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Descriptive Case Study of the Use of Non Cash and Informal Compensation in Thailand

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ABSTRACT

There is much previous economic research that addresses formal cash and equity compensation in the United States of America (U.S.) companies, but less is known about international compensation, non-cash compensation, and informal compensation. This paper describes compensation practices in three Thai companies of various sizes and industries. The research finds that Thai companies pay in a variety of goods and services, either because the goods or services are legally required or help improve production and employee morale, or because there is a cost advantage for the companies in providing them to a large number of employees. Non-cash compensation is also paid to attract candidates and retain employees. In addition to cash compensation and fringe benefits, which are paid formally in accordance with employment contracts or company policy, some employees also receive informal payments. The research finds that informal compensation is paid to motivate and to reward good performance, and that the companies pay informally because this method of remuneration is more flexible. Furthermore, the research finds that 'seniority' pay is also used to reward performance, and suggests that it may not be true that pay for performance seems less prominent than seniority pay in Asian countries (in contrast to the situation in Western countries). Researchers may need to be careful in the interpretation of 'seniority' pay in Asian settings. Finally, the research suggests that practitioners should consider the prevailing management style and the performance evaluation method used when they design compensation packages.

INTRODUCTION

Non-cash compensation is increasingly used in Western countries (Hashimoto 2000, Dale-Olsen 2006), and its importance in recruiting and retaining employees has been highlighted by many human resource experts (Healey 1998, De Young 2000). As reported in the trade journals, the use of non-cash compensation can take various forms, such as luxury cars, allowing employees to bring pets to work, telecommuting, a concierge service, and gifts of the company's own products. Executives have commented that these incremental compensation expenses make their employees satisfied, which results in a lower employee turnover and associated costs (Fenn 1995, Healey 1998, De Young 2000, Vogt 2005).

In addition to determining the pay composition (whether to pay in a form of cash or in goods or services), employers can choose whether to pay employees formally with a salary and fringe benefits or informally. Informal compensation is additional compensation that is not stated in employment contracts, company charters, or company policy. For example, in addition to formal annual leave, a supervisor can allow a subordinate to take 'sick' leave when the workload is minimal. This extra leave is considered to be informal compensation.

Much of the previous research in the literature on compensation empirically and theoretically investigates the use of formal cash or equity compensation in Western countries (see Murphy (1998) for a review of the literature on cash and equity compensation for executives in large companies in the U.S., and Core, Guay and Larcker (2003) for a more recent review of the literature on equity compensation in U.S. companies). Although researchers have also turned their attention to compensation in other countries (e.g. Canada, the United Kingdom, Germany, Italy, Spain, Denmark, Bulgaria, China, and Japan), there is still relatively less literature on compensation outside the U.S.

(Murphy 1998). Werner and Ward (2004) review the recent compensation literature and remark that little research has been devoted to international compensation. The authors also find that only 8.3 per cent of the 396 papers reviewed study benefits as opposed to cash wages, salaries, and equity compensation. None of the papers reviewed specifically studied informal compensation.

The purpose of this paper is to describe the use of non-cash and informal compensation in Southeast Asia, a research area that is less extensively explored. The overall research questions of interest for this study are: (a) the kinds of goods and services that are paid as non-cash compensation, (b) whether any part of compensation is paid informally, and (c) why employers choose to pay in goods or services rather than cash, and in an informal rather than a formal way.

An exploratory case study of three Thai companies was conducted to answer the research questions. The study reveals that medical checkups or in house medical benefits, paid leave, training programmes, and New Year gifts are the most common non-cash compensation, and that extra non-cash compensation is often paid to executives. The employers used pay in goods to exploit a cost advantage (by providing goods to a large number of employees or through access to low cost supplies), to comply with the law, to attract job candidates and retain employees, and to enhance production. Some employees in the firms also receive informal cash compensation. This extra compensation is paid informally because this means of payment is more flexible (or easier to change), and because it gives the payer some influence or power over the payee. Informal compensation is often paid to reward performance based on subjective evaluation. The cases also illustrate how the firms studied use non-cash and informal compensation creatively and intelligently to mitigate employee misbehaviour.

