

**MOTIVATION OR DEMOTIVATION? A CASE STUDY OF  
SCHOOLTEACHERS' PERFORMANCE RELATED PAY SYSTEM  
REFORM IN CHINA**

**Dr. Jingjing Weng<sup>1</sup>**

**Email: [jingjingweng@saturn.yzu.edu.tw](mailto:jingjingweng@saturn.yzu.edu.tw)**

**College of Management, Yuan Ze University, Chung-Li City, Taiwan**

**Dr. Ying-Che Hsieh<sup>2</sup> (Corresponding & Presenting author)**

**Email: [yeh@mx.nthu.edu.tw](mailto:yeh@mx.nthu.edu.tw)**

**Institute of Technology Management, National Tsing Hua University, Hsinchu City,  
Taiwan**

**Dr. Wei Huang<sup>3</sup>**

**Email: [w.huang@ruc.edu.cn](mailto:w.huang@ruc.edu.cn)**

**School of Labor and Human Resources, Renmin University of China, Beijing City,  
China**

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<sup>1</sup> Dr. Jingjing Weng is an Assistant Professor in Organization Management in College of Management at Yuan Ze University. She received her Ph.D in Employment Relations and Organizational Behavior in London School of Economics. Her research interests include payment system, employment relations, corporate social responsibility, and human resource management in entrepreneurial firms.

<sup>2</sup> Dr. Ying-Che Hsieh is an Assistant Professor in Human Resource Management in the Institute of Technology Management at National Tsing Hua University. He received his Ph.D. from the University of Cambridge. His research interest mainly lies on the human resource management in entrepreneurial firms, entrepreneurship and employment relations in China.

<sup>3</sup> Dr. Wei Huang is Lecturer in Employment Relations at Renmin University of China's School of Labor and Human Resources and academic fellow of Center for International Human Resource Management at University of Cambridge. He received his Ph.D in Management Studies at Cambridge Judge Business School. His research interests include MNCs and global value chain, international labor standards and CSR, employee participation, and payment systems.

# **MOTIVATION OR DEMOTIVATION? A CASE STUDY OF SCHOOLTEACHERS' PERFORMANCE RELATED PAY SYSTEM REFORM IN CHINA**

## **Abstract**

The reform of pay systems in China has received growing attention from scholars over the past two decades. However, despite the great attention given to the business sector in China, one significant category among the pay studies in the Chinese public sector has been missing. In recent years, the Chinese government has started to implement a new wave of reform in the national payment system: performance related pay in the public service units (PSU, “*shiye danwei*”), which form a cluster of public service providers operating alongside core government and separate from other state-owned or state-sponsored organisations. Compared to the extensive discussion of public sector pay in Western countries, there has to date been no academic research on pay systems in the Chinese PSU sector, leaving a significant gap in our understanding of the key changes in and challenges to its human resource management in different organizations. This paper conducted in-depth case studies on the pay system reforms in six state schools, exploring a range of research objectives which draw on motivational theories such as expectancy theory, goal-setting theory, and agency theory. The results indicate that, although the principle of linking pay to individual performance has been well accepted by employees, the introduction of performance related pay in schools does not appear to have achieved the government’s objective of encouraging higher performance but did have other positive consequences such as retaining teachers in rural areas and possibly balancing the teaching resource in the longer run in addition to some unintended outcomes at the same time.

**Keywords:** Performance related pay; Schoolteachers; China

## Introduction

The reform of the pay system in China has received growing attention from scholars over the past two decades (e.g. Jackson and Little, 1991; Peng, 1992; Takahara, 1992; Child, 1994; Warner, 1996, 1997; Yu, 1998; Cooke, 2004 etc.). However, compared to the attention researchers have paid to investigating business sectors (eg., SOEs<sup>4</sup> and FIEs<sup>5</sup>) in China, there has been very little discussion of human resource management or the changes in the types of payment systems used in the Chinese public sector and government organizations, leaving a significant gap in our understanding of the key changes and challenges to human resource management in these organizations. In recent years, the Chinese government has started to introduce a new wave of pay system reforms, focusing on the sector of public service units (PSUs, “*shiyè danwèi*”), which are clusters of public service providers operating alongside the core government, and which are separate from other state-owned or state-sponsored organizations. In 2008, the General Office of the State Council of the PRC announced a three-tier project of performance-related pay (PRP) reform, targeting the PSU sector nationwide. State schools within the compulsory education system were chosen to be involved in the first tier of this reform.

According to this national project, from 1 January 2009, all employees of public primary and junior high schools in China would be paid according to a new PRP system, comprising two parts: fixed pay (termed “basic performance-related pay” under the project), accounting for approximately 70 per cent of the individual’s pay, and flexible pay (termed “encouraging performance-related pay”), which would be linked to the individual’s performance and would account for the rest of their pay. Although, as detailed by various researchers, pay system reforms introducing PRP have been introduced in many organizations in China (Chow, 1992;

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<sup>4</sup> SOEs: State-owned enterprises

<sup>5</sup> FIEs: Foreign-invested enterprises

Child, 1995; DeCieri, Zhu et al., 1998; Ding, Goodall and Warner, 2000; Bjorkman, 2002; Cooke, 2002; 2004; 2005; Bozionelos and Wang, 2007, etc.), very few attempts have been made to explore the application and effectiveness of such changes, especially in the state schools in China, where the implementation of PRP is still controversial. Since there has been no study in the literature to date discussing the implementation of PRP for schoolteachers in China, investigating how the pay system reform has been implemented and how it has worked in different schools, as well as its impact on different employees, will fill an important gap.

