

## Influence of Internal Factors of the Enterprise on the Performance-Based Pay for Employees



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**ABSTRACT:** This paper is conducted to investigate the influence levels of internal factors of the enterprise on the performance-based pay for employees in State-owned enterprises in Hanoi. Data were collected from getting 120 questionnaires from board of manager, head of Human Resources (HR) administration and HR administrative staff in State-owned enterprises in Hanoi. Based on the data collected, the author use descriptive statistics analysis, cronbach Alpha analysis and Independent T-Test for knowing the influence levels of each independent variable on dependent variable of the performance-based pay for employees. The results show that five internal factors of the enterprise including: production and business characteristics of enterprises; business development strategy; employees; the company's salary payment perspective; and personnel in payroll department have relationships with the performance-based pay for employees. Based on the findings, some recommendations are given for improving wages of employees to ensure the sustainable development of enterprises.

**KEYWORDS:** internal factors, wages, employees, performance.

**JEL codes:** E64, P46, J31

### 1. INTRODUCTION

Performance-based pay (P3) is a way of paying wages based on an employee's level of performance (Singh & Loncar, 2010). The method of paying labors according to work performance is a method of calculating and paying wages to employees based on their individual or group achievements; the salary of each person depends on the work results and productivity of the individual or of the group (Tuoi, 2015).

The P3 method is becoming increasingly popular and is an important element in the compensation system of many companies. However, the implementation of this method still faces some limitations. P3 can cause employees to take advantage of the compensation policy for their self-interest and lead all employees' efforts to activities that directly bring rewards, which negatively impacts other important tasks of the business. In many enterprises that have implemented 3Ps systems, workers often complain about the fairness and sensitivity of the P3 method. P3 can inhibit the creativity and innovation of employees, making them afraid to implement bold ideas for fear of affecting work efficiency and being punished. Applying P3 without non-financial compensation can erode endogenous motivation and employees' satisfaction, leading to a decline in labor productivity and profit.

State-owned enterprises are economic organizations in which the State owns the entire charter capital or shares, and is a limited liability company (National Assembly, 2003). Enterprises with 100% charter capital owned by the State are considered as State-owned enterprises, instead of only 51% as later. Currently, many State-owned enterprises in Hanoi have applied the 3Ps salary, whereby, the employee's salary includes: Basic salary (salary based on job position, job title), competency-based salary and work-performance-based salary. However, this salary payment method of enterprises still has many shortcomings.

Expectancy theory of Vroom (1964) states that, when managers set goals, employees always expect that they will achieve what the manager has set. However, in order to take advantage of this expectation, three requirements must be met: (i) The objective must be achievable; (ii) The reward must be visible; and (iii) The reward must be as worthy as the efforts that employee makes. Besides, Adam's equity theory (1963) affirms that when employees are rewarded, they will compare the rewards received with two things: (i) their efforts spent on the work, and (ii) other employees' rewards; they always expect their rewards meet both of the above criteria.

From the above reasons, it is necessary and meaningful to study the influence of internal factors of the enterprise on the performance-based pay for employees.

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## **2. THEORETICAL BASIS OF INTERNAL FACTORS OF ENTERPRISES**

### **2.1. Production and business characteristics of enterprises**

The production and business characteristics of the enterprise affect the evaluation of the work performance in the enterprise. If the enterprise's production and business activities are in the field of using expertise and high technology, the assessment of the work performance of employees uses more qualitative criteria, especially for employees who are paid by time, and the salary paid for this type is more attractive. For enterprises that use a lot of manual labors and specialize in field such as garment, footwear, processing and recycling, more quantitative indicators can be used and wages are also lower. Thus, depending on the characteristics of production and business, enterprises choose appropriate methods and criteria for evaluating job performance.

### **2.2. Business development strategy**

The development strategy of the enterprise determines the human resource policy of the enterprise, and concretizes policies in using and developing human resources. Human resource policy governs salary payment in each period of business development: In the newly established stage, in order to stabilize personnel, the salary payment method usually focuses mainly on P1 (pay based on job position); in the period of production and business stability, in order to increase labor productivity and quality of work, enterprises would focus on P2 and P3 (pay based on the capacity of employees and the results that they make). In the period of production scale expansion, the salary policy is aimed at attracting human resources by increasing the salary, remuneration, etc. for core positions.

