the relationship between incentive compensation model and business performance, some scholars believe that the different incentive compensation mode makes different effect on business performance. Zhou and Sun (2003) found that different stock incentive model make different effects on business performance. Their research carried 34 listed companies as samples in the 2002 annual report disclosed stock incentive for operators, studied relationship between the improvement of company's operating performance and the operators' equity incentives mechanism. The results show that the implementation of equal incentive company, before making equal incentive performance is relatively high, there is selectivity bias. Equity incentives do play an incentive part for companies to operate in their efforts to improve the company's performance, different equity incentive model make different

results. As for the weakening of the company's internal governance mechanism, operators use equity incentives for their own profit, predatory interests of shareholders. Lin, Huang and Sun (2003) studied the pay gap within the executive team on corporate performance and governance structure. By testing the China's listed companies within the senior management pay gap and the company's future performance, they found the significant positive relationship between these two, and increasing pay gap can enhance company performance.

2) On the stock-based compensation incentives

Some domestic scholars believe that stock options should adopt to strengthen long-term incentive. Wu (2002) suggests that the incentive compensation is an important component of corporate governance, and that equal incentives are the approach to coordinate the fundamental interests of shareholders and staff. But he also believes in the practical implementation of the incentive stock options, there are two prerequisites: it is necessary to overcome the phenomenon of internal control under the dominance, and second, is the number of effective securities market. Therefore, the study suggests that in China the most appropriate way is to implement a pilot system of stock options step by step. Duan (2003) believes that incentive stock options in the 1980s in the United States has become universal, and listed companies in China lagged far behind the development of equity incentive system, and in the current policy environment, companies cannot introduce a standard stock option incentive plan, so he makes an in-depth study of equity incentive, and draws the corresponding implementation plan. On the other hand, some scholars believe that incentive stock options are not perfect. Some scholars have studied the advantages of incentive stock options, and gave recommendations for improvement. Zhang and Kong (2003) study suggests that stock option incentive system presents inherent flaws, that the system does not fundamentally prevent a new generation of moral hazard, and ignoring the people's risk characteristics, and the corresponding improvement ideas. Liu and Sun (2004), study the effectiveness of incentive stock options and the limited nature, it says that incentive stock options are not always effective, may induce companies to exhibit profits exaggeration, and contribute to the generation of the

stock market bubble, and may affect the business decisions.

3) On pay incentives for commercial banks

The mainstream view of domestic commercial banks in salary incentive is that it is based on the short-term incentive compensation, but lack of long-term incentives. Zhou and Guo (2004) study suggests that Chinese commercial banks mainly in short-term incentive-based, short-term behavior is more obvious, impact and constraints the growth of commercial banks heterogeneous human capital value. This study uses Principal-agent theory as the basic framework, believing that in the case of asymmetric information, incentive stock options can effectively solve the objective function of principal and agent problem of inconsistency. Duan (2003) did research on operators of state-owned commercial banks in the current pay system, referred that the salary structure of state-owned commercial banks lack of long-term incentives, resulting in severe short-term behavior of the operators with long-term phenomenon linked to the performance. Thus, they need to stimulate long-term behavior of employees in order to achieve long-term bank development; also can strengthen Human capital, which can make long-term development of commercial banks to attract talent, talent pool.

Chinese commercial banks are relatively more concerned about the long-term incentive compensation of senior management. By contrast, middle and general staff's long-term incentive compensation is basically ignored. In fact, through the implementation of effective incentive for all employees, the bank's operational efficiency and business performance can be improved. Most western commercial banks focus on staff motivation, team training, through diversity incentive levels of effective encouragement for all employees.

1.4 Contents

In this study, on the base of analysis of incentive theory and Incentive pay, present China's incentive compensation system in detail (take the Bank as an example). Further, we conducted a questionnaire survey for the Bank, and then collected and analyzed the collected data, and finally draw recommendations for improvement

combined with the international advanced incentive model.

This study is divided into six chapters:

- 1) Introduction: describes the background and meaning of pay incentive system, reviews the domestic and international researches on the status of incentive compensation, and finally lists the research ideas and structures.
- 2) Description of incentive compensation: begins with the definition of incentive, followed by analyzes of its necessity and effectiveness, and introduces the incentive compensation model status domestic and abroad in the end.
- 3) Discussion Chinese commercial banks' present situation and weakness, such as lack of long-term incentive, the overall level of salaries and employee benefits at a lower level.
- 4) Description of the Bank's pay system: introduces the Bank's pay and welfare system.
- 5) Questionnaire survey: through calculation and analysis of the collected survey data by using SPSS, indicates the factors that impact on commercial bank employees' incentive compensation.
- 6) Conclusion: Including three parts, contributions, limitations and conclusions.

1.5 Methods

There are significant differences between foreign and Chinese banks in motivation mechanism, besides analyzing data from existing literature; the questionnaire survey is the most direct method for data collection.

Therefore, this thesis uses case study and questionnaire survey to collect data, analyzed by using specialized tools, such as SPSS and then summarizing important factors which impact on commercial bank employees' incentive compensation.

2 Description of pay system

2.1 Incentive principle

2.1.1 Definition and composition of pay

Pay refers to the award gotten by employees who perform a given task. It can be divided into two perspectives, narrow and broad incentive. From the narrow sense, pay includes individual wage and bonuses, paid in form of money or objects for the employees' payment of labor; from the general sense, except currency payment, the compensation also includes the psychological experience of employees not only to companies but also to the job itself. This is also called non-currency compensation. The following figure summarized the alternative pay modes presented by Wang (2006):

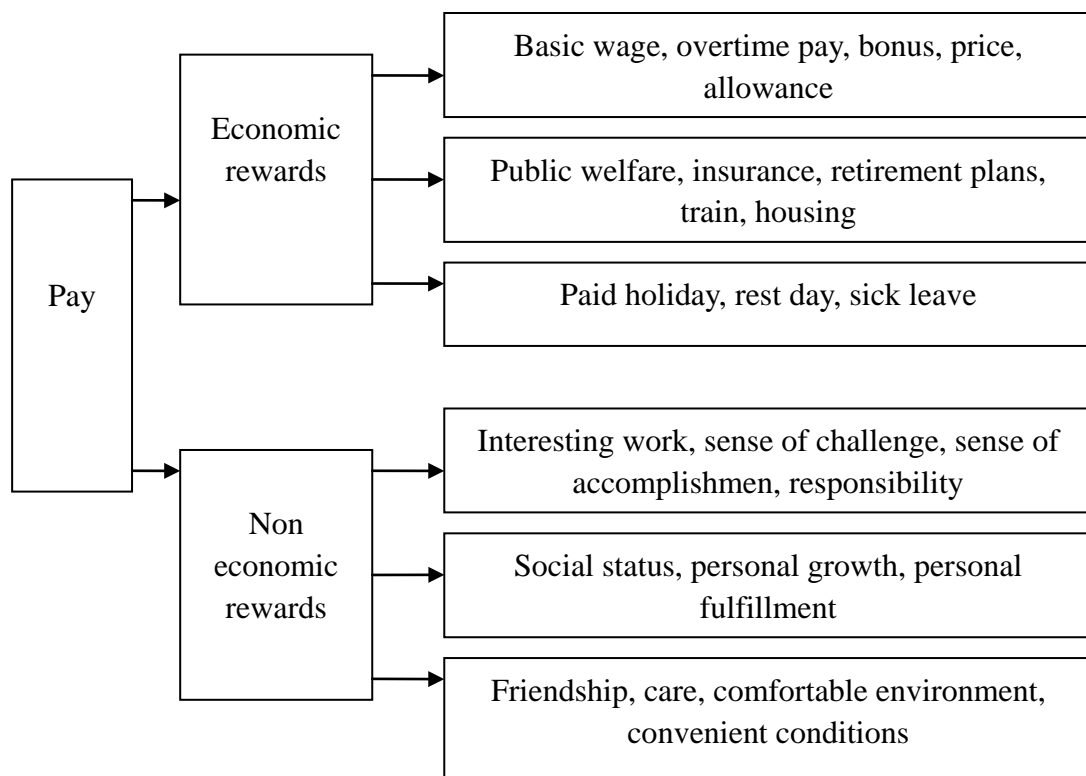


Figure 1: Broad concept of compensation

Source: Wang (2006), *The effective of Chinese commercial banks pay incentive*

In general, compensation consists of many different components. Because different companies have various understanding on the concept of compensation, so

their partitioning of compensation structure are also different. However, compensation is generally made by basic compensation, performance salary (for example, bonuses), and additional pay (for example, welfare) (Wang, 2006).

According to the variation of pay in total income of an employee, it can be divided into fixed and variable pay (table 1).

Table 1: Pay composition table

Pay form	Pay contents
Short-term pay	Basic wage Short-term bonus Welfare
Long-term pay	Stock options Restricted stock options plan

2.1.2 Compensation incentives

Pay of employees is not only the compensation for their hard working in the past, but also their expectation of payment in the future. This inspires them to work hard in the future. Pay aims to satisfy the need of employees, to stimulate their motivation to work. Its principles are described as follows:

1) Motivate through pay gap

Reasonable pay gap has a motivation function. On the one hand, the rising of employee pay is the compensation for their past hard working. On the other hand, it also stands for the employees' recognition to themselves and also to the companies. Therefore, pay gap could satisfy employees in economic and psychological. Motivate employees to do their effort for the higher pay (Yang and Ma, 2004).

Motivation through designing reasonable pay gap could be proven by the Tournament theory. Using game theory to analyze the principal-agent relationship, Tournament theory researches the pay gap directly. In which, the pay gap, which has a relationship with promotion will influence the activities of employees under that level. As long as there is no existed result of promotion, employees under that level will do their best to get promotion (Wang, 2006). According to this theory, proper pay gap

encourages employees to take part in the competition, activates them to pay more effort.