The aim of this paper is to explore the above reform in the compulsory education sector in China, focusing on the implementation and impact of PRP among schoolteachers. First, the national policy for the pay system reform for schoolteachers in China will be introduced, illustrating the reform process. Second, a literature review will be presented on the debates concerning PRP for schoolteachers. This will lead to a range of proposed research objectives drawing on motivational theories including expectancy theory, goal-setting theory and agency theory. Then, the research design and the empirical case studies of six state schools in one county in southeast China will be presented, revealing the various impacts the change in pay system has had on different schools. Finally, a discussion and analysis of how well the PRP scheme has worked for the schoolteachers in China will be presented, as well as limitations and suggestions for future research.

## **Background**

In China, a system of nine years of compulsory education has been in place since 1986, when the Compulsory Education Law of the PRC was enacted. According to this law, compulsory education was divided into two stages: primary school education and junior high school education. Once primary education had been made universal, junior high school education

followed (Compulsory Education Law of the PRC, 1986: Article 7). Since then, the number of state schools and schoolteachers employed in them has increased significantly. According to the Ministry of Education (2008), in 2006 there were 341 600 primary schools and 60 600 junior high schools in China, with 5.59 million primary schoolteachers and 3.46 million junior high schoolteachers. On 23 December 2008, “The guide for the implementation of performance-related pay in all schools in compulsory education” (hereafter “the guide”) was released in a State Council executive meeting, officially announcing the launch of a pay system reform for all state schools within the compulsory education system in China. According to the guide, the reason for introducing PRP in state schools was to address the need to better reward teachers for excellence, especially those working in remote rural areas, who had previously been paid much less than those in urban areas. Since the reform would cover all full-time employees within China’s compulsory education sector, the guide specified key principles that all local governments and individual schools should follow when implementing the new PRP system. A brief summary of these principles is given below.

First, all public primary and junior high schools in the compulsory education sector were required to adopt a performance pay system from 1 January 2009. This system was also required to make the average wage of schoolteachers in the local county/city equivalent to the average wage across all levels of civil servants in the local area.

Second, a schoolteacher’s pay would be divided into two parts, “basic performance pay” (*jichuxing jixiao gongzi*) and “encouraging performance pay” (*jianglixing jixiao gongzi*), as described earlier. “Basic performance pay” would be fixed, allocated by the local government, and linked to the individual’s job level and responsibility as well as the local price index, which reflects the state of the local economy. This would account for 70 per cent of the salaries each school would pay its employees, and would be paid monthly. Although

the entire pay system was referred to as PRP, it would be the remaining 30 per cent, “encouraging performance pay”, that would be linked to the employees’ actual performance. Unlike in the case of “basic performance pay”, it would mainly be the responsibility of the individual school to decide how to allocate its “encouraging performance pay” among its employees. Furthermore, the guide stated that this pay should be flexible and allocated according to the individual employees’ performance. However, even though each school was supposed to make the final decision regarding its allocation, the guide also specified some allowances that should be included in this part of the pay. For example, there was an allowance for class tutors, an allowance for teachers in rural areas, and an allowance for overtime teaching, which both the local government and the schools were supposed to take into consideration. The main components of an individual employee’s pay, according to the new system described in the guide, are shown below:

<b>Individual’s pay</b>	=	<b>“basic performance pay”</b>	+	<b>“encouraging performance pay”</b>
(100%)		(roughly 70% fixed, allocated according to the criteria set by the local government)		(the remainder flexible, decided by the individual school, with some allowances required by the government)

Third, the guide also explained how schools should implement performance appraisals. For instance, it was recommended that schools should categorize different positions and responsibilities internally, such as teaching positions, management positions and back office positions. Then, individual employees should be evaluated according to their position and level of responsibility, and the results of the evaluation should be linked to their “encouraging performance pay”. The purpose of this was to make sure those with higher performance would receive higher pay. Although it would be the responsibility of the school to conduct

internal performance appraisals, according to the guide, the local bureau of education was also required to review the appraisals and the setting of pay in each school.

Fourth, employee participation was also emphasized in the guide, especially regarding the decision-making process for the “encouraging performance pay”. For example, it was stated that, after the PRP system had been proposed by the school reform committee—which should include representatives of different groups of employees—details of the new pay system should be published, and passed by a staff vote. In order to ensure a fair reform, the “encouraging performance pay” of the head teacher, who would be in charge of the pay reform within the school, would be kept separate from that of the other employees. The entire package of pay for the head teacher would be decided by the local government, with their performance evaluated directly by the local bureau of education and their “encouraging performance pay” allocated accordingly.

Finally, the guide addressed the issue of the allocation of extra bonuses that had previously occurred in some schools. According to the guide, once the new PRP system had been launched, no extra allowances or bonuses would be allowed, other than the subsidies included in the official PRP system approved by the local government. This was one of the most substantial changes the reform brought about in state schools, and especially affected schools in leading positions in their local areas.