The remainder of this paper proceeds as follows. In the next section, the literature on non-cash and informal compensation is reviewed. The research methodology is then described and the findings on non-cash and informal compensation are presented. The results are discussed by comparing and contrasting the compensation practices of Thai companies with those of Western companies as documented in the literature. The paper concludes with some implications for researchers and practitioners.

LITERATURE REVIEW

This section first briefly summarises the literature on formal cash compensation and then reviews the literature on non-cash and informal compensation. In this paper, non-cash compensation refers to goods and services provided by employers for employee consumption, such as food and lodging and company cars. It should be noted that equity compensation is taken to mean monetary compensation with a value that is dependent on stock price movements, pension, and cash retirement benefits are considered to be deferred cash compensation, rather than non-cash compensation.

Many human resources studies investigate issues related to cash compensation. Of these studies, some examine the determinants of compensation, and others study the outcomes of compensation. Various levels of determinants are examined: country level determinants, such as the legal and economic environment; firm level determinants, such as firm size and unionisation; job level determinants, such as job factors, and employee level determinants, such as race and gender (Werner & Ward 2004). The studies on the outcomes of compensation investigate firm level outcomes, such as organisational performance, and employee level outcomes, such as individual performance, absenteeism, and turnover (Werner & Ward 2004). Other areas of cash compensation that have been explored include compensation psychology, compensation for expatriates, and international comparisons of compensation practices (Murphy 1998, Werner & Ward 2004). Yet another line of research investigates the use of executive equity compensation, and finds that the use of equity compensation is related to firm characteristics (e.g. institutional ownership, firm strategy, and firm specific risk), executive characteristics (e.g. risk preference and gender), and board characteristics (e.g. the board's equity holdings) (Werner & Ward 2004). As for pension and retirement benefits, Dulebohn, Murray and Sun (2000), and Dulebohn (2002) examined the relations between the choice of retirement benefits and employee characteristics, such as attitude and demographics, and Even and Macpherson (1996) found that pension benefits reduce employee turnover.

Research into non-cash compensation has explored the relationship between firm characteristics, employee characteristics, and the use of non-cash compensation (Werner & Ward 2004). Freeman (1981), for example, found that unionised firms tended to pay more in benefits, whereas Budd and McCall (1997) found that blue collar workers in unionised firms were more likely to receive unemployment insurance benefits. Other researchers have investigated the antecedents and consequences of benefits on employee satisfaction (Williams, Malos & Palmer 2002) and the outcomes of benefits (Shepard, Clifton & Kruse 1996, Carlin 1997).

Compensation has also been explored from an economic perspective. Economics researchers argue that the main benefits of non-cash compensation include an economy of scale achieved by providing goods or services to a large number of employees, tax benefits, and the beneficial effects of the consumption of a certain good (e.g. training and education) on production (Long & Scott 1982, Rosen 2000, Oyer 2006, Rajan & Wulf 2006). The empirical evidence is consistent with these arguments. Oyer (2006) found that a firm was more likely to pay in goods when

there was a cost advantage (an economy of scale or ability to acquire the good at a lower cost), when the goods (e.g. meals and child care) helped to reduce disutility from working, when employees pay income tax at a higher rate, and when employees have a stronger preference for the goods. Shepard, Clifton and Kruse (1996), and Carlin (1997) found that break times and flexible working hours improved employee productivity. Dale-Olsen (2006) suggests that firms tend to pay in goods or services when they can exploit an economy of scale and when fringe benefits improve production outcome. This author also reports that the number of fringe benefits provided decreases with the labour supply, and that the probability of an employee leaving the firm is negatively associated with the value of fringe benefits. These patterns imply that firms pay in goods to attract job applicants and to retain employees. Buchmueller and Valletta (1996) found that health insurance reduced worker mobility. In a study that focused on executive compensation, Rajan and Wulf (2006) observed that firms are more likely to pay in goods when the goods benefit production more and when the income tax rate is higher. They also noted that firms with a more structured organisational hierarchy are more likely to allow executives to make personal use of corporate jets, which implies that some perks are paid to convey a high social status to the payee.