2) Motivate through relating company's interests to personal interest

According to the principal agent theory, the aim of principal is to maximize the capital gains and finally reach as the maximization of enterprise value. While agents' goal is to achieve much more currency income and other rewards, such as power, social position and so on. However, the utility functions used by both sides are not the same, and the information they get is asymmetric may easily results in the moral hazard of agents. Through relating the pay of senior managers of bank and employees to performance of bank, compensation incentive such as stock option and restricted stock option plan realizes the improved of bank performance and better benefits, and at the same time, maximize the benefit of senior managers and employees (Grossman, 1983). This consequently does an efficient motivation on long-term work performance of senior managers and employees. Its principle represents in Figure 2

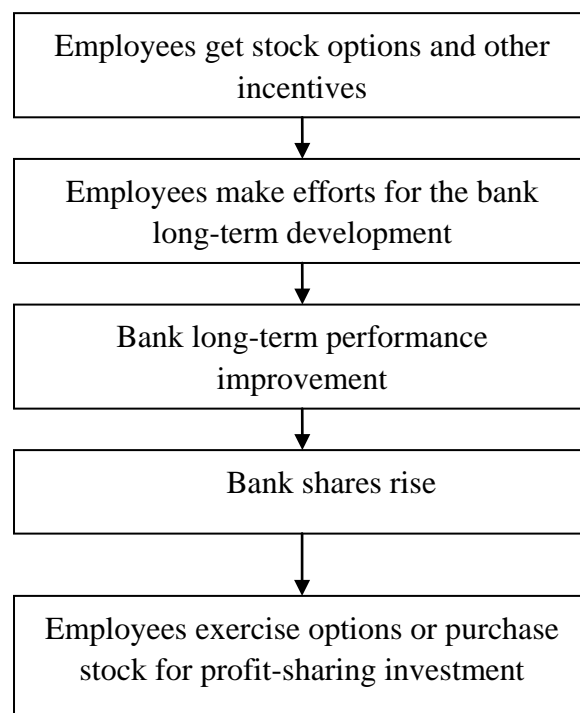


Figure 2: The process map of payment incentives

Source: Zhou, J.B. and Sun, J.S. (2003), *Research on the effect of incentive for stock ownership--evidence from Chinese listed companies*

2.2 The rational of compensation incentives

2.2.1 The necessity of compensation incentive and analysis

1) Compensation incentive is one of the most important components of corporate governance mechanism.

Corporate governance refers to the structure and function of corporate directorate, the rights and obligation of chairman and manager, and corresponding engagement mechanism, motivation and its corresponding system arrangement in voting, motivating, supervising, under the condition of the sharing of corporate ownership and management rights. This contains the principal-agent relationship between shareholders and directorate, between directorate and managers. While principal-agent relationship consists of three components, voting, motivating, and supervising, among them, the most important part is motivating. How agents related to motivating distribute benefits, to maximize goal of principals. In a good corporate governance structure, there will have a well designed incentive methods, to conciliate the contradiction between owners and managers, and to unify the goals and benefits of both sides (Michel and Sylvie, 1997). Reasonable corporate governance design could realize this kind of goals, motivates the agents' behavior, and unify their objective function to principals' objective function.

2) The need for new pay incentives

The basic treatment of commercial banks in China follows the administrative mode. With the development of market economy, social culture and ideological field are affected continuously. Although the incentive modes keep improving, for example starting compensation incentive, personal training and job incentives, these incentive modes are scarce.

The compensation incentive, dominant in compensation incentive, is also not practiced well. Stock options are absent in Chinese banks.

3) Pay incentive is in line with market economy incentives

There are two reasons. With the fast development of Chinese market economy, labor market became more competitive gradually perfect. As one element of resources,

labor should match the requirement of market economy principle, so the labor will flow freely through labor market, and talents with high quality such as managers will flow and configure freely through the manager of market (Wang, 2006). While in configuration and flow of human resources, the price of human capital, pay plays a very important role. On the other hand, whether enterprises pay and the corresponding pay management are changeable or not dominates whether enterprises can attract and keep talents. In order to attract and keep talents for the development better, enterprises need, first, when making pay standard, managers of enterprises must consider the pay level of local enterprises with same scale. Second, refer to the experience of other enterprises when making pay management, to make sure the pay management has much more attraction. Compensation incentive could be better, if according to the principle of market economy (Wang, 2006).

2.2.2 The role of incentives

For a bank, the incentive system should pursue the following goals:

1) Attract talents to the bank. Many companies in developed countries, especially those competitive and strong companies, use a variety of preferential policies, such as good welfare, and a clear promotion path to attract needed talents.

2) Develop potential of the employee; promote them to play talents and wisdom

Through the study on employee incentive, James from Harvard University found that the hourly wage distribution system can only encourage employee to add 20 to 30% capacity. If fully effective, the employee capability will increase to 80 to 90%, which makes a 60% gap (Zhang and Peng, 2009). According to the research of management scientists, employees' work efficiency is a function of their capability and level of incentive, that is:

$$\text{Efficiency} = F(\text{Capability} * \text{Incentive}) \quad (1)$$

If considering the influence of employee creativity, innovative spirit and willing to increase quality of themselves, the influence of work performance will be better (Zhang and Peng, 2009).

3) Retain talent

Druker believes that every organization needs performance in three dimensions: the direct result, value realization and future human resources development. The lack of any one of them, leads the organization to collapse (Zhang and Peng, 2009).

Therefore, every manager must contribute in these three areas. Among the contributions in three areas, future of human resources development is implemented by the incentive policy.

4) Create a healthy competitive environment

Scientific incentive system includes competitive spirit, whose operation creates an internal competitive environment. In the competitive environment, members will face environmental pressure. This pressure will lead employees to work hard.

2.3 Designing incentives according to goals

The banks need to put in place a set of policies so that incentives lead to the achievement of company goals:

- 1) Combining with material incentives with spirit encouragement
- 2) Combining incentives and punishment when goals are not meet
- 3) Attending employee's special needs in the work place
- 4) Justice
- 5) Timely delivering of incentives (Zhang and Peng, 2009)

2.4 Status of the foreign pay incentives

With the accelerated pace of economic globalization and competition among banks, there is a new trend of the bank staff pay in developed countries in the last decade. Tracking and studying this trend, it is a good reference for better domestic managers' compensation incentives.

In the industrial economy, the work of operators is mainly to organize production. This could follow a general practice or pattern. However, in the era of knowledge economy, entrepreneurs have to handle various affairs in complex environments, so they need the comprehensive ability and innovation ability. In these conditions, salaries of employees in developed countries have changed a lot, mainly in four aspects:

1) The gap of salaries between executive remuneration and the general staff gradually widened

From the growth of pay levels in developed countries in recent decades, the gap between the corporate executives and the general staffs rapidly widened. In the market mechanism, the distribution of management elements plays a more and more important role in banks values. Take United States for example, according to the survey, in 1974, the average income of major U.S. companies CEOs is about 35 times higher than that of workers. In the 1990s, with extensive use of stock options and the coming of stock bull market, in major U.S. companies, the average CEO pay has climbed to 190 times higher than that of worker. What's more, in 1999, this rises to a record level, 326 times higher. Led by the United States, the pay of senior executives of foreign banks in developed countries also grew significantly (Zhang, 2009).

2) Gradually increase the proportion of long-term incentive

In recent decades, for developed countries, besides the traditional pay structure of the basic wage and bonuses, an important change is the introduction of stock options, equity-based incentives such as stock holding.

In the condition that business environment has undergone significant changes both inside and outside, the complexity of bank management increases.

Bank development is more and more dependent on the decision-making ability of corporate executives and supervision becomes more and more demanding for business managers. Therefore, through giving parts of equity or options to the agents, business owners could force them try to service the business as if they were owners.

Long-term incentive could need few years, or even more than ten years. According to statistics, the pay of U.S. senior directors contains 32% basic pay, 17% short-term incentive (bonus), 51% long-term incentives (options). And long-term incentives keeps innovation, there are several kinds of incentives just for equity incentive , including stock options, phantom stock, restricted stock, stock appreciation rights, stock awards and performance shares. The innovative business model of senior executive in developed countries not only brings new vitality for business but also creates huge economic benefits for owners (Cao and Lin, 2005).

3) The establishment of pay gradually moving towards specialization

With the continuous complexity of pay structure and the changing determinants of payment, salaries of employees' decision need more and more professional knowledge. The traditional system, which pay only designed by the employers, did not exist any longer. Therefore, decision of employees pay rely more on professional experts. The decision-making power gradually shifted from the CEO to the Remuneration Committee. Nowadays, the popular employee pay is decided with the help of a professional inquiry company, through building Remuneration Committee consists of multilateral members, for example, shareholder representatives, bank seniors as well as workers' legal representatives, considering benefits from different perspectives.

4) Transparency of pay information

As the significant rise of senior corporate staff pay levels, the externality of senior corporate staff pay is much stronger, and the transparency requirements have also increased. Some countries have introduced legislation or the requirements for the senior executives for public revenue. For example, U.S. Securities and Exchange Commission (SEC) had recently proposed disclosure rules on pay in the last fifteen years to achieve the largest-ever modification. To encourage U.S. companies to disclose substantial rise of their senior management allowances, retirement benefits, and overall remuneration (Shen and Liu, 2003).

This disclosure requires that the companies add a special column to the corporate power of attorney, providing the five highest paid executives total annual pay, and detailed explanation of their various benefits.

These measures are the response to the criticism to the phenomenon that corporate executive remuneration increases sharply and is opaque. The European Commission proposed a reform project named "European Company Law modernization".

According to this, one of an important component is to strengthen the monitoring of executive remuneration. In 2004, the EU Council of Ministers and the European Parliament has approved the European Commission's "proposal on establishment of a

reasonable system of director remuneration" (above are from following references: Duan, 2003, Kang, 2006). The book focuses on standardizing procedures and requirements of the director remuneration. Making director remuneration transparent, companies need annual report on director remuneration, in which, represents every senior director's remuneration in detail and the problems exist. The publicity of director remuneration is actually enhancing the government and social media's supervision on director remuneration (Zhang and Peng, 2009).