Due to the large student population and the fierce competition in the college entry examination system in China, although students were supposed to attend a school in their local district, every year some schools with better facilities and higher teaching quality would receive many more applications than they could accept. Popular schools with a good reputation for teaching would often charge students from other school districts a “sponsor

fee”. This would vary, depending on the local economy, the competition for places, and sometimes even the social status of the student’s referee. Generally speaking, the more popular the school, the higher the “sponsor fee” would be. Traditionally, part of the fee would be handed to the local government department responsible for education, but usually the majority would be kept by the school, and used as a construction fund and to provide extra bonuses to employees. This system widened the pay gaps between teachers from different schools, and also drove good teachers to teach in schools with higher reputations and thus higher pay.

The ban on all extra subsidies in state schools, specified in the guide, thus sought to balance the teaching quality among schools, by reducing turnover rates among teachers, especially in poorer areas where teachers’ pay was usually lower. According to the guide, once the new PRP system had been introduced, schools would still be able to charge a “sponsor fee” for students from other school districts, but this could no longer be allocated to the employees in any form of pay or allowance, as all employees in state schools would only be able to receive pay through government funding. The consequence would be very minor pay differences between teachers from different schools within an area, as no extra bonuses (outside the new PRP system) would be permitted, even for those teaching in top schools.

### **Literature review—Concerns over using PRP for schoolteachers**

Despite the apparent popularity of PRP in different organizations, as reported in the literature, the empirical evidence for the superiority of PRP is still ambiguous, especially in state schools, where controversial results have been observed (Murnane and Cohen, 1986; Eberts et al., 2002; Lazear, 2003; Marsden and Belfield, 2006; Neal, 2011). In theory, schoolteachers should be among the employees least suited to having their pay linked to performance (Marsden and Belfield, 2006: 1), mainly because the nature of their work is

imprecise and characterized by multiple tasks, which makes their performance difficult to monitor and control (Murnane and Cohen, 1986; Marsden, 2006). However, teachers are expected to respond to incentives inherent in the compensation structure (Lazear, 2003), and in recent decades, it has been common to find schoolteachers' pay systems linked to performance in many countries (e.g., the UK, the US, Israel etc.), although the effectiveness of such PRP schemes is still a controversial matter. A recent review by Neal (2011: 14) shows that most assessment-based performance pay schemes do generate a remarkable increase in student performances, in terms of the particular assessment used to determine the incentive, confirming that teachers do respond to incentives. According to Eberts et al. (2002), PRP can motivate agents to pursue outcomes that are directly rewarded but, when it comes to schools, which are characterized by multiple tasks and outcomes, team production, and multiple stakeholders, PRP schemes may produce unintended and, at times, misdirected results unless the schemes are carefully constructed and implemented. However, none of the samples used in these studies include schoolteachers from China.

Expectancy theory has a number of important implications for this paper's examination of the implementation and impact of the new PRP system for schoolteachers in China. The theory suggests that employees will respond to performance incentives if they value the reward, if they believe extra effort will generate sufficient additional performance, and if they believe that management will reward this (Marsden, 2004). If such opportunity is absent, PRP will be a futile system. In other words, performance pay systems will not work unless employees regard them as fairly designed and operated, and as providing incentives corresponding to their own preferences (Lawler, 1971; Marsden and Belfield, 2004). Thus, it is important to examine whether the conditions of expectancy theory have been fulfilled in the implementation of PRP for schoolteachers in China.

Second, according to goal-setting theory, if employees see the criteria in a PRP system as inappropriate or inapplicable, they will not adopt them voluntarily, and are only likely to do so if their work is closely monitored (Marsden and Belfield, 2004). Goal-setting theory proposes that employees will be more highly motivated if they have goals that they see as specific, challenging, and acceptable (Heneman and Werner, 2005). However, the process of goal-setting in schools tends to be more challenging than in many other sectors, mainly because education services are multifaceted, which can make it difficult to define the specific objectives of a school. Compared to some other sectors, the work of schoolteachers may be more complex, involving several dimensions, some of which may be relatively easy to measure, while others may be much harder. For example, students' test results would be easy to measure but the overall education of a country's future citizens very difficult (Marsden and Belfield, 2006). Such differences in the measurability of different goals may mean that incentives can only be linked to the easy-to-measure outcomes, which may lead to an excessive focus on these at the expense of other tasks (Propper, 2006). Thus, both government and independent schools have to be very careful when choosing the criteria to be evaluated, and may have to "weaken the incentives on more accurately measured tasks" (Prentice, 2007). In the case of the PRP reform for schoolteachers in China, although the link between pay and performance was addressed in the government policy, it included limited instructions about the setting of performance measures. It was left mainly to the individual schools themselves to decide which criteria they would use. Thus another important aspect of this paper was to identify how the individual schools set their performance criteria.

Third, multiple principal-agent situations may exist in schools, which could make the implementation of PRP more complicated. For example, in the UK, the Ministry of Education can be thought of as a principal in relation to the local authorities, as it sets the national education policy and provides a proportion of school funding; local schools are

agents of local governments, and held accountable by them; parents are principals of the school's governing body, as they elect representatives to it, but the governing body is also an agent of the local authority (Levacic, 2009). It is critical when considering different financial incentive schemes to determine how the interests of these multiple principals and agents might be properly aligned. Therefore, another interesting question, given the potential for multiple principal-agent situations, as well as the multi-tasking that goes on in different schools in China, is whether the interests of the different parties were aligned during the pay system reform.

