



Reward Strategy in Chinese IT Industry

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Abstract

The essay identifies the reward strategies of Huawei, Haier and Lenovo the three Chinese top IT companies. Although the reward strategies are varied, the evidence gathered supports the essay that reward strategies adopted by the Chinese top IT companies is the reason for their success. In exploring the process of causality, two broad opinions are produced by comparing the reward strategies between different IT companies.

Keywords: Reward strategy, IT industry

1. Research Findings

1.1 Huawei Reward Strategy

Among Huawei 30,000 employees worldwide, R&D: 48%, over 14,500; Marketing, Sales and Customer service: 38%; Supply Chain: 8% and Administration: 6% (see Figure 1.1). 90% of employees hold bachelor's degree or higher (Wu, et al 2005).

<Insert Figure 1.1 here>

Base Pay

The company has been implementing a high salary policy since the early 90's. In 1996, Chinese average salary of new graduates was lower than RMB 2,000. But monthly salary of undergraduates in Huawei was RMB 6,000, and graduates RMB 8,000 (Yin, 2005). The starting salary for an engineer is about \$6,600 one year, and its top performers earn up to about \$22,000. The salary of managers is continually changing.

Long-term Incentives

Huawei pursues the strategy of 'knowledge capitalization'. Although it isn't a listed company, employees can hold stock options. Company stock options structure is: 30% of excellent employees share; 40% of skeleton employees scale to share; 10-20% of general employees properly share (Wu, 2004). The stock options of employees may be dynamic adjusted in term of talent, responsibility, contribution, job attitudes and risk recognition.

Performance-Related Pay

Huawei emphasizes result oriented in performance management and strives to build up a self-motivated, self-improving mechanism. Through continuously setting goals, coaching, appraising and communicating, managers help employees to improve their performance and capability (see Figure 1.2).

<Insert Figure 1.2 here>

In the process of performance management, Huawei has also set up a very strict result-oriented assessment system, through which the pressure is passed from top to low level. As a result of this system, 3-5% of its employees are laid off annually, and it is a common practice at Huawei that one's salary will be cut due to his/her poor performance, which is well acceptable to Huawei people (Jia, 2005).

Employee Training and Development

According to different position requirement, Huawei sets up varied training systems (see Figure 1.3). All employees can enter training system to learn training course.

<Insert Figure 1.3 here>

Huawei provides a dual career development path to the employees. Employees can choose an appropriate career path for themselves according to their characteristics and reach their career plans (see Figure 1.4).

<Insert Figure 1.4 here>

1.2 Haier Reward Strategy

Haier has 51,000 full time employees and hires 175,000 contract service personnel, providing a total of 230,000 opportunities (Liu & Li, 2005). In 2004, Haier was ranked the most value Chinese brand (Zhang, 2004).

Long-term Incentives

Since 2000 Haier Group stock options came into the market, the company has been operating long-term incentives plan. The actual number of long-term incentives that will be granted to the Members of the Board of Management, the other members of the Group Management Committee, Executives and other key employees depends on the team and/or individual performance of the team/individual and on the share performance of Haier (Floyd & Taylor, 2005).

Performance-Related Pay

Haier carries out 'notebook' strategy, namely, keeping a notebook on all employees to distribute these cash rewards fairly. Here company can keep notes on employees' performance, both good and bad, throughout the year (Collins, 2003).

Employee Development

Haier employee career development initially bases on "Each individual is a talent" and "firstly training people and then creating a brand". Under the idea, the company provides staffs 3 kinds of career designing: 1. For administrators; 2. For professionals; 3. For workers (see Figure 1.5). Each of them has one direction towards his promotion (Liu, 2005).

<Insert Figure 1.5 here>

Achievement

In certain period of time and within certain division, Haier set a quota to lay off staffs in percent, namely, elimination quota. In the company, there is no such saying "I cannot give any achievement to the enterprise. However my time and physical works shall be taken into account." If employee cannot offer his best efforts, Haier follows out its elimination quota in proportion (Zhao, 2005).