2.5 Pay trends for employees of domestic bank

China completed the building of a monetary wage system in 1949 -1956, which establishes wage system based on rank.

But during 1956-1985, nearly 30 years there was no big change and adjustment, so that system became less fit to Chinese economic and social development. After, the reform of the wage distribution experienced a theory and practice development process. The three major periods were: recovery of distribution according to work period (1978-1984); exploring of various modes of distribution period (1985-1992); from the distribution according to work to a combination of different factors of production to distribution according to work-based period (1994-present) (Zhang and Peng, 2009).

In the past, Chinese bank inspiration was mainly on the spirit. In recent years, more emphasis is represented by the material incentives such as money, which is the most widely used form of incentive. In addition to the short-term monetary incentives, the annual pay system, executive stock options and employee stock ownership system appears as the representative of the new payment system. Meanwhile, incentives modes are mainly based on the combination of individual incentive with team incentive.

3 Overview of Chinese commercial bank pay policy

3.1 Incentive policies in Chinese commercial banks

Historically, the internal remuneration structure within Chinese commercial banks was characterized by a fixed salary package, unrelated to the banks efficiency and effectiveness. However, during the last three decades, Chinese commercial banks have evolved from the traditional fixed-wage regime into a more flexible remuneration regime by integrating the base wage with fringe benefits. Meanwhile it began to focus on the constraints of the incentive payroll mechanism.

Particularly, commercial banks of China initiated to introduce performance-measured into remuneration mechanism. In fact the basic payroll policy to employees in Chinese commercial banks gradually moved from the fixed wage regime to full base salary plus performance remuneration. More specifically, the basic wage is settled at the fixed wage rate, determined by staff positions within the bank, rising in related with the work experience. Noticeably, the fixed wage rate didn't take into account the employee's performance, being unable to promote employees according to the work-related performance. Again, the wage system is the most essential factor when design the traditional pay system, and typically include both internal and external factors such as corporate remuneration policies, job valuation, the value judgments of employees and the bank's ability to pay. On the other hand, external factors such as labor market conditions, the average wage level, bargaining power and related laws and regulations would limit and shape of the payroll structure.

In practice, grade-measured mechanism has been widely adopted in Chinese commercial banks (specific example, please refer to chapter 4). The grade-measured mechanism primarily set by salaries, bonuses and special post allowance composition. Bank employees adopt a uniform level of wages, the base salary is corresponding to the base salary levels, which are approved by the headquarters of banks, and timely adjustments; Bank staff grade salary increase with the amount of base salary adjusted accordingly. Performance derives from variable pay (or bonus). More specifically when the staff completes the certain tasks, they are rewarded over-performance of

work based on the percentage of completion. In Chinese commercial banks, the prize categories contain: awards of a bonus on monthly and quarterly basis, attendance bonus, and a one-time award (specific example, please refer to chapter 4). Because the bonuses are usually issued with a "bonus factor" basis, the performance pay is not strictly linked with the job performance of employees (above are from following references: Wu, 2002, Yang and Ma, 2004). Particularly in some joint-stock commercial banks such as Minsheng Bank, and Merchants Bank, most of the senior managers carrying out the annual salary mechanism. For illustration, within Minsheng Bank, the senior managers' salaries are built upon the base salary, performance incentive pay and special contributions to the composition. In details, base salary is set upon the base salary rate and benefits; the risk management salary makes performance-measured remuneration and benefits constitute compensation (Wu, 2002).

In general, performance-measured remuneration is linked with risk control, integrated management and efficiency level examination results, those three accounted for 40% of performance pay, 10% and 50% respectively. Additionally The Board Remuneration Committee will according to the annual business plan towards the risk control, integrated management and efficiency standards and other requirements issued by the Board each year, develop the performance pay evaluation index system. Indeed performance pay evaluation index system must achieve the regulatory requirements, reflecting the following principles: help to enhance asset quality by minimizing credit default rate; conducive to strengthening internal risk control and system construction; help to improve management and cost-effective (above are from following references: Shen and Liu, 2003, Duan, 2003).

Based on the assessment advice of Remuneration Committee, the Board issues the performance payment to senior managers. For example, the Bank, if completed the annual business plan targets by the Board, the branch presidents and other senior executives will obtain performance pay according to plan after-tax profit of 1.12 ‰ and 0.16 ‰ grant; If the program is not completed, according to the progress and the performance, pay will be reduced proportionally (Duan, 2003).

Furthermore, in the late 1990s, most of the commercial banks adopted a higher proportion of employees' basic salaries (about 60%) and lower proportion of pay for performance (about 40%). With the development of the economy, in recent years, the proportion of performance-related payroll. The bonus gradually rose coefficient has improved greatly, the incentive effective of performance pay gradually increasing. But in a different system, there are differences between types of large commercial banks. On the one hand, joint-stock commercial banks, listed banks in particular, there is a higher proportion of performance pay; on the other hand, as the performance pay of state-owned commercial banks is still low, this incentive may not be very effective.

3.2 Evaluation of the payroll in Chinese commercial banks

1) The overall level of salaries and employee benefits is low

Although the income of employees within commercial banks is currently at middle level compared with their counterparties, employees in commercial banks bear a relatively high intellectual labor and significant risk, their income turned out to be comparatively low. According to the publicity report, in terms of average salary, joint-stock commercial banks are higher than the state-owned commercial banks.

Whereas as the promise to WTO (World Trade Organization) to meet requirement of liberty in financial market, overseas financial institutions start to expand their market share in East Asia, particularly in China, whereby recruiting Chinese employees who are proficient in dealing with Chinese Banking Authorities by providing higher remuneration and premium employees with a superannuation plan. As a result the gap between the income of employees of Chinese commercial banks and employees of local foreign banks is widening. In addition, the incentive system alone based on basic pay is much tougher to motivate workers to work acting on due diligence. In comparison with international merchant banks, the wide gap between foreign and Chinese commercial banks with respect to remuneration levels and banking business performance is shown in the table below. For example, as illustrated below, 2002-2003, one of the China's largest commercial bank, Construction Bank of China, the pay per capita was only 7.3-7.6% of Citigroup

employees (Chen, 2004).

For commercial banks, the costs associated with human resource dominated total operating costs, low wages might improve short-term bank financial performance; However, the cost of human capital is a compensation to employees for their effort. In the highly competitive and high-quality staff shortage scenarios of an industry, the low pay is not conducive to obtaining and maintaining high-quality human resources. In recent years, the competition in the banking sector, labor market, led state-owned banks to lose a lot of talent. Low pay, especially the lack of close contact with an effective performance incentive pay system is one important reason.

Table 2: The relatively table of part of the financial indicators of ICBC, Merchants Bank and Citigroup

	Construction Bank of China (CBC)		Merchants Bank (MB)		Citigroup		CBC /Citigroup (%)		MB/Citigroup (%)	
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
Pay per capita (100 Yuan/person)	4.5	5.0	14.0	14.2	61.7	65.7	7.3	7.6	22.7	21.6
Per capita assets (100 Yuan/person)	1176.6	1357.1	16.9	3094.1	3636.0	3900.6	32.4	34.8	83.5	79.3
Net income per capita(100 Yuan/person)	1.6	0.6	14.4	14.0	50.5	55.1	3.2	1.2	28.4	25.4

Source: ICBC, Merchants Bank, Citigroup, 2003 Annual Report

2) Lack of awareness in payroll strategy

The strategy for commercial banks has a decisive role in payroll management, which provides for development of commercial banks and mobilizes the enthusiasm of the staff. Whether for the system, or technology, it must focus on the bank's strategy to design the pay system, to reach the business goals identified. But now the design of incentive compensation by Chinese commercial banks does not focus on the development strategy, limiting the development of commercial banks.

The payroll mechanism must be rational, which means that its design must be customized in accordance with the development of different stages, and characteristics of the banks. Only on the basis of different banks and different characteristics of different stages of development, developing its own characteristics for bank incentive compensation system could promote employee motivation and creativity. The wage system of domestic commercial banks, especially state-owned banks, has been in use since the 1993 wage reform, which regulated the current wage grading system. This system gave less considered the same job preference level in different positions for the bank and the contribution of different human capital requirements for different employees.

3) Inadequate welfare

Regarding to the welfare system, the major commercial banks are generally paid by the average welfare goods-based, its economic incentives relative to the size of the main benefits with the level of inter-bank correlation. Therefore commercial banks can be divided into two categories, direct personal access to welfare benefits (referred to as personal well-being) and the bank provided for all employees and for employees to enjoy the benefits (referred to as collective welfare).

There are four major types of personal benefits: employee housing subsidies, retirement pensions, unemployment insurance and medical insurance (specific examples, please refer to chapter 4).

Bank employee collective welfare is classified into two major categories. Initially one for employees to facilitate the life of organized collective welfare facilities, including: cafeteria, barbershop, staff quarters, commuting vehicles. The second is for the active cultural life and the establishment of various cultural and sports facilities, including: libraries, reading rooms, clubs, etc.

Some banks establish a welfare system, for example, with length of experience, job titles associated with commercial insurance plans, not only to provide some economic incentives, while providing administrative incentives and psychological motivation

Existing literature shows that the major commercial banks in the employee

benefits staff costs account for a large proportion, joint-stock banks accounted for about 24% -30% of the total cost. State-owned banks are relatively low. The total cost of employee benefits increased as a share of total pay showing that economic welfare is the main tool used by commercial banks to attract and retain key talent. In addition, the reform of state-owned banks pay system is relatively slower, dominant low income salaries and bonuses, a variety of economic welfare, a higher proportion of hidden income, this is clearly not conducive to full play the role of economic incentive measures (Kang, 2006).

4) The form of salary is sole and in shortage of long-term incentive plan

As cash payments are the conventional payroll for both senior executives and employees in Chinese commercial banks, only very few banks adopt long-term incentive awards such as shares or stock options.