### **2.3. Employees**

Employees are directly affected by the salary regulation, so the interaction with employees is very important in implementing 3Ps payment system as well as creating consensus when applying this system. Through polling employees, the management department knows the advantages and disadvantages of the current salary mechanism and the problems that need to be overcome, the employees' desires, aspirations, and views on the fairness, transparency and reasonableness in salary payment; Enterprises can use communication so that their employees may better understand the nature and benefits of the 3Ps salary system and be willing to cooperate in planning salary policy development; Through surveys, questionnaires, management tools, etc., necessary information will be collected from employees and be used for the construction of the salary scale and salary regulation in general and 3Ps in particular.

### **2.4. The company's salary payment perspective**

The managers' point of view in salary payment is very important, it determines the effectiveness of the salary mechanism in the enterprise. If business leaders consider salary as an investment, always pay attention to salary issues and are willing to "invest" in salary to realize the economic goals of the business, it will create favorable conditions for employees. In this case, the salary based on job performance is reasonable and appropriate, strengthens the role of salary in promoting job performance. On the other hand, if the leader only focuses on profit, does not pay attention to salary, considers salary as a production cost and wants to reduce this cost as much as possible, it will make the construction, implementation and completion of salary system difficult. Therefore, the perspective of business leaders will determine the development of human resources, salary fund, and the effectiveness of the enterprise's salary system.

### **2.5. Personnel in payroll department**

Personnel in payroll department are the people who directly implement the steps in the construction, application, adjustment and modification of the salary payment in accordance with the work performance to suit the actual situation. Therefore, the size and capacity of this department have a great influence on the effectiveness of the salary payment process.

If personnel work in the payroll department is large in amount, but is not professional, it will be difficult to develop and apply a suitable salary regime for the enterprise. If the company's human resources in payroll department are highly qualified, meeting the job requirements, but is lack in quantity, the construction and calculation of salaries for employees are not guaranteed and may occur some errors. Because when one person has to undertake too much workload, the work efficiency is not high. If the enterprises have personnel that can both meet the requirements of the job (have specialized qualifications), and maintain a reasonable labor size, then surely the salary system of the enterprises will maximize their advantages, ensure fairness, create motivation for employees, and help stabilize production and business activities, maximize profits.

## **3. METHODOLOGY**

In order to achieve the objectives of this paper, the author based on the theory of previous studies.

Then, we conducted a questionnaire consisting of 5 observation variables (table 1) with a 5-point Likert scale; from 1 "without effect" to 5 "strongly". The method of data collection was done through the survey and subjects are board of manager, head of

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Human Resources (HR) administration and HR administrative staff in State-owned enterprises in Hanoi.

The author sent 150 questionnaires and received the feedback of 130. After checking the information on the votes, there are 120 questionnaires with full information for data entry and analysis, the size of this sample is consistent with study of Hair et al. (1998) ( $n = 50 + 8 \times m = 50 + 8 \times 5 = 90$ ). Therefore, the rest of observations for analysis are 120 surveys.

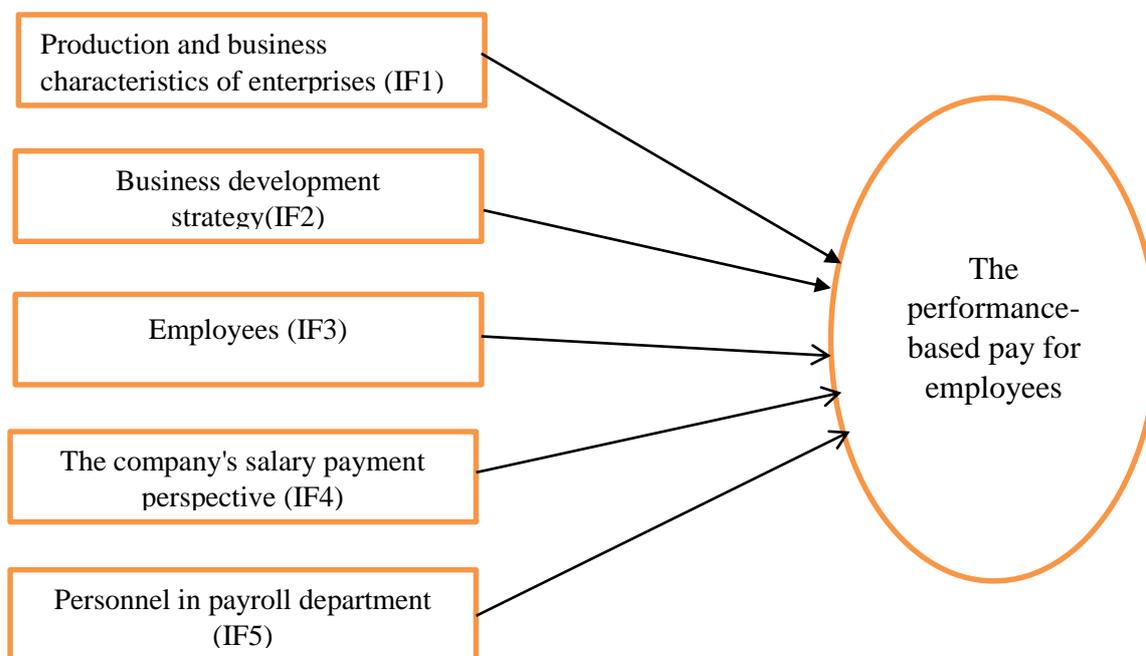
The author employ descriptive statistics analysis, cronbach Alpha analysis and Independent T-Test to determine the influence of internal factors of the enterprise on the performance-based pay for employees.