### **Data and research design**

In order to explore the implementation and impact of the pay system reform in the compulsory education system in China, six state schools were chosen from a single county in southeast China (County M), including primary and junior high schools in both urban and rural areas. Table 1 presents the selected case studies. The names of the schools have been omitted to preserve anonymity.

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INSERT TABLE 1 ABOUT HERE  
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Given that this research aims to explore changes in pay systems, which is one of the most sensitive and confidential topics in most organizations in China, semi-structured interviews were used. They provide the flexibility to ask questions about any issues that emerge during the interviews, while keeping the researcher focused within the research boundary (Bernard, 1995). Back-translation of the interview questions, which is recommended in cross-cultural research (Brislin, 1970; 1980), was carried out. The original questions were composed in

English, translated into Chinese by the author and then given to another translator fluent in both Chinese and English to be translated back into English. This new English version was then compared to the original English version and the process repeated until the new English version was grammatically and semantically equivalent to the original version.

Interviewees were selected from the different sample schools on the basis of their knowledge and experience of the pay system reform. In general, the head teacher or a senior teacher with over five years of teaching experience in the school was chosen. They were believed to have the most knowledge regarding the changes to the pay system at their school. All interviews were arranged through personal relationships, usually through an introduction by a close friend who had a good relationship with the interviewee. The nature and purpose of the research was explained to the interviewees by the person making the introduction before an appointment for an interview was made. An appointment was always made before each site visit to a school, to ensure that the interviewee(s) would have enough time to complete the interview. At the start of each interview, the interviewee was again briefed about the nature and purpose of the research, this time by the researcher, and confidentiality was assured verbally. All interview data were recorded through the taking of notes during the interview. Digital recorders were not used because it was decided that, if they were, some respondents might feel less able to talk freely and candidly, especially given the sensitivity of the topic. Moreover, writing down the interviewees' answers gave the researcher time to reflect on them and pursue items of interest by formulating tailored questions.

As well as the key informant(s) in each sample school, government officials in the local personnel bureau and education bureau were also interviewed. This enabled the researcher to obtain adequate information regarding the implementation of the pay system reform in state schools across the local area. A similar approach was adopted for these interviews: an

appointment was made through an appropriate referee, confidentiality was assured, and the semi-structured interview was recorded through note-taking. The researcher was able to gain access to confidential internal government reports at the same time as obtaining feedback from government officials who were involved in the policy making behind the pay system reforms in the county in question. The data sources of each case are presented in Table 2.

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INSERT TABLE 2 ABOUT HERE  
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The data collected from the interviews were analysed through a coding process with different levels. First, the individual interview text was read to gain a sense of the entire system of meaning constructed in the conversation. Second, each interview text was divided into broad categories (e.g., the decision making during the pay system reform, the implementation of the pay system reform, the influence of the new pay system etc.), and these categories were analysed according to their relationships with each other, so as to clarify the pay system reform process as well as the impacts of PRP in each school. Then, these broad categories were subdivided into finer categories, following the research objectives proposed in the research framework (any findings that went beyond the original research objectives were also categorized). This process clarified the specific research questions to be explored in each sample organization. The interviewees in each school included both the head teacher and class teachers. Then, a comparison across different respondents from the same school was conducted, which helped the researcher to better understand the implementation and influence of the pay system reform in each school investigated.

## Results and analysis

It was observed in this research that, when the system was introduced in January 2009, the average pay across all employees of public primary and junior high schools was adjusted in line with the average pay for civil servants in County M, bringing about a significant increase in the average wage in the county's compulsory education system (Table 3).

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Besides the adjustment of the level of pay, there were also notable amendments in the components of pay that the teachers received. Before the PRP reform, various allowances were included in teachers' pay, which usually differed across schools. Since a standardization of allowances was required by the national guide, when the new PRP system was introduced some of the previous allowances were removed; only five were retained in the "basic performance pay" allocated by the local government (Table 4).

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Compared to the standardization of "basic performance pay" in the new system, the distribution of "encouraging performance pay" was much more complicated, as it was supposed to be flexible and linked to the actual performance of the individual. According to the national guide, the "encouraging performance pay" of all employees within the compulsory education system would be decided by the individual schools themselves, except for the "encouraging performance pay" of the head teachers, whose pay would be allocated

by the local education bureau. In County M, the total amount of “encouraging performance pay” allocated to each school was decided by the education bureau, mainly based on the number of full-time employees within the school. Some important features regarding the pay system reform and the impacts of the new PRP systems in the six schools became apparent in the course of this study’s exploration. These features are discussed below.

First, the reform changed the employees’ pay levels by different amounts in different schools. According to a report by the education bureau of County M, the reform led to a significant increase in the average pay of all full-time employees in the compulsory education system in the county (Table 3). However, when individual schools were examined, significant differences could be seen, especially between those in urban areas (Schools A, B and D) and those in rural areas (Schools C, E and F). All three schools located in rural areas experienced an increase in the average pay of their employees, especially in the cases of Schools C and F, whose employees all experienced significant pay rises. Meanwhile, for the three urban schools, the situation was quite different. A small increase in average pay was observed in School B, although the pay for employees in management positions decreased slightly. In School A, the top primary school, and School D, the top junior high school in the county, however, all employees experienced pay cuts, due to the abolition of school-specific bonuses from extra income sources, which had been significant in both schools before the pay reform.