In contrast, foreign commercial banks implement diversified forms of payroll mechanisms, focusing on both short-term cash incentive awards, and long-term incentive awards of restricted stock, option awards and other means. For illustration, Citigroup directors can use 50 - 100% range of options and stock options. Senior executives' remuneration includes basic pay and incentive options, retention bonuses and stock option awards, which include cash awards and deferred stock or option awards. Senior management, 40% of the total annual salary or deferred share awards to limit (Quarterly Financial Data Supplement, Citigroup, 2003, 2004). Banks use shares or in cash and constraints in the form of deferred share incentive awards, so it not only provides short-term reward for past performance but also is designed to increase shareholder value directly related to gains of long-term incentives. Therefore, Chinese banks may adopt proper stock options as the long-term incentives based on its special condition.

Figure 3 shows the 2001-2004 Citigroup's top five executives salary structure. From this, Citigroup executives annual base salary only pay 3.5 percent of the total, while its operating performance cash bonus was about 52%; The long-term incentive awards of approximately 40.1% restricted stock, stock options accounted for about 3%. And long-term incentives have gradually increased this relative weight. (Chen,

2004)

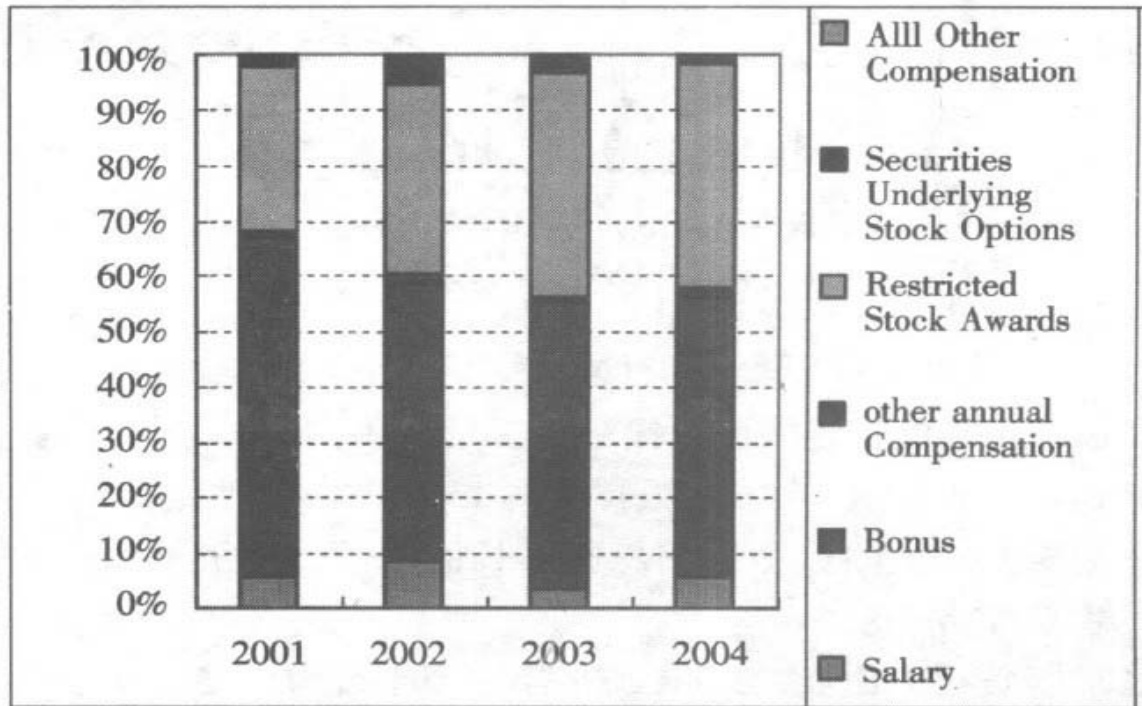


Figure 3: U.S. Citigroup 2002 – 2004, the top five executives' salary

Source: Analysis of incentive system in Chinese joint-stock commercial banks, 2008

3.3 Resolution proposed

According to the questionnaire implemented, we perceived that the major problems exist for employee remuneration motivation mechanism in the bank consisting of weak remuneration policy, low pay standards, rigid pay structure, unscientific pay system as a standard determinant and inappropriate payment method. Therefore this paper has listed five sensible resolutions in coping with those weaknesses in Chinese Banking Industry with respect of payroll mechanism.

1) The implementation of a more democratic pay system

Democracy is not only the foundation of building science oriented pay system, but also the guarantee of successfully executing the new pay initiative. In order to utilize remuneration to fully motivate employees, business operators generally have to manage the whole process from designation to implementation of remuneration initiative within all aspects associated to ensure the consistency of democracy.

To maintain democracy, two aspects ought to be emphasized. Firstly proceeding

staff satisfaction questionnaire aims to collect primary feedbacks from employees themselves, meanwhile timely and frequently re-design process should be undertaken in response to information processed by questionnaire. The questionnaire must sufficiently reflect problems existing in order to eliminate the negative factors, which prohibit the motivation of remuneration functionality. Second it is to encourage employees to participate in designing remuneration proposals for them. In short, the result of incentive for staff salaries is intimately related to the democratic implementation of pay system in a certain degree.

2) More weight on long-term incentive

Different pay structures have different incentive effects. Cash based pay structure emphasizes the short-term motivation. The restricted stock awards, deferred stock awards, stock option awards, and other forms of performance based rewards are employed to motivate employees working hard for long term benefits which are intimately related to owner's benefits; therefore, both parties are benefited due to employees' long term efforts in return for rewards.

In recent decades, foreign companies' executives pay much attention on performance based pay structure which directs performance appraisals becoming incrementally significant for organizational long term involvement by increasing the range of performance based pay, and also via equity, options, long-term benefits and other incentives to promote corporate executives who focus on business long-term development. Under existing laws, Chinese banks ventured into senior managers' long-term incentive mechanisms. A limited number of banks established an equity incentive system. However, Chinese managers are paid by ordinary wages or annual salary plus a bonus system. According to statistics, the base salary of Chinese senior executives has reached 85% of their total remuneration. Compared with developed countries' ratios, in Chinese banks the proportion of long-term incentive ratio is significantly lower.

To illustrate, Citigroup's CAP (capital accumulation plan) is applied to increase the incentive for retention of talented employees, and direct appeal to increase shareholder value long-term incentives. A large number of Citigroup employees who

CAP awards (above are summarized from following references: Chen, 2004, Zhou and Guo, 2004).

Recently, the Chinese National Securities Commission issued the "The Measures of Listed Company's Equity Incentive Management (Trial)". The SASAC issued the "Further Standardization of the Implementation of State-owned Bank Reform". These two policies make a clear apology to the equity incentive for senior executives.

3) Strengthen the pay management of senior executives

In general, in each country, the company law, securities law, corporate charter and the relevant stock exchange rules regulate the salaries of corporate executives. Strengthening the banking executive remuneration disclosure of information will help investors and the public to monitor those pay policies.

The U.S Citigroup discloses its executives' annual remuneration. The Human and Remuneration Committee of the Board of Directors determines the salary holding in each fiscal year, including the top five executives' specific salary, structure, and rewards reasons, which will help the company's investors and the public to understand and oversee (Zhou and Guo, 2004).

In general, the information of Chinese non-listed commercial banks is currently confidential. In addition, in the annual report, the listed companies only disclose the total range of salary of directors and executives based on the requirements of the Commission, but do not disclose the information of a specific number of senior management, structure, and reward of senior managers. This is obviously not conducive to the public listed companies, investors, and executives pay level, and performance-linked conditions such as effective supervision.

In addition, like most countries' laws, Chinese law for banks also provides the regulation of pay for executives. Recently, a number of related regulations and policies have been introduced. However, to regulate the salaries for senior executives of Chinese banks, the information disclosure, taxation, options, incentives, and other relevant legislation for Chinese executives are not yet similar to other countries legislation. According to the legislative perspective, they hold more restrictions than incentive provisions, conceptual rather than practical requirements, and repetitiveness

rather than innovation. These rules bind the development of the pay system reform of senior executives in China. Therefore, China needs to strengthen the information disclosure requirements of remuneration.

4) Establish the remuneration mechanism that is mainly based on performance and welfare and fundamental remuneration as supplementary mediums.

Bank employees provide their labor and services for banks in return for financial rewards. The different model of pay leads to different effects. Base salary and welfare provide basic social security for employees, which significantly impact on labor stability.

Therefore, the modern commercial banks must update the pay incentives and restraint mechanisms closely on performance associated with base salary and complementary welfare. Performance-based pay on the one hand, must significantly increase the proportion of pay for performance, such as Citigroup senior executives performance-based pay which is relatively high at 95% of total pay. The base salary only is 3-5%; on the other hand, performance-based pay must be linked to the real performance of staff's work, in order to define the rewards and punishment (Zhou and Guo, 2004).

5) Determine a reasonable goal for a comprehensive performance evaluation
To implement performance-based pay, the banks must make an accurate assessment of objective performance indicators.

The development of commercial banks is affected by many factors including the expansion of asset size, and capital gains, and the level risk control. Therefore, assessment of staff performance must be based on a wide range of factors rather than a single standard in order to avoid that employees pursue a single performance at the expense of other important banking activities. Furthermore, the assessment of employee performance objectives should include the business unit performance and individual performance, to motivate staff to combine individuals and groups' efforts to improve the bank's overall performance and make more contributions.

Specifically, for the bank senior management, its business performance assessment should include their business unit performance and the bank's overall

performance. Main evaluation indicators are supposed to include net profit (NI), earnings per share (EPS), return on assets (ROA), return on equity (ROE), return on capital (ROC), non-performing asset ratio (NPA), assets and liabilities and capital adequacy ratio (TCR), and other indicators. The contribution of employees who are responsible for managing individual/personal performance appraisals and their assigned business incorporate the development of leadership philosophies and capabilities, risk diversified management, environmental regulations and suitability, extensive authority, customer satisfaction, corporate management, the contributions to value added for companies and performance increased for either individual business operating units or the entire company (Duan, 2003).