**Table 1: Observation variables of internal factors of the enterprise**

Code	Variables
<b>Internal factor (IF)</b>	
IF1	Production and business characteristics of enterprises
IF2	Business development strategy
IF3	Employees
IF4	The company's salary payment perspective
IF5	Personnel in payroll department

### Research model

From the above analysis, the author design a research model



**Figure 1. Research model**

## 4. RESEARCH RESULTS

### 4.1. Descriptive statistics

Information of data collected is shown in Table 2. It shows that among the 120 respondents, about 45.0% were male while the remaining 66 (55.0%) were female. Of these, 33 of them (or 27.5%) were board of manager, and 30.8% of the participants were head of HR administration, while the remaining 50 (41.7%) were HR administrative staff. Among the respondents, 51.7% of the participants have work experiences for 5 years or less, and over 5 years accounted for 48.3%.

**Table 2. Respondents by gender, job description, work experience**

	Frequency	Percent	Cumulative Percent
<b>Gender</b>			
Male	54	45.0	45.0
Female	66	55.0	100.0

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Job description			
Board of manager	33	27.5	27.5
Head of HR administration	37	30.8	58.3
HR administrative staff	50	41.7	100.0
Work Experience			
To 5 years	62	51.7	51.7
Over 5 years	58	48.3	100.0
<b>Total</b>	<b>120</b>	<b>100.0</b>	

Next, Table 3 indicates that the respondents agree with the observed variables of “the influence of internal factors of the enterprise on the performance-based pay for employees” where five (5) attributes were quite high with an average of 3.83 compared with the highest of the Likert 5-point scale. All 5 attributes were rated at an average of 3.78 or higher.

**Table 3. Descriptive analysis of attributes**

	N	Minimum	Maximum	Mean	Std. Deviation
IF1	120	2.0	5.0	3.78	.557
IF2	120	2.0	5.0	3.87	.549
IF3	120	3.0	5.0	4.04	.627
IF4	120	2.0	5.0	3.83	.694
IF5	120	2.0	5.0	3.64	.591
Valid (listwise)	N 120			<b>3.83</b>	

### 4.2. Cronbach's Alpha

The influence of internal factors of the enterprise on the performance-based pay for employees have been measured by the Cronbach's Alpha. Results of testing Cronbach's alpha of attributes are presented in Table 4 below. The results also show that attributes of the observed variables have Cronbach's Alpha coefficients that are greater than 0.6; and the correlation coefficients of all attributes are greater than 0.3. So, all the attributes of the observed variables are statistically significant (Hair et al, 2010; Trong & Ngoc, 2008).