Before the new PRP scheme was implemented, due to imbalances in facilities and teaching quality, state school teachers working in urban areas in County M usually enjoyed higher pay than those in rural areas. This was especially the case for those teaching in top schools, where various extra bonuses would be allocated within the school, funded, for example, as discussed earlier, by the large “sponsor fees” charged each year. Under the reform, the central government banned all school-specific bonuses, stating that schoolteachers’ pay would

henceforth come from government funding only. Thus, although the government budget allocated to the employees of top schools may have increased compared to before the reform, their total annual pay actually decreased under the new system. Furthermore, employees of rural schools actually received higher pay under the new system than their counterparts in urban schools, due to the extra allowance of 2 550 *yuan* per year provided to them. A summary of the changes in average pay at the six sample schools in County M is shown in Table 5.

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The second notable point is that the new system changed the pay gaps between different groups of employees within schools, especially affecting employees in middle-management positions and high-performing teachers. It was found that, in most of the sample schools, those two groups' pay advantages were reduced, as the new pay systems tended to provide a more equal distribution than existed before the reform. As all school-specific funding was abolished in the new system, in Schools A, B, D and E, where extra bonuses had previously been available, the change to a fixed total amount of "encouraging performance pay" for the whole school led to a reduction in the pay gaps between teachers with different performance levels. In Schools C and F, although the percentage pay difference between top-performing teachers and other teachers fell, the actual difference rose slightly because of the significant increase in average pay at the two schools.

Compared to the pay differences between class teachers, those between employees in management positions and class teachers were much more complicated, due to the opaque nature of pay distribution in most schools before the reform. In County M, the increase in

average annual pay across all employees in state schools was 16 383 *yuan*, while that for management positions was only 15 285 *yuan* (see Table 2). As with the pay differences between class teachers, the pay differences between management and class teachers were significantly reduced in Schools A, B, D, and E, but increased slightly in Schools C and F. It could be observed that the more extra income the school received before the pay system reform, the smaller were the pay gaps between different groups of employees under the new PRP system. In other words, in schools where employees previously enjoyed higher income levels due to non-government funding sources, bonuses for high-performers and management were significantly reduced by the reform, especially in the urban schools (A and D), where pay decreased the most.

The third point of note is that, when asked about the scope for improving employees' performance, all of the interviewees, both head teachers and class teachers, believed that employees' performance could be improved in their schools, especially that outside of class teaching. However, despite the general agreement that "those with higher performance should be rewarded with higher pay", they all felt that only very limited bonuses were available under the new system for better-performing staff in their schools. Pre-reform, most of the schools linked a much higher proportion of pay to individual performance. Although one of the government's main purposes in introducing PRP was to encourage employees to achieve higher performance by linking it to individual pay, the actual result of the reform turned out to be the opposite, with a reduced proportion of the total available pay offered to those who performed well, in all of the schools investigated.

The fourth observation is that, in terms of the criteria used to evaluate performance, all of the interviewees said that they did not like the idea of including subjective measurement (e.g., appraisals by supervisors). It was agreed by both the head teachers and the employees that

personal bias should be reduced to a minimum in order to maintain harmony within the school. Thus, when setting their criteria, all six schools chose objective ones. For example, when evaluating the performance of employees in different positions, specific conversion rates would be adopted to compare the teaching hours for different subjects (e.g., different standards were set regarding the minimum weekly teaching hours for Chinese, Maths, English and Science versus those for PE, Art and Music). The workload for management/administrative positions also tended to be converted into standard teaching hours, using specific exchange rates for different positions.

The appraisal systems in the primary schools tended to be less complicated than those in the junior high schools, with the main focus being on the calculation of working hours. The criteria used to evaluate performance included overtime hours, special achievements such as winning awards (the teachers or the students they supervised), as well as negative aspects such as lateness or absence from classes or meetings. Similar exchange rates between the working hours of different groups of employees could be found in the performance appraisal systems of all three junior high schools (School D, E and F), where a more complicated points calculation system was introduced to evaluate performance. Employees in the three junior high schools were evaluated by awarding points for different performance criteria (e.g., class and meeting attendance, number of published papers, number of family visits, achievements of students, etc.), and the total number of points determined the overall performance category awarded (e.g., “excellent”, “eligible”, “just qualified”, and “fail”). This performance category was then used to calculate the amount of “encouraging performance pay” allocated to the individual. Due to these objective criteria, employees could be evaluated with a minimum of supervisor bias. However, most of the interviewees said that the performance appraisal system introduced during the PRP reform was not very different to that used beforehand, with one exception: In School F, the significant increase in pay

following the reform enabled a clarification of the performance criteria, with greater bonuses attached to high performance.

The fifth observation relates to the abolishment of all bonuses from sources other than official government funding. This aimed to end all unofficial charging by compulsory education schools, and thus reduce costs for students and parents. However, due to the traditional imbalance in school facilities and teaching quality, the top schools in County M are still much more popular than other schools in the area. Even under the new pay system, the charging of “sponsor fees” continues, due to the high demand for places at popular schools. School C, a rural primary school, was the lone exception: some related businesses—which had previously been used to gain extra income for the school—were closed down. The price of food in the student canteen was also reduced after the reform<sup>6</sup>, which did support the national policy goal.