Haier Group issues *Staff Rewarding Regulation for Inventions*, which establishes an "award of Haier", "Hope of Haier" and "Rationalized Advice" etc. and based on the economic effectiveness and social effectiveness what they achieve, and the enterprise, the administrators and the staffs have equal chances to win the awards respectively (Wu, 2005).

1.3 Lenovo Reward Strategy

As at March 31, 2005, the Group had a total of 9,682 employees, 9,625 of whom were employed in Chinese mainland and 57 in Hong Kong and overseas (Nystedt, 2005).

Long-term Incentives

Lenovo Group implements remuneration policy, bonus and share options schemes with reference to the performance of the Group and individual employees. Since 25 March 2002, the shareholders of the company approved have been adopting a new share options scheme (the 'New Option Scheme'). Details of the movement of share options of the company for the six months ended 30 September 2004.

Performance-Related Pay

Lenovo strives to reward employees for their contributions to its financial success. To that end, the company maintains a unique bonus program wherein employees demonstrating exceptional performance may be awarded bonuses during a performance period. The value of the bonus is based on the financial performance of the business unit and the company as a whole, and on the employee's commitment to company values. Lenovo also award profit-sharing and discretionary bonuses, as appropriate, based on individual and overall company performance (Lerzberg, et al 2005).

Benefits

- Health Cares. Medical coverage is available for all new Lenovo employees on the first day of employment. Dependents are also covered, including an eligible spouse or same-sex domestic partner, and children. On the first day of the third month of employment, employees become eligible for **Lenovo Flex**, which includes medical, dental, vision, prescription, life insurance and disability insurance coverage (Jia & Chen, 2005).
- Vacations. Lenovo has a very generous paid vacation policy that is based on years of service. Seven days of paid vacation are available to new employees hired between January 1 and September 1 in the year of hire. As many as 28 days of paid time off are available after 15 years (Taylaor, 2005).

Employee Development

Lenovo has strengthened its employee redeployment process, which is now designed to identify and assist more quickly employees who may be part of skills rebalancing actions. For example, in many cases in the United States, employees have a few months, rather than 30 days, to locate a new position and gain skills for it. From March 2004 to January

2005, more than 1,400 employees in the United States had been identified and moved into new positions (Li, 2005).

In 2002, Lenovo launched College Graduate program to develop company leaders. Every College Graduate receives support, coaching and mentoring from his program mentor as well as his immediate supervisors (Sun, 2004). Successful candidates typically have a superior scholastic record and have demonstrated characteristics such as the ability to work well with others, self-expression, maturity, resourcefulness and integrity. According to the record develop the talent and leadership the company needs.

2. Discussions

Total Remuneration

- **Base Pay.** Analyze the three big IT companies in China, only Huawei implement high salary strategy. The salary of the individual members of the Board of Management in Huawei was continuous going up from 2002 to 2004. The high salary strategy has two advantages: Firstly, it is in favor of recruit talent. 'Money, still identified by participants as being the single most important factor in a decision to join an organization for both past and present IT recruits' (Lockwood & Ansary, 1999). The special motive force in Huawei attracts number of Masters and Doctors, which accelerate the process of multinomial technique innovation and development. Secondly, it can retain talent. In Furlonger's (1997) words: 'offering a valued employee more money to stay was instrumental in getting them to stay'.

- **Stock Options.** The three IT companies are implementing the same form of long-term incentive, namely stock options. Stock options is same as base pay, is also necessary monetary incentives. But it needs to go through a short run (e.g. less than ten years), the run result usually can improve efficiency and reduce costs. Focus on Huawei, Haier and Lenovo three IT companies, they are carrying out the strategy of *stock options* to attract and retain workers, reward outstanding performance, and return value to shareholders while minimizing costs. The compensation package has following characters:

- Enlarged range. In every company, stock options on longer are once exclusive to executives, but become broad based to include middle management and non-management employees.

