



# An Practical Study on the Reform of the Salary System in State-owned Enterprises

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**Abstract.** The purpose of this study is to analyze typical practices of salary reform in state-owned enterprises. The conclusion of this study is that salary reform needs to adhere to the principles of strategic orientation, relative fairness, effective incentives, external competition, economy, and legitimacy. State owned enterprises design salary systems based on job value, strengthen linkage with departmental and individual assessment results, focus on market competitiveness of salary levels, and create a favorable atmosphere for promoting reforms.

**Keywords:** Salary Management, Salary Reform, State-owned Enterprises

## 1 Introduction

The reform of the salary distribution system in state-owned enterprises is an important starting point for the reform of state-owned enterprises, especially the reform of the three systems, and it is related to the healthy development of state-owned enterprises and the vital interests of employees. Under the guidance of the concept of shared development and common prosperity, state-owned enterprises continue to improve the basic wage system based on post salary, with relatively complete incentive policies[1]. The purpose of this study is to analyze the practical experience of salary reform in typical state-owned enterprises, summarize regular practices, and provide reference for state-owned enterprises to implement salary reform.

## 2 Principles and methods of salary system reform in state-owned enterprises

### 2.1 Principles of salary system reform

The principle of strategic orientation: The design of the compensation system should be organically integrated with the enterprise development strategy, so that compensation management can play an important role in achieving the enterprise development strategy[2].

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The principle of relative fairness: Fairness should be reflected in the process of salary design and distribution. Absolute fairness is difficult to achieve, and companies should pursue relative fairness in distribution.

The principle of effective incentives: Enterprises should choose the compensation structure and payment method that can best play an incentive role, and balance the use of positive and negative incentives.

The principle of external competition: The design of compensation needs to consider the compensation levels of regions, industries, and competitors, and combine with the company's market position, human resource reserves, and profitability to comprehensively determine the compensation level[3].

The principle of economics: The design of compensation needs to fully consider the characteristics of the enterprise's own development and its ability to pay, balance short- and long-term development, and control labor costs within a reasonable range.

The principle of legality: compliance with national laws, regulations, and policies is the most basic requirement for salary design[4].

## **2.2 Steps of the reform of the compensation system**

Step 1: Analyze and diagnose the current compensation system. Analyze the internal fairness and external competitiveness of the current compensation system, and clarify the ideas and directions for optimizing the compensation system.

Step 2: Determine the company's compensation strategy. Conduct a salary market survey and choose from among the three strategies of leading, coordinating, and following in the salary market based on factors such as the company's development strategy, competitive situation, and talent supply.

Step 3: Formulate a compensation design plan. In conjunction with senior management, confirm the revised pay philosophy and compensation strategy, and design an optimization plan for the compensation system.

Step 4: Conduct cost estimation. Conduct a salary cost estimate based on the optimized salary system to verify the feasibility of the salary system.

Step 5: Designing a compensation transition plan. Based on the current pay status and the differences in the post-reform compensation system, design a compensation transition plan for different types, positions, and situations to reduce the resistance to implementing the compensation reform.

## **2.3 Method of salary system design**

Most large modern state-owned enterprises with relatively complete human resource management foundations adopt a 3P compensation system for compensation plan design. The 3P refers to the comprehensive influence of position factors (position), personal factors (person), and performance factors (performance) when designing compensation[5].

Paying according to job factors means determining the value contribution of a job to the enterprise through job value assessment, and then deciding the salary level of the job. Jobs with high job value have high salary levels and pay levels, and jobs at

the same level have the same salary level. Paying according to the job is easier to achieve internal equity in compensation, and has the advantages of being easy to operate and easy to control labor costs.

Paying according to personal factors means that on top of paying according to the position, further consider the impact of the individual factors (such as education, qualifications, abilities, etc.) of the incumbent on the level of compensation. For employees in the same salary bracket, differences in personal factors determine their salary level. Employees with strong personal competencies are assigned higher salary grades.

Paying according to performance factors means establishing a close connection between employee compensation and business performance, departmental performance, and individual employee performance, maximizing the incentive effect of compensation on performance. Employees in the same salary bracket with better performance will ultimately receive higher compensation levels. At the same time, performance also determines the rise and fall of future salary brackets.

The 3P compensation system effectively links positions, abilities, and performance, taking into account both the value contribution of the position and the impact of employee abilities on compensation, which is beneficial for enterprises to improve organizational capabilities and enhance their competitiveness. At the same time, it considers the impact of performance on employee compensation, which is beneficial for achieving business goals.

### **3 Salary Analysis of Typical Enterprises**

#### **3.1 Establish a salary system based on job value**

Salary management based on job value is the mainstream of modern large-scale enterprise salary system reform. It is necessary to first establish a sound job system, clarify job sequence and job hierarchy, and based on this, scientifically carry out job value evaluation according to factors such as job difficulty and complexity. At the same time, the concept of broadband compensation is introduced, the salary range is reasonably designed, and the corresponding relationship between salary levels, salary levels, and job levels is established to achieve the scientific and standardized salary system.