The final point refers to the central aim of motivating class teachers to perform well by linking pay to performance. When asked about the impact of the PRP reform on employees’ motivation, none of the interviewees provided positive feedback. Instead, all head teachers and the class teachers interviewed reported reduced motivation among employees, especially among high-performing class teachers and management, whose pay had not increased as much as that of other staff, and had even decreased in some schools. One common problem that many head teachers noted was that employees had started to pay more attention to the fact that their pay was linked to different aspects of their performance, and tended to be less willing to put in effort if there was no allowance (or bonus) attached to a task. This problem was more prevalent among management staff, as the overtime allowance was reduced or abolished altogether in most schools under the new pay system.

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<sup>6</sup> Previously some schools had been using the profit from the canteen to pay their teachers extra.

## **Discussion**

It is suggested that employees' willingness to supply the required effort will depend on their perception of the link between performance and reward (Marsden and Belfield, 2006). According to expectancy theory, if employees do not think they will get the reward even if they perform well, they will have no incentive to do anything other than supply a low level of effort (Marsden and French, 1998). In this study, both the teachers and the head teachers of the sample schools expressed a belief that the performance of the employees in their schools could be improved, especially regarding tasks that go beyond the obligation to teach class. However, due to the fixed amount of total pay allocated to each school under the new pay system, the proportion of pay attached to higher performance was found to have fallen in all of the sample schools, and by a considerable amount in the popular schools. Due to the previously imbalanced distribution of teaching resources, some schools were more popular than others before the reform because of their reputation for good teaching (e.g., a high percentage of experienced teachers or better teaching facilities). For state schools in China, the traditional "sponsor fee" charging system provided extra funding for popular schools, and part of this income was used to provide extra bonuses to employees before the pay system reform. This study found that, before the reform, state schools in China were more flexible when setting internal bonuses, and teachers who achieved higher performance or employees who took on extra workloads (e.g., organizing events, being on-duty during vacations) usually received bonuses for the extra efforts they had made. However, following the reform, no non-government funding was allowed, causing a significant drop in the amount of pay attached to higher performance or extra workloads in many schools, especially in popular schools that had previously granted large bonuses. This suggests that the conditions for an effective PRP system (as set out by expectancy theory) were not fully met in this case, due to the limited amount of pay made available for those who perform well.

Also, in the literature on PRP for schoolteachers, it is suggested that education may have many goals but the “public’s most immediate concern in educating its children is to provide the skills necessary to ensure a productive populace” (Lazear, 2003: 183). This is the goal that the compulsory education sector in China aims to achieve. However, in this research, differences in goal setting were noticed between the primary and junior high schools, mainly due to the different graduation systems for primary and junior high school students. Under the compulsory education system in China, graduates from primary schools are automatically allocated to a junior high school in their local area, while graduates from junior high schools must take the high school entrance examination in their county/city and then apply to certain high schools according to their examination results. This difference was found to influence the goal setting in the two types of school significantly. No performance criteria based on students’ exam results were included by the primary schools, while the junior high schools did include such criteria, making their systems much more complicated. These differences in goal setting seem to have played an important role in the implementation of the new PRP system. For example, the only link to pupils’ academic performance in the new pay systems at the three primary schools was a small bonus granted to teachers of students who received certain awards. The new systems adopted in all three primary schools were mainly input-based, focusing on workload and attendance rate. In the junior high schools, the new systems were much more complicated. Employees’ performance would be evaluated according to different criteria, with specific points awarded or deducted for each category of performance (e.g., a detailed conversion rate was introduced between the working hours of teachers of different subjects, with points awarded for different workloads, or deducted if a teacher failed to attend certain activities/meetings). Although employees’ working hours were used as the main criteria in all three junior high schools, students’ academic performance (e.g., exam results) was also considered important. It was also observed that the performance evaluation

systems introduced in all of the sample schools were mainly based on objective criteria, with subjective measurement reduced to a minimum. Thus, although the “performance appraisal committee” was in charge of employees’ performance evaluations, the employees’ performance would mainly be evaluated according to specific objective measurements, and the supervisor would have limited involvement in the appraisal process.

One possible problem with applying PRP in schools is that employees may “put their effort into maximizing the measurable one [task] at the expense of the unmeasured one” (Lazear, 2003: 194; also see Marsden and Belfield, 2006, and others). During the pay system reform for schoolteachers in County M, the bureau of education was the principal in relation to the local authorities, as the county government set the guidelines for all schools in the area, and provided full funding for each school under the new system; the local schools were agents of the local government and were held accountable by them, while individual schools also acted as principals when managing their employees internally. Due to these multiple principal-agent situations, a moral hazard problem was observed during this research, with all head teachers interviewed remarking that staff had started to focus more on the measurable criteria in their performance, while reducing their effort in areas not included in the appraisal criteria under the new scheme. This problem is due to the fact that a fixed total amount of pay is allocated to each school and to the objective criteria used to measure performance under the new system. It was observed that, after the pay system reform, most schoolteachers tended to be more interested in finding out which activities would be linked to their pay.