- High the proportion of employee holds. Analyze Appendix B, in Lenovo, 92.15% of stock options is held by employees. Huawei employees hold options to up to 80%-90% too.

- Different issue identity. Haier and Lenovo are listed companies, so they follow strict stock options issue procedure. However, it is a pity Huawei isn't a listed company, so employee stock options can't be transferred and realized. The system has three defects: firstly, managers and employee hold stock options is above the subjunctive capital; secondly, options scenario of implementation and decision are controlled by the biggest stockholder; thirdly, the system breaks a basic option rule, namely option implement condition isn't owned by authorizer, but is absolutely controlled by real the representing capital. Base on long view, Huawei stock should come into the market as early as possible.

- **Performance-Related Pay.** The research finding has indicated the three IT companies are now using Performance-Related Pay (PRP). Huawei focus on high efficiency strategy and high press strategy. Figure 4.2 clearly describe the process of PRP in Huawei, which direct contact with employee salary and retention. One the one hand, as a coach, company can timely adjust employee goal position and lead they escalate to up to good performance. On the other hand, company plays a supervisor role, form a crisis consciousness of clear rewards and punishment. If the mechanism is successful operated, who can mobilize employee activeness and improve work efficiency. Otherwise, it is easy to form a contradiction what managers attributed high financial needs to employees, but the staff themselves bases on heavy extrinsic pressure result in poor performance. In Huawei, the unique three high management models (high salary, high efficiency and high press) control financial reward operation and raise the overall level of available talent. Compared with Huawei, Haier PRP strategy is more simple and intuitionistic. A 'notebook' notes all performance in one year. This way, the company can reward people for longer-term performance rather than skipping them because of a mistake they made last week. Lenovo PRP strategy directly relates financial performance, which reduces unfair factors, it is flexible and objective.

- **Benefits.** Employee benefits are elements of remuneration given in addition to the various forms of cash pay (Holbeche, 2001). They provide a quantifiable value for individual employees. Armstrong suggests that benefits can be divided into seven categories. To Lenovo, benefits mainly focus on *personal security* and *personal needs*. 'Health care' is a common benefit for employees at all levels which enhance the individual's personal and family security and relieve employee misgivings at home and further troubles. Moreover, annual leave entitlements are a major benefit too. Lenovo carries out different vacation standard in terms of hire time to meet company employee needs, which implies flexible benefits provision, namely employees can choose vacations time in the light of own desire. The flexible benefits 'allow employees more choice over how they were rewarded, allowing them to shape their benefits package so that it more closely matched their personal circumstances' (Armstrong, 2005).

Non-financial Reward

● **Employee Training and Development.** Figure 1.3 shows Huawei training system includes six embranchments. The six subsystem training object is from manager to general employee, from administrator to professional. Figure 1.4 clearly list two paths of career development. One is management path. The other is technical/professional path. The talent selection bases on equal competitiveness. Once junior staff grows senior staff, he/she has chance to choose two difference path—supervisor or specialist. He/she can momentarily adjust position in the promotion process till leader or professional. Figure 1.5 indicates Haier training object includes three parts: administrators, professionals and workers. The mechanism provides employee wide development space and equitable competition working environment. Lenovo emphasizes the time and efficiency of training process, namely how use the most short time to attain the best effect. The career development has two advantages: firstly, company can find and use talents as early as possible; secondly, enhance work efficiency. No matter which form of career training and development, the essential is ‘to recognize that our employees are our most important asset’ (Johnson & Welsh, 1999). The recognition is a form of non-financial reward. It isn’t just a motivator for the individual or group reward, is also a message to other employees about the type of performance that gets noticed, which make employee have a sense of ascription and self-identity and motivate them to up to good performance.

● **Achievement.** The Achievement motive is based on expectations of doing something better or faster than anybody else or better than the person’s earlier accomplishments (Hansemark, 1998). Haier imports the means to reward strategy in order to equitably and objectively motivate employee. Equity is because it considers two appraisable factors of economic effectiveness and social effectiveness what includes both top management and general staff. Objectivity is because the strategy provides employee more space of self-evaluation. In fact, the strategy is both reward and punishment. The prerequisite of employee rewarded is to achieve dual effectiveness. Otherwise, he/she will be laid off.