**Table 4. Results of Cronbach's Alpha Testing of Attributes**

	Scale Mean if Item Deleted	Scale Variance if Item Deleted	Corrected Item-Total Correlation	Cronbach's Alpha if Item Deleted
Internal factor (IF): Cronbach's Alpha: .777				
IF1	15.38	3.362	.577	.728
IF2	15.28	3.566	.474	.760
IF3	15.11	3.291	.513	.749
IF4	15.33	2.843	.652	.698
IF5	15.51	3.328	.544	.738

### 4.3. Independent T-test

Comparison of the results of the evaluation of the influence of internal factors of the enterprise on the performance-based pay for employees between participants have work experiences for 5 years or less with those over 5 years can be seen in Table 5. According to the results shown in Table 5, Sig Levene's Test is 0.765; which is more than 0.05. The variance between the two 5 years or less and over 5 years work experiences is not different. Moreover, Sig value T-Test = 0.954 > 0.05, which means that there is not, statistically, significant difference in the level of the influence of internal factors of the enterprise on the performance-based pay for employees from these different work experiences (Hair et al, 2010; Trong & Ngoc, 2008).

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**Table 5. Differences of internal factors of the enterprise on the performance-based pay for employees between participants 5 years or less work experiences and over 5 years work experiences - Independent 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
IF	Equal variances assumed	.090	.765	.058	118	.954	.00467	.08081	-.15535	.16470
	Equal variances not assumed			.058	113.549	.954	.00467	.08117	-.15613	.16547

## 5. DISCUSSION AND IMPLICATIONS

### 5.1. Production and business characteristics of enterprises

State-owned enterprises (SOEs) in Hanoi are diverse, working in many different industries, such as: agriculture and processing, printing, electricity, post and telecommunications, water, business, trade, production, etc. Due to the characteristics of production and business lines, the nature of work and technological processes of these enterprises are diverse, so the objects of labor used are also very diverse. Therefore, the salary scale system used in these enterprises also includes many types, grades to suit each type of worker and ensures that the salary scale reflects the true value of the job.

It is the diversity of industries and scope of activities that have significantly influenced the construction of the salary scale in these enterprises. For enterprises specializing in commercial business, the type of labor is less diverse, the nature of the work is not too complicated, then the construction of the salary scale is less difficult. For enterprises in the manufacturing sector, especially those with complex production technology processes, using many types of workers, great workload, etc., the construction of the salary scale is also more complicated.

In recent years, when converting the operating model from a State company to a one-member limited liability company owned by the State, it has gradually eliminated weak enterprises that operate without effectiveness. This helps improve the efficiency of the State's investment capital, increasing revenue for the national budget. The performance of state-owned one-member limited liability companies not only contributes to the benefit of the State, but also improves and enhances the financial capacity of the company. Since the transformation of operating models, the large State Corporations and State-owned one-member limited liability companies have continuously grown well. This is due to positive changes in the perception and working style of business leaders. Leaders of enterprises know how to well grasp the opportunities gained from economic integration, so many state-owned companies when transforming their operating models have achieved many successes such as: Mobifone, Vietnam Maritime Corporation; Hanoi Housing Development and Investment One Member Limited Liability Company, Vietnam Oil and Gas or Vietnam Coal-Minerals. Although there are no complete statistics on the performance of all one-member limited companies owned by the State, but their position in the market and the living standards for workers at these companies has shown that.

The results of the authors' interview with 10 state-owned companies in Hanoi show that 80% of these companies have effective business, profit growth and good salary fund. The good financial capacity of the company is a favorable condition for building a reasonable salary system that is in accordance with the State's regulations and ensures competitiveness in the market.

### 5.2. Business development strategy

In Vietnam, SOEs only account for about 0.07% of total operating enterprises, but account for 7% of total assets and 10% of equity of all enterprises in the market, contributing more than 29% of GDP of the country. Vietnam's SOEs are occupying a huge market share in a number of fields such as energy, telecommunications, banking.

SOEs focus on developing science and technology through investment, technology procurement, participation in buying shares of foreign projects that have developed leading technology. At the same time, SOEs develop as an innovation center, building an ecosystem and forming a value chain for other economic sectors to follow and develop.

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### **5.3. Employees**

The 3Ps salary improvement project has an important and broad impact on the motivation and performance of enterprises. Operating an effective 3Ps salary system will determine the implementation and control of the strategy, evaluation, classification of staff, screening and compensation of individuals who create real value for the development of the company. With such importance, it can be seen that the success or failure of the new salary system is a key factor determining the success of the enterprise in the new period. Therefore, the commitment of the leaders in implementing the new salary system effectively is essential. Experience in implementing 3Ps salary projects at state-owned enterprises shows that only enterprises that have managers who are committed to implementing and directly participate in the implementation process, work with consultants and development teams, and make timely decisions to handle problems in the process, have a chance to succeed.