This study also found that, before the pay system reform, teachers were more willing to work hard in order to gain respect from colleagues, students and parents, and pay was not the main consideration when putting extra effort into teaching. However, due to the aspects mentioned above, money has now become a more important issue. Teachers are now less willing to

work beyond the requirements of their job, especially when such efforts will not count towards their salaries. This finding is consistent with the prediction of cognitive evaluation theory (Deci, Koestner et al., 1999), which states that unexpected tangible rewards, awarded after performing a task, tend not to affect intrinsic motivation towards the task (before the reform, teachers paid less attention to the money they would gain for performing extra tasks due to the flexibility of the pay system), while in most situations expected tangible rewards significantly undermine intrinsic motivation based on free choice (teachers have started to pay more attention to whether extra tasks will be linked to their pay under the new system, as wages are more fixed). Therefore, although the reform was aimed at better motivating employees, it can be observed that the emphasis on linking pay to performance has only made teachers pay more attention to the money they receive. Scholars have warned that using simplistic measures of performance can easily bias performance towards tasks that are more easily measured and away from the, equally important but harder to measure, qualitative aspects of a person's job (Holmstrom and Milgrom, 1991; Marsden and Belfield, 2006, etc.). This research also confirms that, under the new PRP system, although gaining the respect of students and parents is still a major consideration for many teachers, especially those in the top schools, most schoolteachers do seem to be less willing to put in extra effort if they know it will not alter how much they are paid.

Moreover, it was also observed that, despite the differing views between the head teachers of the primary schools and the junior high schools, the pay systems eventually introduced in all sample schools tended to be more egalitarian, mainly so as to maintain harmony during the reform process. Comparing the pay systems before and after the reform, both head teachers and teachers reported that employees were more tolerant towards pay gaps before the reform because schools had more flexibility in allocating bonuses and paying high-performing employees more did not reduce the average pay of the other staff. However, once the new

standardized pay system was introduced, if some employees received higher bonuses, other teachers would receive less pay overall, due to the fixed amount of total “encouraging performance pay” allocated to each school. Such conflicts tended to be fiercer between senior class teachers and middle management, as both believed they should achieve above-average pay within the school, but this could not be achieved without reducing the pay of other staff.

## **Conclusion**

The findings from the case study presented in this paper suggest that, due to the nature of compulsory education, the initial system of implementing PRP was almost bound to be flawed due to the multiple aims of the reform. The new pay systems introduced in all six sample schools have turned out to be more input than output-based, more egalitarian than previously, with smaller bonuses/allowances attached to high performance and extra workloads, and have failed to align the interests of the schools and the teachers. However, it should also be noted that, although the new PRP systems implemented in the individual schools have failed to achieve the initial aim of motivating employees to perform better and have had a negative impact on workplace relations and cooperation, the pay system reform has fulfilled some of the original goals of the national policy, by improving average schoolteachers’ pay, clarifying the setting of pay in individual schools, reducing some of the unnecessary charges for compulsory education, and retaining teachers in rural schools where turnover was previously high. The case study conducted for this research has provided an insight into the pay system reform. By exploring its implementation in individual schools and its impact on employees, this paper has shed light on the reform, and contributed to the research gap regarding how well-suited PRP is to the education sector in China.

Notwithstanding the contributions made by this research, it does have some unavoidable limitations. First, the case study approach with a small number of samples has the restriction of a possible lack of generalizability of the research results to other state schools in different locations in China, due to the limited number of respondents. According to Cooke (2009: 17), one of the most important reasons for the lack of studies on public sector and government organizations in China is the difficulty of gaining access, with many of those conducting research in China noting that access to research informants and organizations is often the biggest hurdle. Given the sensitivity and confidentiality of pay system issues, only a small number of key informants were interviewed in each organization; they were senior employees with no threat to their jobs or other risks incurred by taking part. Future work would ideally use a larger sample size in order to increase the generalizability of the findings. Second, hidden contextual variables may underlie this research due to the case study approach adopted, and future research may be able to explore the broader contextual impacts of different changes in pay systems across the education sector in China by conducting a large-scale survey and applying quantitative analysis. Alternatively, based on the findings identified in this research, further issues regarding the changes in the pay systems and the implementation of PRP in state schools in China could be explored, such as the validity of tournament theory regarding the changes in internal pay gaps, the influence of Chinese culture (e.g., the importance of “*face*”) on pay distribution, and a comparison of the implementation of PRP in state schools in China to cases from other countries.

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**Table 1: List of selected schools**

<b>Case</b>	<b>Primary/Junior High</b>	<b>Urban/Rural</b>	<b>Official start of PRP system</b>
<b>School A</b>	Primary school	Urban	1 January, 2009
<b>School B</b>	Primary school	Urban	1 January, 2009
<b>School C</b>	Primary school	Rural	1 January, 2009
<b>School D</b>	Junior high school	Urban	1 January, 2009
<b>School E</b>	Junior high school	Rural	1 January, 2009
<b>School F</b>	Junior high school	Rural	1 January, 2009