3. Conclusions

‘In the modern commercial world, with high levels of competition and technological advances, it is clear that if organizations are to succeed, they must ensure a high level of organizations performance’ (Hume, 1995). Employers are also realizing that ‘employees are the principal variable in organizational success’ (Schuster and Zingheim, 1992). The challenge of attracting and retaining talents has led employers to finally recognize what reward strategies are important in the war of winning. A reward strategy is an integrated and comprehensive total package what the employers offer to the employees.

According to Armstrong (2003), ‘Compensation and benefits’ belong to financial reward. ‘Career training and development’ is non-financial reward. The essential of the two types of reward is to motivate employees by satisfy their needs to up to high level of performance. Although Huawei, Haier and Lenovo the three Chinese top IT companies and IBM the world top IT companies are implementing reward strategies, the form of reward strategies varies between different countries, different companies even and different development stage of the same company, which both aligns with the theory of Maslow’s hierarchy of needs and embodies the culture differentiation.

Firstly, reward strategy aligns with Maslow’s hierarchy of needs. He describes needs on five hierarchical levels (1954). (See Figure 2.1)

<Insert Figure 3.1 here>

Some employees are interested in financial reward. For example, Huawei’s high salary strategy attracts and retains a great of talents by satisfying the basic needs of employees because new graduates believe that making money is the most important. The contribution of base pay enhances labour productivity and improves the firm’s performance. Contrarily, high performance promotes base pay increase. The choice of strategy therefore is important to satisfying employee needs. Additionally, Stock options also are commonly used in the four IT companies. They depend on leverage and the ability to select exercise price to attract employees. Stock options values can increase dramatically and proportionally when the underlying asset increases in value. Furthermore, although options can be granted with a fixed exercise price, if the share price is below the exercise price, the option is not valuable. It follows that the stock options value closely link asset value and share prices. Then how to satisfy employee needs by continuously increase share prices and asset value? The only way is to motivate employees to improve stock performance by encouraging them to work harder and better. Other employees such as supervisors and specialists hope to realize self-worth by non-financial reward strategies. Huawei designs two different career development paths according to employee needs. One is for administrative staffs. The other is for technical staffs. For employees, there is a need for both the professional experience within particular appointments and the wider experience that comes with a variety of jobs. For employers, there is a need for quality of performance to promote employees; employees are motivated through achieving organizational aims and objectives.

But no matter what form, the same reward doesn’t fit the same person for ever, because employee needs are continuous changing. A satisfied need is no longer motivating, as maintaining motivation require the satisfaction of needs

progressively. This means that when employee needs have satisfied at one level company tries to meet those at the next level up, and a higher-level need is only experienced when those below are met. The process what the motivation and needs satisfied act each other is the process what to continuously improve performance.

Secondly, reward strategy embodies the culture differentiation between different countries. Although all organisations have to plan, source, develop and reward their people, they do not all do these things in the same way. Many of these differences will occur within countries: some organizations will have more sophisticated systems, some less; some will do it more carefully, some more casually. However, a key to these differences is national cultures and institutions (Harris, et al 2004). Bloom & Milkovich (1999) also argues that there are substantial differences within countries as well as between them, that no one best rewards way will meet all contexts, and that national culture must be taken into account.

- Differentiation of base pay. Every employee believes that pay and reward are an important part of an organization's human resource management. But each country tends to compensate its workers for the time and commitment that they bring to work is completely different. In the USA, most people are better off financially, pay generally is not considered to be a strong motivating factor (unless it is "big chunk" pay; that is, 20 per cent or more). Pay raises are based on a set of criteria tied to merit, equity and seniority; and an emerging trend towards use of base salary combined with gain sharing has been observed (Lawrence, 2003). In China, most workers' incomes are still low, monetary rewards play a far more important role. Pay is still the most crucial incentive.