On the basis of job sorting and job analysis, the headquarters of China National Nuclear Corporation (CNNC) conducts a fair and objective value evaluation of positions based on job responsibilities, and divides different job levels based on the evaluation results, which serves as the basis for designing job coefficients. Based on the job value evaluation results and combined with the actual situation of the headquarters of the group company, design targeted salary strategies and salary structures, and develop salary levels and salary scales for each position, clarify the corresponding relationship between job levels and salary levels, and establish a salary system[6].

### **3.2 Strengthen the linkage between departmental assessment and individual assessment results**

The development direction of the reform of salary distribution in state-owned enterprises is to be market-oriented and take into account both efficiency and fairness. The key is to use performance evaluation as a starting point to achieve the principle of "the able earn more, the more they work, the more they earn". Therefore, it is necessary to strengthen the dual link between salary levels and departmental performance evaluation and individual performance evaluation results. The results of departmental performance evaluation determine the total amount of performance-related salary for the department, and appropriately open the income gap between different departments. Within the department, secondary distribution of performance bonuses is carried out based on individual performance evaluation results.

The performance salary of Sinopec headquarters accounts for about 50%, which is distributed twice. The pre-cash payment is made at the end of December, and the remaining performance salary is distributed at the end of April of the following year. The performance salary is packaged and distributed to departments, and 30% of the departmental performance bonus package is used as an adjustable part. The performance bonus distribution of China Unicom headquarters is strongly related to departmental performance results, and weakly related to employee performance results. It is uniformly packaged by the organization and personnel department to departments, and departments have 100% distribution rights. The performance salary of China Construction Group headquarters accounts for about 50%, which consists of two parts: quarterly award and year-end award. Departmental performance is divided into three levels according to the performance. The performance bonus is distributed to departments in the form of a "bonus package", and departments have complete autonomy and no cap on the secondary distribution. The bonus amount for some departmental old employees may be zero[7].

### **3.3 Pay attention to the market competitiveness of salary level**

The competition of modern enterprises is the competition of talents, and the competition of talents often depends on the level of salary. It is necessary to benchmark the salary levels of enterprises in the same industry and the same type, ensure that the salary levels of core backbone employees are competitive in the market, and attract and retain outstanding talents.

Based on the post setting, China Baowu Iron and Steel determines the salary principles by levels and priorities according to the different roles and contributions of various personnel to the company's operation and development. It has formed a salary incentive mechanism of "concentrating the core, stabilizing the backbone, and motivating all". The core layer is implemented with leading salary levels, and the employee salary levels are higher than the market price to maintain strong attractiveness. The backbone layer is implemented with matching salary levels, and the employee salary levels are not lower than the market price to maintain strong stability. The ordinary layer employees are implemented with floating salary levels, and the salary levels

fluctuate around the market price according to performance and market supply conditions, which can maintain a certain degree of liquidity[8].

China Electronics Technology Group Corporation follows the competitive principle of salary management, establishes a "five benchmarking" salary level verification mechanism. The "five benchmarking" refers to benchmarking the salary level against the industry, the central enterprise, the regional social average wage level, the regional industry salary level, and the internal salary level of the system. Combined with the development trend of the electronic information industry, according to the relatively unified position sequence of the group company, the salary levels of core positions above Level 5 and important positions above Level 6 are taken as key indicators to measure the external competitiveness of member units' salaries. They are benchmarked against similar positions in domestic and foreign benchmarking enterprises, providing important basis for the scientific management and effective regulation of the group company's total wages[9].

### **3.4 Create a good atmosphere for salary reform**

A good reform atmosphere is the key to ensuring the adjustment of the salary system of state-owned enterprises. On the one hand, it is necessary to obtain the recognition and support of the leaders of the group company, coordinate resources, and pool wisdom and efforts to form the optimal plan. On the other hand, it is also necessary to actively seek the cooperation and understanding of cadres and employees in various departments to reduce potential resistance that may be faced in salary reform.

Before promoting the headquarters salary reform, CNNC first established a salary committee led by the group company's leaders. The organization of salary reform training was organized by the HR department, which introduced in detail to the headquarters departments the purpose and principles of implementing broadband salary, the ideas and methods of salary design, salary plans, job evaluation methods, implementation procedures of salary design, and considerations to ensure smooth communication channels with various departments. Conduct comprehensive interviews with relevant departments and units of the headquarters, and analyze and study the headquarters management system, organizational procedures, development strategies, plans, existing salary plans, and data. Through comprehensive interviews and on-site research, internal and external information review, in-depth analysis of the current situation and main problems of the group headquarters' salary system, especially the core problems existing in salary management. Clarify the current situation, problems, and improvement directions of the headquarters' salary system design[10].

## **4 Conclusions**

Under the overall framework of the reform of the national distribution system, state-owned enterprises have established a wage distribution system that is compatible with the modern state-owned enterprise system with Chinese characteristics. By summarizing the practical experience of salary management in typical state-owned enterprises,

the following enlightenment is obtained: establishing a salary system based on job value, strengthening the linkage with departmental assessment and individual assessment results, paying attention to the market competitiveness of salary levels, and creating a good atmosphere for reform. There is no standard answer for the design of the salary distribution system. It should be evaluated based on the need to adapt to the development of the times and the needs of enterprise reform and development. It should be continuously and dynamically innovated and optimized based on the needs of state-owned enterprise reform and the company's strategic development.

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