**Table 2: Data sources in each case**

<b>Case Category</b>	<b>Case</b>	<b>Interviews</b>	<b>Documentation</b>
<b>State schools in the National Compulsory System</b>	<b>School A</b>	<ul style="list-style-type: none"> <li>• Head teacher (2.5 hours)</li> <li>• 1 senior teacher (2 hours)</li> </ul>	N/A
	<b>School B</b>	<ul style="list-style-type: none"> <li>• Head teacher (2 hours)</li> <li>• Deputy head teacher (1.5 hours)</li> <li>• 2 senior teachers (1.5 hours each)</li> </ul>	N/A
	<b>School C</b>	<ul style="list-style-type: none"> <li>• Head teacher (2 hours)</li> <li>• 2 senior teacher (1 hour each)</li> </ul>	<ul style="list-style-type: none"> <li>• Details of school PRP regulations (see Appendix 5 Sample A)</li> </ul>
	<b>School D</b>	<ul style="list-style-type: none"> <li>• Head teacher (1.5 hours)</li> <li>• 2 senior teachers (1.5 hours each)</li> </ul>	<ul style="list-style-type: none"> <li>• Details of school PRP regulations (see Appendix 5 Sample B)</li> </ul>
	<b>School E</b>	<ul style="list-style-type: none"> <li>• Head teacher (3 hours)</li> <li>• 1 senior teacher (1.5 hours)</li> </ul>	<ul style="list-style-type: none"> <li>• Details of school PRP regulations</li> <li>• Pay sheets for all schoolteachers (before vs. after)</li> </ul>
	<b>School F</b>	<ul style="list-style-type: none"> <li>• Head teacher (3 hours)</li> <li>• 1 senior teacher (1 hours)</li> </ul>	<ul style="list-style-type: none"> <li>• Details of school PRP regulations</li> <li>• Individual pay sheets of the head teacher</li> </ul>
	<b>Local Government</b>	<ul style="list-style-type: none"> <li>• Head of personnel bureau (2.5 hours)</li> <li>• Head of education bureau (3 hours)</li> <li>• Official from education bureau (2 hours)</li> </ul>	<ul style="list-style-type: none"> <li>• Government policy regarding the schoolteachers' PRP reform (national, provincial and local government policies/guidelines)</li> <li>• Government annual report (from city education bureau)</li> </ul>
	<b>National Government</b>	<ul style="list-style-type: none"> <li>• Department head, Employment and Wage Research Centre, Ministry of Human Resources and Social Security of the PRC</li> </ul>	N/A

**Table 3: Average pay for PSU employees in the compulsory education system in County M<sup>7</sup> (unit: yuan/year)**

	Before the PRP reform	After the PRP reform	Change	Percentage change (per cent)
Average wage of all employees	44 712	61 095	16 383	36.6
Average wage of head teachers	48 716	69 301	20 585	42.2
Average wage of employees in management positions	46 793	62 078	15 285	32.7
Average wage of schoolteachers	44 336	60 806	16 470	37.1
Allowance for schoolteachers in rural areas	2 550	2 550	0	0
Allowance for class teachers	1 440	3 600	2 160	150

*Source: Internal report from education bureau of County M, 2010*

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<sup>7</sup> Based on the official statistical report from the local education bureau of County M. However, employees in popular schools may have received extra bonuses outside of government funding before the pay system reform. This tended to be a grey area and would never have been calculated in government statistical reports.

**Table 4: Components of individuals' fixed pay in the compulsory education system before and after the PRP reform in County M.**

<b>Components of individuals' fixed pay</b>	<b>Before PRP reform</b>	<b>After PRP reform</b>
Basic pay	<ul style="list-style-type: none"> <li>• Position pay</li> <li>• Benchmark pay</li> <li>• 10 per cent of basic pay</li> </ul>	<ul style="list-style-type: none"> <li>• Position pay</li> <li>• Benchmark pay</li> <li>• 10 per cent of basic pay</li> <li>• Adjustment for teachers in rural areas</li> </ul>
Seniority pay for teachers	<ul style="list-style-type: none"> <li>• Allowance based on teaching experience and ranking of teaching certificate</li> </ul>	<ul style="list-style-type: none"> <li>• Allowance based on teaching experience and ranking of teaching certificate</li> </ul>
Allowances	<ul style="list-style-type: none"> <li>• Province-standard allowance</li> <li>• Welfare allowance</li> <li>• Price-index allowance</li> <li>• Meal-delay allowance</li> <li>• Cost-of-living allowance</li> <li>• Head teacher allowance</li> <li>• Rural teacher allowance</li> <li>• Position allowance</li> <li>• Appraisal allowance</li> <li>• Attendance allowance</li> </ul>	<ul style="list-style-type: none"> <li>• Position allowance</li> <li>• Cost-of-living allowance</li> <li>• Seniority allowance</li> <li>• Class teacher allowance</li> <li>• Rural teacher allowance</li> </ul>

*Source: Internal report from education bureau of County M, 2010*

**Table 5: Changes in average pay in the six case schools in the compulsory education system in County M**

	School A	School B	School C	School D	School E	School F
<b>Category</b>	Primary	Primary	Primary	Junior high	Junior high	Junior high
<b>Location</b>	Urban	Urban	Rural	Urban	Rural	Rural
<b>Popularity of the school in the local area</b>	Most popular	Very popular	Less popular with no charging of a “sponsor fee”	Most popular	Popular	Less popular with no charging of a “sponsor fee”
<b>Change in average pay</b>	Small decrease	Small increase	Significant increase	Significant decrease	Small increase	Significant increase