If SOEs immediately implement the 3Ps salary system, it can create great disturbances in the psychology of employees, which can create negative effects and in some cases may lead to system breakdown. system. Therefore, these SOEs should apply the 3Ps salary system in the following order: (i) Phase 1 – Comprehensively review the organizational system, functions, duties, and job descriptions of every department; (ii) Phase 2 - Build a control system using KPIs, thereby forming a salary mechanism based on work performance (P3); (iii) Phase 3 – Build a title system to determine salary (P1); (iv) Phase 4 – Develop a capacity assessment system, aiming at completing (P2) in salary payment system.

### **5.4. The company's salary payment perspective**

The necessary condition for successful implementation of P3 is that enterprises must build a fair, accurate, scientific and effective performance evaluation system. Research by consulting organization Mercer (2005) suggests that in order to effectively implement P3, enterprises need to design annual salary and bonus plans, which focus on the employees' motivation, increasing the proportion of variable salary in the salary structure, and building long-term salary and bonus plan.

Changing and perfecting the salary and bonus system has a decisive meaning to the performance of enterprises because the salary system directly affects the motivation of employees. It is, therefore, very important to choose a plan with a suitable method and roadmap to implement 3Ps salary. Given the characteristics of state-owned enterprises, which are still under the influence of the subsidy mechanism, labor productivity is generally lower than that of non-state enterprises. A large number of businesses still maintain the method of paying wages based on working days, norms, seniority, and degrees. Not many businesses pay salary based on work performance.

SOEs in Hanoi need to define a reasonable goal for the implementation of the salary system, avoid embracing too many goals, or setting goals that are different to the nature of the salary system. Note that the major goal of wage reform is to make the system more transparent, clear, fair and efficient. Reform for sustainable development, reform so that employees feel confident, proud, and motivated to work better, create more value. In addition to the goal, it is necessary to clarify the subject and scope of application. First and foremost, the 3Ps salary is efficient when being applied to the back-office department and managerial department. Therefore, depending on the context in which the enterprise will determine the scope and subject of application, it is not necessary to apply the system to the entire system at the same time. In addition, always keep in mind that the reform of the salary system will directly affect the income of each individual, so when setting up the salary mechanism implementation committee, it is necessary to include representatives of all departments – the person who is knowledgeable about the work he is in charge of and is responsible for protecting the interests of all members of his department - and especially indispensable key members who are the General Director (who can make the last decisions at the company) and Head of Human Resources (or Head of Organization, depending on the company).

### **5.5. Personnel in payroll department**

Personnel in payroll department is one of the decisive factors for the effectiveness of salary policies in enterprises. Currently, in SOEs in general and SOEs in Hanoi in particular, the human resources department in charge of salary has relatively high qualifications. The survey results at SOEs in Hanoi by the author show that 100% of employees making the payroll have university degrees or higher. However, not all of them major in this job. The detailed results are in Table 6 as follows:

**Table 6: Survey results on professional qualifications and suitability with studying majors of personnel in payroll department**

<b>No.</b>	<b>Content</b>	<b>Ratio (%)</b>
<b>1</b>	<b>Professional qualifications</b>	<b>100</b>
	Postgraduate degree	20
	University degree	80
	College and lower degree	0

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2	Suitability with studying majors of personnel in payroll department	100
	Totally suitable	40
	Not suitable	60

*Source: Survey results of the author*

For personnel working in payroll work, despite having participated in short-term training courses on salary, not being trained in the right profession is one of the most critical challenges when creating the enterprise's salary scale. Personnel working in payroll work must be intensively trained in this field to have the necessary knowledge and skills to perform well the stages and steps to build and complete the salary scale in accordance with characteristics of enterprises, so that it complies with State regulations and is still competitive. This is also a limitation that affects the building process as well as the quality of the salary scale of these companies.

The author observes at large-scale SOEs in Hanoi, there are from 3 to 5 employees working in payroll; some enterprises have separate human resources and salary departments, but many businesses combine those departments. In small and medium-sized enterprises, there are usually 1 to 2 employees doing salary work. However, there are a few enterprises that are relatively large-scaled, with thousands of employees, but only have one person doing payroll. For these enterprises, when applying the available salary scale of the State, having one person doing wage work is not an obstacle. But when the regulations of the State changed, specifically from 2013, the State required enterprises to rebuild the salary scale by themselves, this became a big obstacle.

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