- Differentiation of various pay. National culture influences the efficiency of various pay formulae and techniques (Gomez-Mejia and Welbourne, 1991). White et al (1996) note international comparisons of pay systems focus on four aspects. Each of them has a culture cause:

- Locus of decision-taking (reflecting the emphasis on centralisation and hierarchical authority, attitudes to worker participation). Many managers in the USA believe that people's basic physiological needs for safety and security have been met and that therefore only opportunities to satisfy higher-order needs will motivate most people. They believe that the majority of the people who work for them want to develop interpersonal relationships characterized by trust and open communication. The Chinese managers strongly believe that managers must give workers' welfare prominence over production. They encourage collaboration and broad participation in decision making by replacing individual rewards with collective rewards, and emphasizing democracy and decentralization.

- Management criteria for pay-determination decisions (reflecting the different mindsets, perceived causal factors, and cognitive schemata that managers use to differentially interpret what might be a common idea). For example, in the USA companies, pay closely links with performance. High performing new-comers to the organization may be rewarded more highly than those of a higher status in the organization. Chinese companies will take care of employees through housing and other social benefits, which base on a strong loyalty effect. In other words, they believe that performance is short-term, while loyalty and belongingness are long-term.

- The effect of particular reward strategies on employees' behaviour (reflecting the role of values and the attitudes and actual behaviour that these values generate). In the USA, new professionals tend to be well-educated, ambitious and articulate. Most of them have engineering or physical science backgrounds (Von Glinow, 2000).

Naturally, for such new professionals the most valued rewards are job challenge, responsibility and feedback. In China, pay and intrinsic rewards are equal importance for professionals. Especially in the special economic zones of China, that a radically altered institutional and social environment can change previously deep-seated psychological determinants of rewards behavior, such as distributive justice.

- The content and practice of the actual rewards packages in various countries (acting as an amalgam of the above three factors). Employers across Europe, for example, have generally been moving away from more rigid pay structures and increasing their use of variable pay. Japanese companies tend to use the *nenko* system of pay based on seniority (Morishima, 1995). In China, pay is less important than the range of benefits (housing, food, childcare, etc) typically provided for employees (Verma & Zhiming, 1995).

- Differentiation of employee benefits. In countries such as the Nordic, generous childcare provision is established by the state, so childcare doesn't as a significant part of an employee package. In France, employees prefer to get most of their pay and reward packages in cash and to be free to spend it as they wish. In the USA, the holiday is traditionally limited two weeks per annum, but whereas a European would expect perhaps five weeks' holiday. In countries where a 'career break' generally refers to something women take when their children are young, such as UK; in France it is a legal right of a leave of absence from the job for educational purposes.

- Differentiation employee areas of training. The central and eastern European countries when, following the collapse of the Communist governments there a need for training in such areas as marketing became apparent. Across Europe, the top four subjects are the management of people (supervising), information technology, the management of change,

and customer service skills. In Asia, IT training appears to be more common; customer service skills do not figure so highly (Lawrence & Edwards, 2000).

4. Summary

If the three Chinese top IT companies are to gain a footing in the world top 500, they should envisage the reality of culture collision, because the culture collision limits the reward strategies. 'The reward strategies must be regularly modified and aligned to meet business strategies and goals in keeping with the culture and the competencies required' (Filella & Hegewisch, 1994). To implement a reward strategy within particular culture and under particular laws and institutional arrangements means that organizations have to be aware of these the culture differences when they determine their reward policies and practices, as ideas of good practice in reward strategies differ from country to country.

The results of the research findings and discussion reflect that there are still some problems existing in the Chinese IT industry.