4 Description of the Bank's existing pay system

4.1 Introduction to the Bank

The Bank was founded during Sun Yat-Sen administration. From 1912 to 1949, it has exercised the functions as a national central bank, international bank and foreign currency exchange, engaging in facilitating public service and promoting the efficiency of the nation's financial industry.

Furthermore, closely align to the commitment towards social responsibility, the Bank has made considerable progress with respect of risk management and corporate public relations. Especially since foundation of People's Republic of China in 1949, the Bank has become foreign exchange and trade intermediary bank, which apparently devotes a significant contribution to the foundation of the country's international trade and national economic development. As it implemented an open economy policy, the Bank has made remarkable achievement compared with counterparties. Noticeably, in 1994, the Bank was reformed to the state-owned commercial banks. In 2003, the Bank initiated a joint-stock reform. In 2004, it adopted the limited form and in 2006 was successfully released on the Shanghai Stock Exchange and Hong Kong Stock Exchange, becoming the first issued Mainland and Hong Kong-listed Chinese commercial bank.

The Bank's operated with highest degree of internationalization and the diversification that provide comprehensive financial services in the mainland China, Hong Kong, Macau and 29 other countries. More specifically, the Bank is mainly engaged in commercial banking with respect to corporate banking, personal banking and financial market operations, through wholly-owned subsidiary of BOC International Holdings Group. Besides investment banking, as wholly owned subsidiary of the Bank Group Insurance Company Limited and its subsidiaries and associated companies insurance business, by the holding the Bank Fund Management Co., Ltd. It engages in fund management. Secondly, it is engaged in direct investment and investment management business, the BOC Aviation Pte Ltd which is an

operating aircraft leasing business. By core capital, the Bank was ranked in the UK's "Banker" magazine "the world's 1,000 largest banks" as eleventh in 2009.

In the course of the past hundred years of development, the Bank has always complied with the spirit of excellence, sound business philosophy, customer-focused objective and rigorous and meticulous style. As a result, the Bank has been broadly recognized by customers in the industry, and continual to maintain a superior reputation and trustworthy brand image (The Banks website, 2011).

4.2 Framework and models of compensation

The Bank adopts typical payroll mechanism notion where there is no more scientific salary structure, giving only the most appropriate and fitting salary. Integrating distribution-oriented adjustments and improvements to the distribution system, have optimized the salary structure, pay rate is therefore set up at reasonable rates, thereby building a scientific and reasonable compensation management system.

The basic principles of the payroll mechanism:

- 1) Implement the company's development strategy to promote talent and team building.
- 2) According to the job description, workers get paid according to their performance.
- 3) Giving priority to efficiency, as well as considering fairness.
- 4) Performance-related, total personal financial control.

Generally, the salary system can be divided into two major categories, annual income stream and competition system.

4.2.1 Salary

The Bank implements compensation policy consists of base salary, post allowance, bonus, commercial insurance, benefits, learning opportunities, social respect, trainings and redevelopment opportunities. As shown in figure 4:

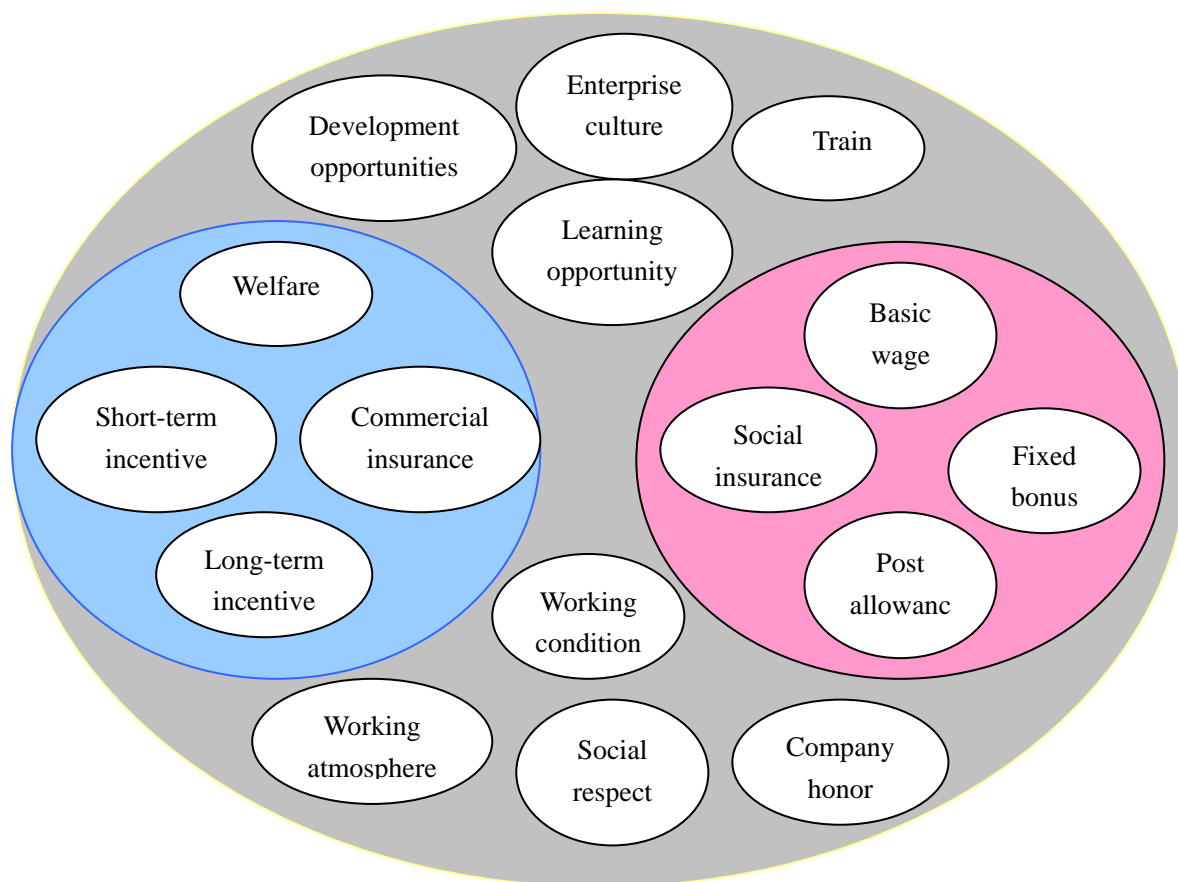


Figure 4: Components of full salary

Source: The internal materials of the Bank

1) Job / Salary Rating

Staff of the Bank can be assigned into 11 grades and 18 levels, from bottom to top. From grade 13 to grade 12 are mid-level professional and technical employees; from grade 11 to grade 10 are senior-level professional and technical employees or junior management; grade 8 and grade 7 are senior management. The target annual salaries of all employees are as follows:

Table 3: Salary rating of the Bank

	Annual salary of non-target marketing class		Annual salary of target marketing class	
Salary rating	Proportion of Job wage	Proportion of Performance salary	Proportion of Job wage	Proportion of Performance salary

3-1	55%	45%	45%	55%
3-2	55%	45%	45%	55%
3-3	55%	45%	45%	55%
4-1	55%	45%	45%	55%
4-2	55%	45%	45%	55%
4-3	55%	45%	45%	55%
5-1	55%	45%	45%	55%
5-2	55%	45%	45%	55%
5-3	55%	45%	45%	55%
6-1	60%	40%	40%	60%
6-2	60%	40%	40%	60%
7	60%	40%	40%	60%
8	60%	40%	40%	60%
9	60%	40%	50%	50%
10	65%	35%	60%	40%
11	65%	35%	60%	40%
12	70%	30%	65%	35%
13	70%	30%	65%	35%

Source: The internal materials of the Bank

2) Salary composition

The first part is job wages, which follows the formula:

$$\text{Job wages} = \text{target salary} * \text{proportion of performance bonuses} \quad (2)$$

And the second part is performance bonuses, which includes two aspects shown in Figure 5:

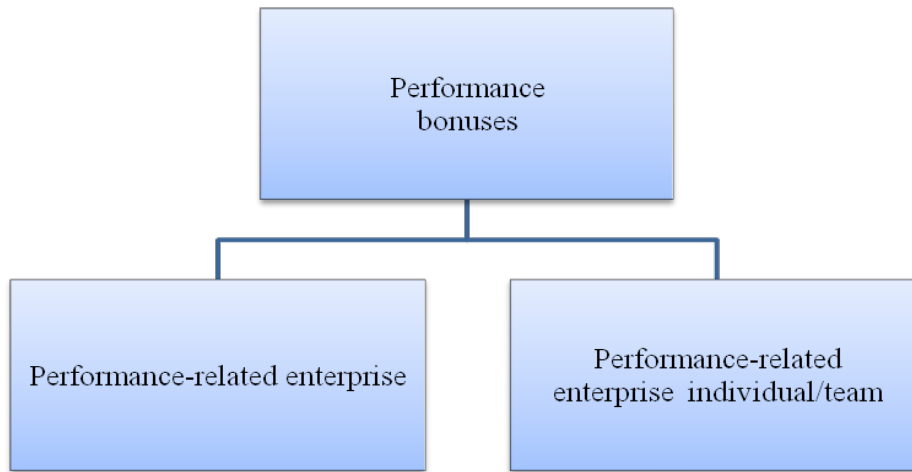


Figure 5: Performance bonuses

$$\text{Base salary performance bonus target} = \text{target salary} * \text{proportion of performance bonus} \quad (3)$$

According to Bank staff performance bonuses criteria, the teams were paid with individual performance appraisals' outcomes. Different positions require diverse proportions. As shown in the table below:

Table 4: Performance bonuses of different positions

Salary rating	Performance-related bank	Performance-related bank individual/team	
		Team	Individual
Second branch president	80%	/	20%
Second branch vice president	70%	/	30%
Department manager	80%	/	20%
Department vice manager	50%	/	50%
Team leader	30%	50%	20%
Team vice leader	20%	30%	50%
Operating branch president	80%	/	20%
Operating branch vice president	70%	/	30%

General staff	80%	30%	60%
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Source: The internal materials of the Bank

4.2.2 Welfare

1) Statutory welfare: includes seven projects, basic old-age insurance, basic medical insurance, unemployment insurance, injury insurance, maternity insurance, housing fund and supplementary pension. The detailed information is illustrated in table 5:

Table 5: Statutory welfare

Project	Bank contribution rate	Individual contribution rate	Benefits
Basic old-age insurance	20%	8%	Retirement pension
Basic medical insurance	8%	2%	Basic health care
Unemployment insurance	2%	1%	Unemployed receive a certain amount of unemployment benefits
Injury insurance	0.50%	/	Injury protection benefits
Maternity insurance	0.50%	/	Maternity insurance of female employees
Housing fund	10%	10%	Receive after retirement, or to provide low-interest housing loan
Supplementary pension	4%	2%	Supplementary pensions after retirement

Source: The internal materials of the Bank

2) Fixed flexible benefits

Fixed benefit contains holiday expense and high-temperature expense; Flexible benefit consists of medical examinations, commercial insurance, health and insurance, etc (table 6).