Contrary to the aforementioned studies, some researchers have argued that allowing perquisites can be undesirable, especially for executives. Jensen and Meckling (1976) addressed 'perk' overconsumption problems, and suggested that because perk consumption is difficult to monitor, self interested executives may overindulge in perks at the expense of shareholders. Anecdotal evidence of this practice is also seen in the press from time to time. In an event study, Yermack (2006) provided empirical evidence of negative abnormal stock returns when firms first disclose the CEO's personal use of a company aircraft. While Rajan and Wulf (2006) contended that firms are more likely to have a corporate jet when the jet is more productive (e.g. when a firm is located further from convenient airports), Yermack (2006) revealed that personal aircraft use is positively associated with the indicator of whether the CEO belongs to a long distance golf club.

In analytical work on non-cash compensation, Marino and Zábojník (2004, 2006), and Adithipyangkul (2007) characterise the optimal use of non-cash compensation in the presence of agency problems. For example, Marino and Zábojník (2004) investigated the situation in which an employee's preference and reservation utility are unknown to the principal, and showed that the non-cash compensation paid may be more or less than the efficient level due to the hidden information problem. In addition, Marino and Zábojník (2006), and Adithipyangkul (2007) consider the kind of non-cash compensation which improves production in a situation with hidden action problems, and noted that the optimal use of cash incentive pay is influenced by the use of non-cash compensation.

In addition to the remuneration paid in accordance with employment contracts, company charters, or company policy, some employees receive extra cash, goods, or services. For example, scrap raw materials or overstocked items may be available from time to time, and when the workload is minimal employees may be allowed to leave early. In this paper, the term informal compensation includes any form of payment (monetary or non-monetary) that is not specified as forming part of an employee's formal compensation package as documented in an employment contract, company charter, or company policy. Informal compensation as based on an informal or implicit contract is described as,

... informal arrangements and understandings about individuals' duties and responsibilities, an organization's evaluation and reward practices, and other aspects of an employment relationship. These informal or implicit arrangements tend to be reinforced by various individual reputations developed over time (Indjejikian 1999: 153).

Mars (1982) documents the case of journalists being compensated informally for superior news articles through expense reimbursements, where journalists writing better news articles were allowed to submit more inflated expense claims. Another form of informal compensation is the controlled 'theft' system, in which employees are occasionally allowed to 'steal' a certain amount of an item as a part of their compensation (Zeitlin 1971, Altheide, Adler, Adler & Altheide 1978, Greenberg & Scott 1996). An example of this is a number of supermarket employees who work late night shifts and are allowed to consume food or beverages while working as additional compensation for undesirable working conditions (Greenberg & Scott 1996). Ditton (1977) further explains the practice as follows.

For example, an employee is told that the rate of wages is low, but this statement is accompanied by some sort of a figurative or a real wink. Perhaps, he is told that he can purchase products at "give away" (wink) prices. Or, that there are always "cheap" (wink), "spare" (wink), or "extra" (wink) goods to be had. Perhaps he is told, like I was at the Wellbread Bakery, that "they" would see that I didn't "go short" (wink) or "lose out" (wink) when I complained that the wages were low. Everybody else, I was told, was able to "make a bit on the side" (wink), or, "have their little perks" (wink), or, "take the odd loaf" (wink). With the meta-communicative wink the employer is able to craftily say something specific about the actual statements he has made (Ditton 1977: 48).

Researchers argue that the advantage of controlled theft is that it is a more timely and flexible way to compensate employees, apart from the fact that it is tax free (Greenberg & Scott 1996). In addition, the knowledge that employees are 'stealing' something gives the supervisor or employer some power over them (Ditton 1977).

It is conceivable that cultural differences, in addition to work practices, play a significant role in employee

motivation, and thus differences in compensation practices should be expected across countries. A number of studies of non-cash and informal compensation have been conducted in Western settings, but this paper investigates the use of non-cash and informal compensation in an Asian setting, which has been less explored. In addition to identifying the reasons for paying in goods and services and for paying informally, this paper describes how informal pay is transferred to employees. It is hoped that an improved understanding of the non-cash and informal compensation practices in Asia will suggest new insights and avenues for future research on compensation.

METHODOLOGY

Sites and Participants

The use of non-cash and informal compensation is sensitive information, which firms tend to be reluctant to disclose. Firms included in this study were identified and their participation solicited through the personal contacts of one of the authors. Three Thai companies were studied. Two were pharmaceutical manufacturers, and the other firm was a hotel. The characteristics of the sample are summarised in Table 1. All three firms studied are well established family businesses located in Bangkok, and are in sound financial positions. The respondents hold managerial positions and have been working with the companies for at least five years, which implies that they can provide indepth information about working practices.