- For example, it points out individual reward, and ignores team-based reward. However, today, teams have become a popular way to organize business, and are being used to improve communication among interdependent individuals, to take advantage of multiple perspectives in problem solving situations, and to improve productivity. One way to support and reinforce this team concept is through the 'team-based rewards' system. 'Team-based rewards' is giving a reward to the whole team or dividing the reward equally between members of the team based on the total team performance. It has following advantages:

- It motivates the team members to achieve the vision and goals;
- It reinforces the key roles and behaviors for a successful team needed;
- It enhances employee relationships by encouraging cooperation and working toward common goals;
- And encourages development and learning by stimulating risk taking and trying new initiatives.

The advantage of 'team-based rewards' brings other choice to company reward operation. DeMatteo et al. (1998) also raises the key question is how can multiple reward practices be used to reinforce and encourage high level of individual performance and, at the same time, foster team work among individuals? Some researchers have suggested that: rather than choosing either individual or team-based incentives, a combination of the two incentive strategies may be more effective in motivating performance at the individual level and co-operation at the team level (Heneman & Hippel, 1995; Pearce & Ravlin, 1987).

- Furthermore, companies lack flexible reward mechanism to respond the culture collision between China and foreign countries. It seems that the reward strategies in Huawei, Haier and Lenovo are more suited to motivating domestic employees, which contradicts company objective what pursue globalized enterprise and globalized employees. 'Globalization' means implement different reward strategies in terms of different national cultures and institutions. McNally (2003) also suggests that the right reward model will depend on company's culture structure and overall strategy.

5. Recommendations

- By developing a combination of financial and non-financial reward, designed for individuals and teams may be beneficial for the Chinese top IT companies to today's international environment. The present reward strategies of Huawei, Haier and Lenovo meet the domestic development needs of IT industry, so they succeed in the Chinese market. But, as transnational corporations, the three IT companies face varied employees not only domestic but international. The differentiation of employees and the diversification of needs drive the companies to implement a combinable reward strategy to respond the changeable cases. The future development trend indicates that who wins in the war of attracting and retaining talents by implementing effective reward strategy, who can unique succeed in fierce competition.

- By deeply exploring national culture character, establish for subsidiary companies in different country flexible reward mechanism is significant to the Chinese IT companies enter into the world top 500. The world comprises many countries with huge different between the north and the south, between the east and the west, between economic strength and culture background. The extent to which nationality has to be taken into account in reward strategies is an issue that continually exercises every international corporation. The success in local country doesn't mean the success in international competition because the culture differentiation decides what pertains in one area may not be the case in another. Compare with IBM or the other world top IT companies, the reward strategies of Huawei, Haier and Lenovo seem little narrow. So it is vital to adjust reward strategy according to national culture diversify to the Chinese IT companies.