Table 6: Fixed and flexible benefits

Category	Project	Specific contents
Fixed benefit		New year's Day
		Chinese New Year

	Holiday expense (four major holidays)	May Day (including the Dragon Boat Festival)
		National (including Mid-Autumn Festival)
	High-temperature expense	/
Flexible benefit	Medical examinations	Medical institutions for more than triple A-level
	Commercial insurance	Various types of life insurance, property insurance
	Health and insurance	Membership card in discount prices on demand for employees in the professional beauty fitness
	Meal card, petrol cards, mobile phone recharge cards	Recharge card within the bank canteens for staff, recharge card of family car oil, mobile phone recharge.
	Public holidays and holiday travel cost	Holiday travel paid for transportation, accommodation during public holidays of employees
	Costs of child	Children's education, health care costs
	Employees for medical expenses	Amount of the basic medical insurance reimbursement for some medical expenses outside

Source: The internal materials of the Bank

3) Annuity

Besides the basic endowment insurance, employees could join the extra endowment insurance of bank (table 7).

Table 7: Supplementary pension payment system

Participate in the classification	How to participate
Already retired, or retired before 2011	Individuals do not pay
After retirement in 2011	Since 2006, a monthly base pay per month for 2% of the individual contributions

Source: The internal materials of the Bank

4) Others

Leave: sick leave, personal leave, wedding leave, maternity leave;

Vacation plan: annual leave and home leave.

4.3 Reviews and analysis of pay system

Judging from the above information, the staff's salary in the Bank is classified into wages and allowance of accountabilities, the staff wages heavily rely on the job sequence, sub-7 job hierarchy, and it is set up in a number of grades, allowance of accountability of the employees' contribution distribution.

With the development of Chinese socialist market economy and the continuous improvement of the financial system, banking system, the gradual establishment of modern bank, the reform of the banking sector has also continued to explore alternate pay system which has allowed improvement, and gradually implement the annual salary system and other advanced concepts. Currently, the management of the Bank's performance is measured in relation to generally accepted accounting principles, through manager's job performance evaluation. This approach takes each client manager responsibilities as a profit center, with its responsibility for assessing the ultimate goal of profit. The specific accounting method shows as following:

$$\text{Profit} = \text{Revenue} - \text{Liability} - \text{Responsibility} - \text{Responsibility for the Cost} \quad (4)$$

$$\text{Liability income} = \text{Loan interest income} + \text{Deposit interest income} + \text{Intermediate business income} + \text{other business income} \quad (5)$$

Where:

$$\text{Deposit interest income} = \text{Deposit date number} * \text{Internal fund price} \quad (6)$$

$$\text{Responsibility cost} = \text{Deposit interest expenses} + \text{Asset business cost} + \text{other costs} \quad (7)$$

Where:

$$\text{Asset business cost} = \text{Asset day number} * \text{Internal fund price} \quad (8)$$

The income of an account manager is in accordance with their responsibility to determine the size of profits.

$$\text{Account manager personal income} = \text{Base salary} + \text{Performance salary} + \text{Sum of score} \quad (9)$$

But the most common employees' basic salaries account higher proportion (about 60%), while the proportion of performance pay is lower (about 40), which is a small

incentive (The internal materials of the Bank).

1) The Bank account manager gets a lower pay

Some the Bank branch account managers have an average salary level that is still relatively low, since the bank is subjected to the higher operating cost compared with joint-stock state-owned commercial banks. However in comparison with foreign commercial banks, there is still a wide gap.

Taking the Shenzhen branch of this Bank for example, its asset size and the number of account managers at the forefront compared to the banking industry types in the same region. With international banks, there is a big gap of staff pay levels and performance of banking operations. Table 6 shows financial indicators comparison among Shenzhen Branch, Merchants Bank and Citibank (table 8).

Table 8: Financial indicators comparison among Shenzhen branch, Merchants Bank and Citibank

(Ten thousand Yuan / person/year)	Shenzhen branch		Merchants Bank		Citibank	
	2004	2005	2004	2005	2004	2005
Average salary	7.5	8.3	14	14.5	43	52
Per capita assets	117.6	1357	3035	3094	3636	3900.6
Net income per capita	1.8	1.2	13.8	13.5	56.3	58.2

Source: *Analysis of pay incentive mechanism of Chinese commercial bank*, Chen, (2004)

In recent years, with the tremendous talent competition in the banking industry, the unattractive pay rate in state-owned banks are not attractive to talented young people, namely in the position of competitive disadvantage in human resource reserve. Furthermore the Bank dismissing an effective performance incentive pay system is one of the critical causes not for attracting adequate human resources.

Take Shenzhen branch account managers for example, the salaries have gradually increased since 2002 (table 9).

Table 9: Shenzhen branch account manager salaries status

	Year 2002	Year 2003	Year 2004	Year 2005
Pay per capita (million)	5-6.5	6.8-7.3	7,2-7.8	8-8.5
Number of employees	324	287	263	232

Source: *Analysis of pay incentive mechanism of Chinese commercial bank*, Chen, (2004)

2) Performance-related payroll mechanism

Although the major responsibility for the current client managers, assumed the credit package received packet, the high lifetime risk of accountability, but did not enjoy the corresponding benefits. For the account manager of Shenzhen Branch, besides a few non-performing loans compressed awards, some managers earn even the same as ordinary staff wages. While some branches have been aware of the importance of incentives, they have begun or are developing marketing loan credit incentives, but the basic incentives for instance, disposable and long-term incentives are still missing. Only attach importance to target incentives and moral motivation, they neglect material incentives, and do not form effective profit-driven motivation; And implementation of incentive measures is not yet in place. With wages linked to performance evaluation emphasis on recovering loans, to resolve non-performing assets. Other indicators like, ignoring the manager of customer marketing capability and performance recognition or transfer the account manager's focus. In particular, there is no competition in the innovation market, the staff's innovations into personal income, motivates staff to enhance their learning, improve their quality of work and seek new profit growth point.

3) The lack of standardized payroll system performance evaluation index

Objective performance evaluations are implementing to motivate the staff, and to enhance the bank's performance. In China, on the one hand, since performance appraisal did not attract enough attention for management, leadership is not related to performance appraisal. On the other hand, the calculation of efficiency indicators

related to assessment is difficult, while the deposits, loans and other business assessment index calculations are simple and easy to operate. Thus employee performance appraisal is still based on business metrics, not the main efficiency indicators of the evaluation.

5 Questionnaire survey

5.1 Questionnaire, overall design, and sample selection

Based on the previous chapters, the theoretic analysis was made in order to investigate and perceive the remuneration incentive of commercial banks in domestic China. Then, what's the actual status in China nowadays? This chapter investigates the remuneration incentives in the Bank depending on quantitative analysis in order to incrementally perceive the influencers of employment remuneration incentive in current Chinese commercial banks.

5.1.1 The overall design and theoretical hypotheses

The questionnaire combines theoretical analysis and existing literature such as "Remuneration Strategy: Knowledge Workers' Incentive Theory and Empirical Research" written by Gu (2006), and his questionnaire "Knowledge Workers Incentive Compensation Questionnaire". They conduct research in fields of on sub-pay policies, pay levels, salary structure and pay form respectively. These four indicators can effectively predict the degree of remuneration incentive by commercial banks.

The collected data provide the staff evaluation of compensation incentive in Chinese commercial banks.

5.1.2 The sample definition

The questionnaire is directed at the Bank staff. 55 detailed questionnaires were distributed, obtaining 51 valid answers. The basic situation of the sample is shown as table 10:

Table 10: The Fundamental Information of sample

Category		Number of people	Percentage (%)
Gender	Male	30	58.8
	Female	21	41.2
Age	Below 25 (include)	18	35.3
	26-35	19	37.3
	36-40	3	5.9
	41-45	4	7.8

	Above 45	7	13.7
Education Level	Below junior college	1	2.0
	School/College certificate	8	16.0
	Undergraduate	29	56.0
	Post graduate-Master	12	24.0
	Post graduate -Doctorate and above	1	2.0
Work Experience	Below one year	9	17.6
	1-3 years;	15	29.4
	4-5 years	3	5.9
	6-10 years	3	5.9
	11-15 years	2	3.9
	Above 15 years	19	37.3
Job Title	Senior managers	1	1.9
	Middle managers	3	5.9
	Lower-level managers	5	9.8
	General staff	42	82.4

After questionnaire was collected, we did the questionnaire validity, and dealt with missing values. The non-response found in the collected questionnaire set to be missing values (invalidate), and the valid data is the statistical data. We did the descriptive statistics analysis to thesis 51 valid questionnaire, and missing values (<5%) are processed on default (replaced by average value).