Table 1 Description of the firms studied

	Pharma A	Pharma B	Hotel
Description of business	Pharmaceutical manufacturer	Pharmaceutical manufacturer	Hotel (three star)
Products	Drugs, food supplements, and traditional herbal medicine	Drugs, vitamin and mineral supplements, and others	Food and lodging, event and conference organising
Market	Local and neighbouring countries	Mostly local	Foreign and local customers
Year of establishment	1976	1942	1968
Generation of the founding family in management positions	First generation (succession to the second generation is ongoing)	Second generation (succession to the third generation is ongoing)	Second generation
Number of employees	289	144	588
Total assets (2003) MBhat	116	23.12	900
Profitability	0.09	NA	0.1222
Respondent	Production manager	Production manager and human resources manager	Information technology manager and internal auditor
Tenure (years)	31	20	5 to 6

Notes: a. NA = not applicable. b. Profitability = return on total asset 2003.

Procedure

Case studies to describe the use of non-cash and informal compensation in Thai companies were conducted in 2004 and 2005. The data were collected through questionnaires, email correspondence, face to face interviews, and phone interviews. A one hour pilot interview was conducted with a production manager of one of the pharmaceutical manufacturers (Pharma A) at the end of July 2004 to obtain a general description of the use of non-

cash and informal compensation in the firm. The data from the pilot interview were then used to design the questionnaire. The questionnaires (in English) were sent out in November 2004. Pharma A and the other pharmaceutical manufacturer (Pharma B) returned the questionnaire at the end of 2004, and the hotel respondent returned the questionnaire in March 2005.

The responses to the questionnaire were in English and Thai. Those contributions from the hotel were given in English. The participant from Pharma gave responses in Thai, because although the respondent could read and understand English reasonably well explaining responses to the complicated issues were more difficult in English. Replies from Pharma B were provided by the human resources (HR) manager and the production manager. Responses from the production manager were mostly in English. Replies from the HR manager, who is not fluent in English, were translated into English by the production manager. Where the questionnaire replies in English are quoted, they are shown exactly as the originals, except for the minor correction of grammatical errors and word choice. The translated replies from the questionnaires and interviews were sent to the respondents for verification.

Follow up face to face interviews with the production manager of Pharma A (of about 30 minutes' duration) and the production manager of Pharma B (of about one hour's duration) were conducted in February 2005 to clarify some of the responses and gain a deeper insight into their meaning. Email and phone enquiries were made with the hotel.

Measures

The questionnaire (in English) explained the definitions and provided examples of non-cash and informal compensation. The first part of the questionnaire asked for background information on the respondents and their businesses, and the following parts included open ended questions about the use of formal (cash or non-cash) and informal (cash or non-cash) compensation. The respondents were asked to describe the compensation practices in their organisations and the reasons behind such practices. The respondents were also asked to give comments about the effects of non-cash and informal compensation on firm performance or employee performance.

Interviews, phone enquiries, and email correspondence were conducted to gain additional information on an interesting issue and also to shed light on any unclear replies.

Analysis

A case study can be used to describe a phenomenon, and is an appropriate method for researchers who wish to conduct a holistic, in-depth study (Feagin, Orum & Sjoberg 1991, Yin 1994). The patterns within cases as well as across cases were identified with respect to types of non-monetary and informal compensation used and the reasons of use. The within case analysis provided rich information regarding the phenomenon of interest, whereas the cross case comparison allowed researchers to find patterns with respect to different firm characteristics.

RESULTS

Although much of the previous literature on the agency issue focuses on the hidden action problem, whereby self interested employees may shirk because their action or work effort cannot be perfectly observed, the use of compensation design to solve other problems of employee deviance has not yet been extensively investigated. This study provides real world illustrations of how companies mitigate misbehaviour through compensation design, rather than through monitoring and punishment, some examples being the break room and discounted food policies to solve the pest problem at Pharma B, and the use of informal cash payments to reduce employee noncooperation at Pharma A.

