

## 1. INRODUCTION

Pay has always been being a major issue ever since business began. According to Sweins and Kalmi (2008) pay refers to giving employees money in exchange for their work, which comprises three different kinds of payment system. These are job-based payment system (time-based pay), performance-related payment system (pay by piece rate) and person-based payment system (Bratton & Gold, 2012). Chand (2012) pointed out that the purpose of pay is assisting organizations to attract and retain talented people to help the organization improve its performance. In other words, pay can help organizations achieve competitive advantage. In reality, it is common to see that in order to retain the right employees an increasing number of companies tend to pay higher wages for employees than the market average (Peng, 2012). Moreover, Prendergast (1999) points out that a good pay system not only can help companies attract and retain the right people but also can motivate employees to perform to the maximum in their jobs. Furthermore, Liu (2013) points out that the nature of pay is improving organizations' performance by motivating employees to devote all their efforts to their jobs. Both organizations and employees, therefore, could benefit from a good payment system (Peng, 2012).

In China many industries, especially those in manufacturing, are using piece rate payment system at the moment (Liu, 2013). Furthermore, Cai (2013) stated developing countries adopt piece rate compensation more than developed countries. While, there are some reasons why pay by piece rate is being used in many Chinese companies. First of all, the economy of China is developing very fast, which leads to many new firms opening every day, particularly in Hebei province which is near Beijing. Moreover, even though an increasing numbers of companies are being established every day, many employees are still unemployed. In other words, China has a large population and it enjoys an extensive labor market (Zhang, 2006). In addition, China is a country with a large scale manufacturing sector and employers want to save costs and recruit more productive employees (Wei, 2012). Therefore, most companies are paying for their employees by piece rate, such as clothes manufacturers and food manufacturers (Wei, 2012).

With the above in mind, it is necessary to know whether piece rate payment is a good payment method such as can it improve employees' performance. Therefore, it is now relevant to explore to what extent pay affects performance in Hebei. In order to achieve the goal, one food company where located in Hebei province in China has been chosen to help explore the research in-depth. There are 41 people in this company. More specifically, five owners and thirty-six employees work in it. The

payment system in this food company is the combination of time-based pay and pay by piece rate. Employees who have worked in this company for less than three months are paid by time. From the start of the fourth month employees are paid by piece rate. The current situation in the food company is two employees are paid by time rate at the moment, which means they have been working in this company for less than three months. However, the other thirty-four employees are paid by piece rate.

This research, therefore, is based on the food company located in Hebei to explore to what extent pay by piece rate influences performance. This research explores the topic through three research questions. The first research question is to what extent do employees in the food company perceive they are paid fairly compared with when they are paid by time rate. The second research question is how piece rate in the company influence the relationship between the quality of work and the speed of producing. Finally, the third research question is to what extent employees think pay by piece rate increases their commitment to the company.

This research will be divided into six chapters. Chapter one has introduced the general background of the piece rate payment situation in China and the background of the food company as well as the purpose of this research. At the end it has introduced the research questions.

Chapter two will outline previous studies about pay and performance. It will include the literature of the historical context of pay and performance, the literature of whether pay by piece rate is fair or not, the impacts of pay by piece rate on the relationship between production speed and work quality as well as piece rate pay and commitment.

Chapter three will outline the methodology that has been used in conducting the research such as the methods of collecting and analyzing the data in the food company. For example, it will explain why this research has chosen semi-structured interviews and the strengths and limitations of this form of interview will be discussed.

Chapter four will present the findings gathered from the food company through telephone interviews. This chapter will suggest that two-thirds of the employees who are in the food company thought it is fair for them to be paid by piece rate. Moreover, work quality has slightly decreased under the piece rate payment system whereas pay by piece rate enhances employees' production speed considerably. In addition, it also

will suggest that piece rate pay only increases 15 percent of employees' commitment in the food company.

In chapter five findings that have been collected from the food company will be discussed combined with the literature review.

Chapter six will summarize the findings. Then, the strengths and limitations of this research will be discussed. Finally, it will provide some recommendations for the company.