5.1.3 Questionnaire design

This questionnaire concludes several relevant aspects of remuneration mechanism such as background information, pay for performance method, pay level, pay structure, payment forms, etc.

There are three major components:

Part I: Background specifies five distinct aspects of the respondents that are

gender, age, education level, work experience, professional experience.

Part II: The evaluation of compensation incentives of the Bank's remuneration factors include:

1) Remuneration mechanism:

To measure the strategic direction of pay system---the perspective that corporate strategy is adapted to measure the employees' remuneration incentive conditions in the Bank. The specified method is to instruct respondents completing the 5-points scale for scored outcomes in order to appraise the remuneration mechanism.

2) Salary level:

To measure the external competitiveness of remuneration, banks usually apply the external equity of business consideration to examine the employees' remuneration situation in commercial banks. The specific method is to direct respondents completing a 5-point scale for determining the score of the salary level.

3) Salary structure:

To measure the internal competitiveness of remuneration, banks often applies the internal equity of business consideration to measure the employees' remuneration situation in commercial banks. The specific method is to guide respondents to provide a 5-point scale to determine the score of the salary structure.

4) Pay for performance method:

To measure the external competitiveness of remuneration, banks usually apply the external equity of business consideration to examine the employees' remuneration situation in commercial banks. The specific method is to direct respondents completing 5-point scale for determining the score of the salary level.

5) Payment method:

Remuneration policy was evaluated from the perspective of bank strategy adapted which measures of the employees' remuneration circumstance in commercial banks. The specific method is to let respondents to accomplish a 5-point scale in order to determine the score of the payment method.

Part III: Commercial bank employees evaluate the degree of incentive remuneration from the perspective of the entire company's situation.

5.2 Questionnaire results and analysis

The study is based on a descriptive analysis of the questionnaire results.

5.2.1 Descriptive analysis of remuneration mechanism

Table 11 presents the descriptive statistics of the nine remuneration mechanisms.

Table 11: Descriptive statistics of nine remuneration mechanisms

	Mean	Std. Deviation	Dispersion Coefficient
The Bank designs the pay system from a strategic corporate policy	3.29	.965	29.331%
The remuneration policy has a strong appeal to employees	3.15	.925	29.365%
The Bank has adopted a clear path of promotions	3.02	.812	26.887%
The pay distribution can promote the sustainable development of the Bank	3.65	.716	19.616%
The pay distribution is adapted to the requirements of the Bank's business cycle	3.22	.640	19.876%
The Bank focuses on creating a good remuneration culture	3.51	.857	24.416%
The Bank's pay policies are in line with basic people-oriented principles	3.08	.821	26.656%
The salary distribution can strengthen the Bank's core values	3.64	.891	24.478%
The pay distribution promotes a high efficiency	2.89	.739	25.570%

$$\text{Coefficient of dispersion} = \text{Standard Deviation} / \text{Mean} * 100\% \quad (10)$$

From table 11, we find that employees rated higher scores for the Bank's core goals and values, “The pay distribution can promote the sustainable development of the Bank”, and “The salary distribution can strengthen the Bank's core values”. In contrast, the performance level acquired a relatively lower score, like “The Bank has adopted a clear path of promotions”, “The pay distribution promotes a high efficiency”. This result suggests that commercial banks pay policy puts more emphasis on the core goals and values, while the pay policy puts not enough emphasis on the performance level.

The dispersion coefficient of these nine factors can be calculated by standard deviation. The lowest dispersion coefficient is 19.616% (The pay distribution can promote the sustainable development of the Bank), the highest is 29.365% (The remuneration policy has a strong appeal to employees). That means there is a big gap between each individual samples. From the sense of the survey, this shows that there are many different views among employees because of different job positions and ages.

5.2.2 Descriptive analysis of pay level

Table 12 presents the descriptive analysis of the eleven key pay level factors.

Table 12: Descriptive statistics of the pay level

	Mean	Std. Deviation	Dispersion Coefficient
Compared with the average salary in the region, my salary is higher	3.67	.711	19.373%
Compared with the same competitors in the industry, my salary is higher	3.24	.590	18.201%
Compared with the competitors in other industries, my salary is higher	3.21	.783	24.392%
Fair salary is received in correspond to my work experience	3.47	.902	25.994%
Fair salary is paid in line with my job title	3.37	.720	21.365%
My salary is fair according to my knowledge and education	3.24	.620	19.136%
My salary is fair given my performance in the work place	3.59	.753	20.975%
My salary is fair according to my working ability	3.22	.541	16.801%
My salary is fair given the effort I put in the work place	3.41	.726	21.290%
Compared with other employees of the Bank, my salary is higher	3.19	.918	28.589%
Compared with the business situation of the Bank, my salary is higher	3.02	.707	23.411%

As the table performed: For the Bank's pay level, "Compared with the average salary in the region, my salary is higher", and "My salary is fair given my performance in the work place" obtained higher score. In contrast, "Compared with

the business situation of the Bank, my salary is higher” gained a lower score. It points out that the pay levels of employees in commercial banks reaches the regional average level. However, compared to the commercial banks operating performance, their incomes are relatively low.

The dispersion coefficient of these nine factors can be calculated by standard deviation. The lowest dispersion coefficient is 16.801% (“My salary is fair according to my working ability”), the highest is 28.589% (“Compared with other employees of the Bank, my salary is higher”). That means there is a big gap between each individual sample. From the sense of the survey, this shows that there are many different views among employees because of different job positions and ages.

5.2.3 Descriptive analysis of pay structure

Table 13 presents the descriptive analysis of the ten pay structure factors.

Table 13: Descriptive statistics of pay structure factors

	Mean	Std. Deviation	Dispersion Coefficient
The Bank collects the accurate information to define the pay system	2.93	.717	24.471%
When designing the pay system, the Bank considers recommendations of different categories of employees	2.59	.497	19.189%
The Bank evaluates employees whenever it makes decision (ex, career test, personality test)	3.04	.488	16.053%
Most people agree on the performance evaluation results	2.94	.705	23.979%
The Bank specifies the different pay systems on the different job positions	2.89	.621	21.488%
Do you find the fixed and performance mix appropriate? (fixed salary: 60%; performance salary: 40%)	2.82	.555	19.681%
The Bank implements a comprehensive short-term incentive (ex, bonus)	3.31	.650	19.637%
The Bank implements a comprehensive long-term incentive (ex, stock & options)	2.57	.575	22.374%
The Bank implements a personalized benefits program to employees	2.88	.621	21.562%

The Bank continues to adapt to new forms of remuneration	2.91	.553	19.003%
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The salary structure obtained a low score. Only two factors obtained more than 3 points including, “The Bank evaluates employees whenever it makes decision (ex, career test, personality test)” and “The Bank implements a comprehensive short-term incentive (ex, bonus)”, while other indicators got 3 points or less. This shows that employees give a relatively low rating to the overall pay structure.

The lowest dispersion coefficient is 16.053% (“The Bank evaluates employees whenever it makes decision (ex, career test, personality test)”), the highest is 24.471% (“The Bank collects the accurate information to define the pay system”). That means there is a big gap between each individual sample.

5.2.4 Descriptive analysis of the pay for performance method

Table 14 presents the results for eight factors characterizing the remuneration method.

Table 14: Descriptive statistics of the pay for performance method

	Mean	Std. Deviation	Dispersion Coefficient
The Bank calculates the salary based on the employees performance	3.35	.770	22.985%
The Bank's evaluation of all staff is fully in accordance with standard procedures	3.37	.894	26.528%
Employees participate in the performance evaluation, express their views and get feedback	3.01	.529	17.575%
Most employees accept the results of the monthly performance evaluation	3.16	.543	17.184%
Staff salary is determined by the employees' performance	3.78	.783	20.714%
Staff salary mainly depends on the results of their work	3.17	.590	18.612%
The Bank emphasizes the team performance appraisal	3.25	.720	22.154%
The Bank emphasizes the team incentive	3.35	.891	26.597%

In the research of pay method, the staff evaluation gets the higher score. The average scores are all over 3 points. “Staff salary is determined by the employees’

performance”, reaches to 3.78 points.

The lowest dispersion coefficient is 17.184% (“Most employees accept the results of the monthly performance evaluation”), the highest is 26.597% (“The Bank emphasizes the team incentive”). That means there is a big gap between each individual sample.

5.2.5 Descriptive analysis of the payment method

Table 15 presents the results for five payment method items.

Table 15: Descriptive statistics of the payment methods

	Mean	Std. Deviation	Dispersion Coefficient
The Bank can pay the salary fully and timely	3.69	.678	18.374%
The information on other people's salary levels public and easily available	1.39	.493	35.468%
The Bank employees are paid different salaries based on clear and unambiguous criterion	2.18	.385	17.661%
The Bank’s payments meet my individual needs	2.67	.589	22.060%
The Bank rewards well-performing employees and publishes the rewards details	3.55	.757	21.324%

Regarding the table above: “The Bank can pay the salary fully and timely” and “The Bank rewards well-performing employees and publishes the rewards details” obtained higher average score with 3.69 and 3.55 points respectively. In contrast, “The Bank employees are paid different salaries based on clear and unambiguous criterion” is relatively low as the average score is only 2.18 points. When asked if “The information on other people's salary levels public and easily available”, the average score was only 1.39 points, showing that the total salary is not publicing disclosed.

The lowest dispersion coefficient is 17.661% (“The Bank employees are paid different salaries based on clear and unambiguous criterion”), the highest is 35.468% (“The information on other people's salary levels public and easily available”). That means there is a big gap between each individual sample.

As a result, we can conclude that the payment method is efficient for predicting the employees’ motivation in commercial banks. To determine whether the payment

method could motivate employees in commercial banks, the key is whether the bank holds grand and warm publicity for the well-performing employee, whether the bank can make finely payment, and whether the bank's payments meet the employees' individual needs. Also, the employees can not get information of other people's pay levels from the public way.