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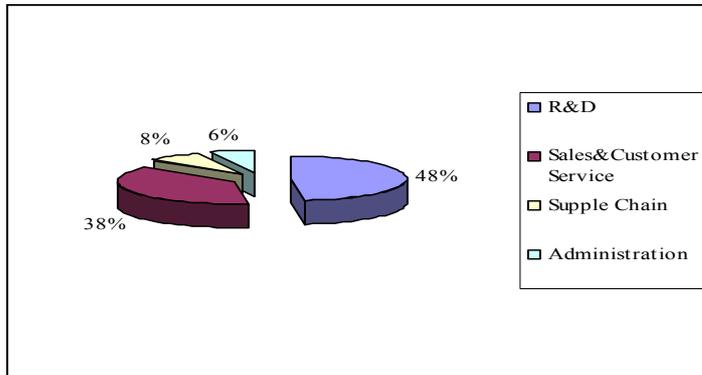
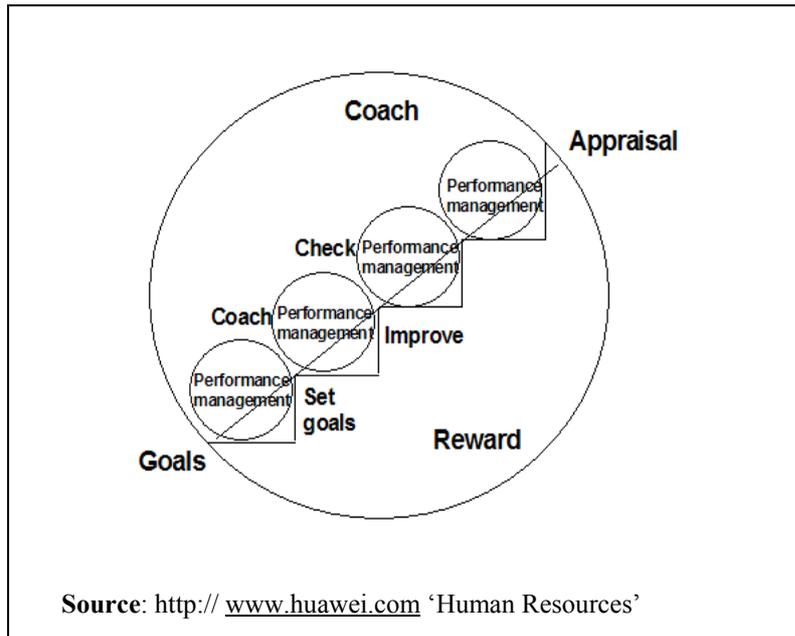
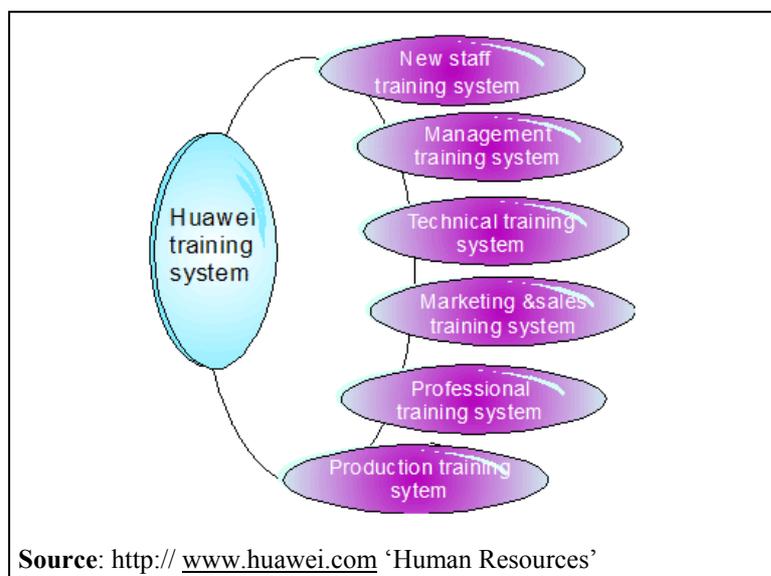


Figure 1.1. Huawei Employees Worldwide



Source: [http:// www.huawei.com](http://www.huawei.com) 'Human Resources'

Figure 1.2. Huawei Performance-Related Pay



Source: [http:// www.huawei.com](http://www.huawei.com) 'Human Resources'

Figure 1.3. Huawei Training Systems

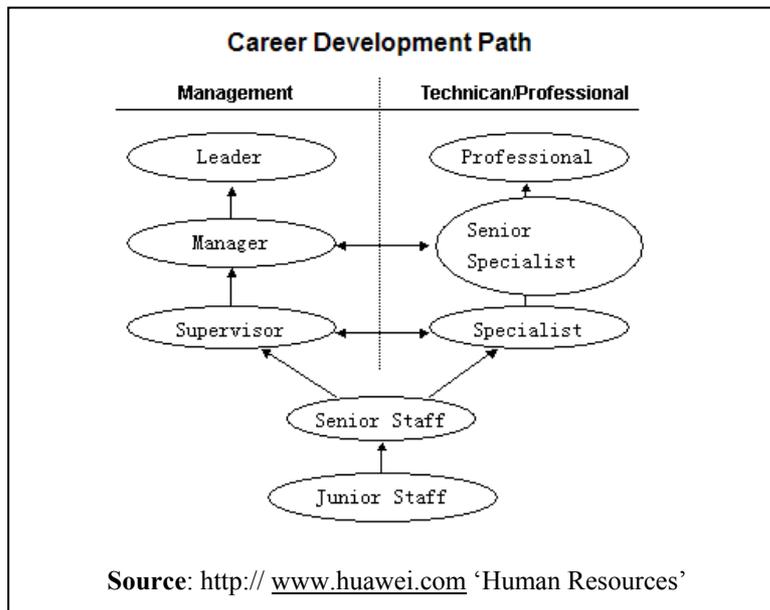


Figure 1.4. Huawei Career Development Paths

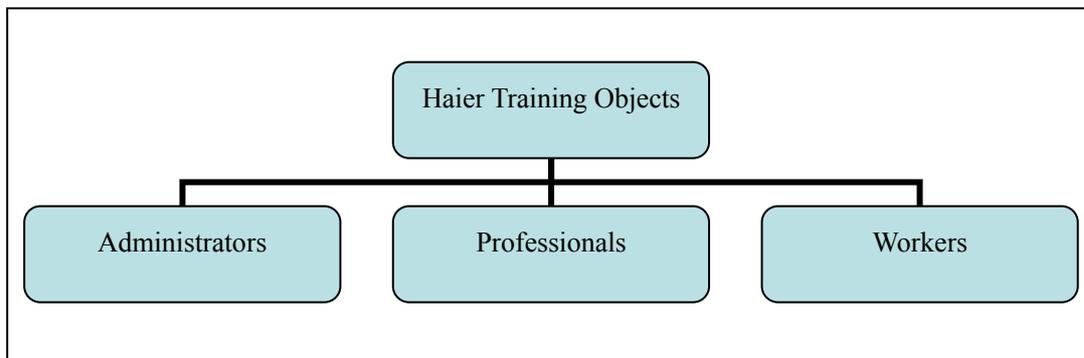


Figure 1.5. Haier Training Objects

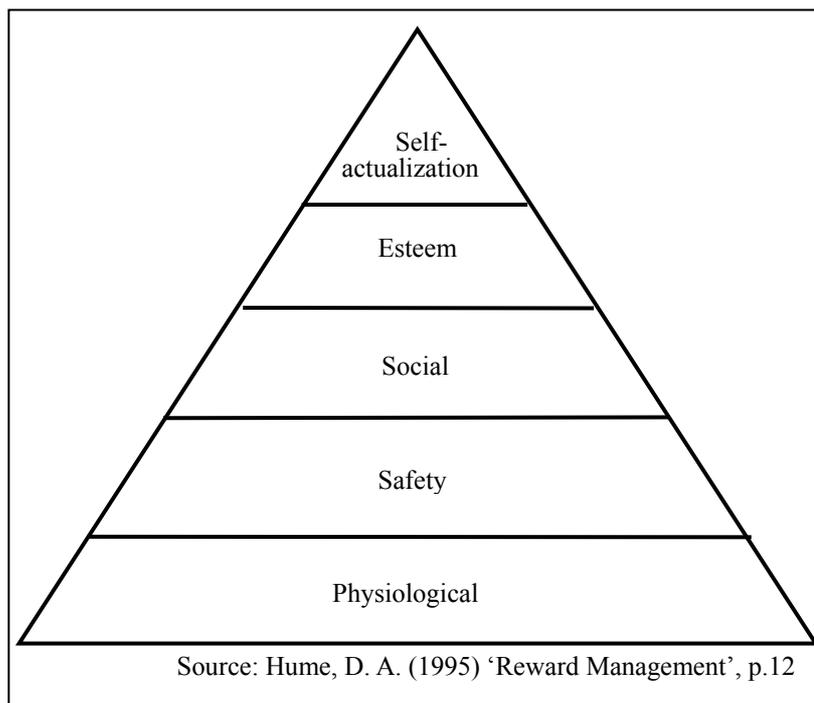


Figure 3.1. Maslow's hierarchy of needs