5.3 Determinants of compensation policy evaluation

Finally, the factors that may influence the overall assessment of compensation policy evaluation were analyzed. We used SPSS to analyze age, gender and job position impact on the evaluation of compensation incentives.

The sample was divided into two groups according to each of these variables: younger and older than 35; males and females; and managing versus general staff. The compensation between each of these two groups is based on the mean overall assessment of the compensation policy, including all items of questions 1 to 5 of the part 2 of the questionnaire – Evaluation of Compensation Incentives.

(1) First, we divided the 51 people into two groups: 35 years old or younger and above 35 years old. Table 16 presents the results of the Independent-Samples T test of these two groups.

Table 16: The T test of group “Age”

Group Statistics					
	Age	N	Mean	Std. Deviation	Std. Error Mean
Score	30.00	37	3.1709	.35215	.05789
	40.00	14	3.0432	.43286	.11569

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
									Lower	Upper
Score	Equal variances assumed	.792	.378	1.084	49	.283	.12769	.11775	-.10893	.36432
	Equal variances not assumed			.987	19.876	.335	.12769	.12936	-.14226	.39765

We find that younger employees make a more positive evaluation of the Bank's compensation policy than older employees.

(2) The second dimension is about the gender effect. These 51 people, 30 are males and 21 are females. Table 17 presents the specific analysis.

Table 17: The T test of group “Gender”

Group Statistics					
	Gender	N	Mean	Std. Deviation	Std. Error Mean
Score	Male	30	3.1380	.40969	.07480
	Female	21	3.1329	.33152	.07234

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower		Upper
Score	Equal variances assumed	1.226	.274	.047	49	.963	.00509	.10804	-.21202	.22221
	Equal variances not assumed			.049	47.880	.961	.00509	.10406	-.20414	.21433

From table 17, we find there is a significant difference. We believe the mean scores between male and female are the same.

(3) We separated 51 people into “General Staff” and “Manager” according to their different job positions. The table 18 presents the analysis.

Table 18: The T test of group “Position”

Group Statistics					
	Position	N	Mean	Std. Deviation	Std. Error Mean
Score	Manager	8	3.6047	.33193	.11735
	General	43	3.0621	.34841	.05313

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	95% Confidence Interval of the Difference	
								Lower		Upper
Score	Equal variances assumed	.002	.968	4.071	49	.000	.54253	.13326	.27472	.81033
	Equal variances not assumed			4.211	10.093	.002	.54253	.12882	.25585	.82920

Our results show that there is a significant difference between the two groups. Employees with a management position display a significantly more positive assessment of the Bank’s compensation policy than lower ranking employees.

In conclusion, these results show that younger and higher ranking employees make a better evaluation of the Bank’s compensation incentives.

6 Discussion

6.1 Contributions

The development of modern commercial banks is highly relying on knowledge, which depends on the human capital of workers and their creativity. Therefore, human resources can be considered as the most important factor in determining the success of commercial banks. How to treat employees as valuable assets and motivate employees to work better, are becoming essential concerns of human resources management.

As for Chinese commercial banks, due to the influence of the traditional planned economy, employees generally remain at low pay levels, and their satisfaction is not high. The salary structure is not efficient enough, as there is a lack of innovation incentives. This framework does not keep up with the requirements of the financial system reform in China, resulting in great loss of talents in commercial banks. With the continuous expansion of the Chinese economy, commercial banks must strengthen the salary incentive mechanism, establish and perfect the compensation incentive mechanism under Chinese unique situation to attract talents and improve the competitiveness of the financial sector.

From the academic perspective, the staff incentive system belongs to the problem of production relations. Only if production relations suit with productivity, it will promote the development of productive force. There are mainly three areas of current management and economics researches in staff incentive compensation: the academic research from the theoretical and empirical perspective; the policy research from the system's reform point of view; and the management research aiming at developing the employee incentive compensation management. Although the diversity of theories explains various focuses, they all point out that material incentives is a significant element of the incentives mechanism. Among all the elements of material incentives, the pay incentive undoubtedly plays a fundamental role. There are many domestic and international researches of incentive systems, but there are rare in Chinese commercial banks. The current research for Chinese commercial banks incentive

system mainly focus on operating level, which are scarce in empirical studies, leading to a lack of quantitative analysis and low combination between theory and practice.

This thesis uses relative knowledge of management and economics, to analyze Chinese commercial banks employees pay incentive status and the existing problem. Based on questionnaire survey for bank employees, and SPSS quantitative analysis, a result about the key factors that affect employees pay incentive is obtained. Further, according to these factors, advice for improvement of Chinese commercial bank employees in pay incentive system is provided.

6.2 Limitations

First of all, this thesis only outlines employees' incentive compensation, as it is subject to specific proposals in respect of operations. Further study needs to combine with the specific situations of different commercial banks to provide the specific commercial bank incentive compensation design.

Secondly, due to inadequacy of practical experience and specialized research, there is limitation for our opinions in certain degree in this field. Therefore, the recommendations may not go far enough. But we believe that in the future, with increased knowledge and practical experience, we will be able to put forward more in-depth recommendations.

6.3 Conclusions

With the increasing competition of modern commercial bank, its competitive advantage in certain degree depends on its staff's capacity and motivation, which must be dependent on a high level of human resources management. The effectiveness of human resources management is presented in form of staff motivation. The nature of incentive compensation is that an efficient compensation design will lead to better staff creativity and enthusiasm, generating larger economic benefits for banks. It is an important feature in the system of income distribution. In today's competitive environment, it is very important that the staff is fully motivated, and to establish scientific, rational, efficient salary incentive mechanisms in commercial banks.

Given the specificity of the Chinese economic environment it is unwise to

duplicate the advanced experience from international banks and models. As a result banks in China should redesign salary systems suitable for China's unique national conditions. For example, Chinese commercial banks need to pay attention to implementing internal democracy, and increase the proportion of medium and long-term incentives, and strengthen the management of executive pay.

We believe that if all the banks improve the pay system step by step, the salary management of Chinese commercial banks will also improve, and so will the banking system's performance.

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Annexes

Questionnaire Compensation System

Instructions:

All employees are invited to participate in this survey on pay system. We would be grateful if you could complete the following questionnaire if you are a member of the Bank. The questionnaire is divided into three sections and it should take about 10 minutes to complete.

Your responses are not disclose to others and only reported in aggregated form. At your discretion a copy of the findings will be made available on completion of the study

Please return your completed questionnaire by 05/10/2011

Thank you for your co-operation

1. Demographics

Please tick the boxes where appropriate.

1. Gender

Male

Female

2. Age

Below 25 years old

25-35

36-40

41-45

Above 45 years old

3. Highest level of education

Below junior college

School/College certificate

Undergraduate

Post graduate – Masters

Post graduate – Doctorate and above

4. Income levels (per year)

Below--20,000 Yuan

20,000--40,000 Yuan

40,001--60,000 Yuan

60,001--80,000 Yuan

80,001--100,000 Yuan

Above 100,001 Yuan

5. Work Experience

- Below one year
- 1--3 years
- 4--5 years
- 6--10 years
- 11--15 years
- Above 16 years

6. Job Title

- Senior managers
- Middle managers
- Lower-level managers
- General staff

7. The identity of you

- Full-time employees
- The rehires
- Employing staff

2. Evaluation of Compensation Incentives

Here is a description of your Bank's payroll status. From left to right means that you describe the degree of recognition of current situation from low to high (from left to right), divided into totally disagree, disagree, fair, consistent, very consistent. According to your personal feelings, please mark "√" in the appropriate column.

1. Remuneration Mechanism

- The Bank designs the pay system from a strategic corporate policy
- The remuneration policy has a strong appeal to employees
- The enterprise has adopted a clear path of promotions
- The pay distribution can promote the sustainable development of the Bank
- The pay distribution adapt to the requirements of the Bank's business cycle
- The Bank focuses on creating a good remuneration culture
- The Bank's pay policies are in line with basic people-oriented principles
- The salary distribution can strengthen the company's core values
- The pay distribution promotes a high efficiency

2. Pay level

- Compared with the average salary in the region, my salary is higher
- Compared with the same competitors in the industry, my salary is higher
- Compared with the competitors in other industries, my salary is higher
- Fair salary is received in correspond to my work experience
- Fair salary is paid in line with my job title
- My salary is fair according to my knowledge and education
- My salary is fair given my performance in the work place
- My salary is fair according to my working ability
- My salary is fair given the effort I put in the workplace
- Compared with other employees of the enterprise, my salary is higher

- Compared with the business situation of the enterprise, my salary is higher

3. Salary structure

- The Bank collects the accurate information to define the pay system
- When designing the pay system, the Bank considers recommendations of different categories of employees
- The Bank evaluates employees whenever it makes decision (ex, career test, personality test)
- Most people agree on the performance evaluation results
- The Bank specifies the different pay systems on the different job positions
- Do you find the fixed and performance mix appropriate? (fixed salary:60%; performance salary:40%)
- The Bank implements a comprehensive short-term incentive (ex, bonus)
- The Bank implements a comprehensive long-term incentive (ex, stock & options)
- The Bank implements a personalized benefits program to employees
- The Bank continues to adapt to new forms of remuneration

4. Pay for performance method

- The Bank calculates the salary based on the employees performance
- The Bank's evaluation of all staff is fully in accordance with standard procedures
- Employees participate in the performance evaluation, express their views and get feedback
- Most employees accept the results of the monthly performance evaluation
- Staff salary is determined by the employees' performance
- Staff salary mainly depends on the results of their work
- The Bank emphasizes the team performance appraisal
- The Bank emphasizes the team incentive

5. Payment Method

- The Bank can pay the salary fully and timely
- The information on other people's salary levels public and easily available
- The Bank employees are paid different salaries based on clear and unambiguous criterion
- The Bank's payments meet my individual needs
- The Bank rewards well-performing employees and publishes the rewards details

3. Evaluation

In general, what do you think about the current status of your Bank for your pay incentive compensation?

- Very low
- Low
- Average
- High
- Very high