The Use of Non-monetary Compensation

Summary of Types of Non-monetary Compensation Used

The types of non-cash compensation used in each company are summarised in Table 2. The most commonly used types of non-cash compensation include medical checkups or in house medical benefits, paid leave, training programmes, and New Year gifts, which are provided by all three companies. Health insurance and lodging are provided by the manufacturing companies, but not by the hotel. Food, uniforms, and staff group trips are provided by two of the firms. Social activities are arranged for staff in various forms, such as monthly birthday parties, religious activities, and sport activities. A staff New Year party is hosted by Pharma A and the hotel each year, but Pharma B has recently stopped hosting such parties and has replaced them with a subsidy at the request of

employees, who prefer to arrange a party themselves. Less commonly used non-cash compensation includes coffee breaks, uniform laundry, transportation, goods sold at discount prices, discretionary employee loans, and funeral flowers on the death of close relatives of employees. The companies occasionally allow employees to choose the type of non-cash compensation provided. At the hotel, for example, sports facilities and activities are chosen by popular vote.

Table 2 Types of non-cash compensation paid to employees

	Pharma A	Pharma B	Hotel
Health insurance	✓	✓	
Medical checkups or in house medical services	✓	✓	✓
Paid leave	✓	✓	✓
Staff group trip	✓		✓
Training programmes	✓	✓	✓
Food	✓		✓
Lodging	✓	✓	
Other			
Uniforms		✓	✓
Laundering of staff uniforms			✓
Coffee break/coffee room/free coffee or other drinks		✓	
Monthly group birthday party	✓		✓
Religious activities	✓		
Annual staff party	✓		✓
New Year gifts	✓	✓	✓
Transportation			✓
Sports facilities/activities			✓
Goods sold at discount prices		✓	
Discretionary employee loans		✓	
Funeral flowers on death of employees' close relatives			✓

All of the executives in the companies studied receive extra compensation, as shown in Table 3. In addition to a company car and a driver, which seems common worldwide, the executives also receive superior non-cash compensation, such as a better office, better meals, and extra health benefits. The hotel also pays in terms of work related non-cash compensation, such as secretarial services, entertainment allowances, official checks, meals for R&D, and lodging at the workplace. In addition, the hotel executives receive the hotel's own goods or services, such as gym facilities. A privilege (e.g. flexible working hours) may also be offered, for example, executives are not required to punch their time cards.

Table 3

	Pharma A	Pharma B	Hotel
A better office	✓		✓
A company car			✓
A driver	✓	✓	✓*
A secretary			✓
Better meals			✓
Hospital medical expenses			✓
Official cheques			✓**
Lodging			✓
Gym facilities			✓
In house entertainment bills			✓***
Meals for research and development			✓****
Privileges (no need to punch time card)	✓		

Notes: a.* = For the managing director only. b.** = Official cheques are commonly used in the hotel industry as a quality control measure. A high level employee can dine at any of the hotel's own restaurants and sign an official check. He or she can order anything at any price, except for alcoholic drinks. There are no limits on the amount that a member of staff can sign. If the employee brings guests, then the guests will be billed separately, and the portion consumed by the guests is classified as an in house entertainment bill, rather than an official cheque. c.*** = In house entertainment bills refer to entertainment at the hotel's own restaurants. The in house entertainment is controlled by an annual budget. d. **** = For R & D purposes, a team of the hotel's staff from various departments (e.g. Food and Beverage, Kitchen, Quality Control, Marketing, Internal Audit) are invited to dine at a restaurant outside the hotel.

To supplement the findings on the types of non-cash compensation used, a breakdown of the types of cash compensation used in each of the studied firms is presented in the Appendix 1.

Reasons for Paying Nonmonetary Compensation and the Effects on Performance

Cost advantages gained through economies of scale in providing a type of non-cash compensation to a large number of employees are often cited as the reason for the practice. All of the companies stated that they benefit from cost advantages at least for some types of non-cash compensation, such as group insurance and group annual trips. When not prohibited by law, the companies also pay in the goods or services that they themselves produce. The hotel, for example, pays in food, laundry, lodgings, and gym facilities. However, Pharma A does not pay their employees in defective or overstocked medicine, because in Thailand drugs cannot be distributed without a pharmacist's approval. The one exception to this practice is for employees suffering a minor illness, in which case the pharmacists at Pharma A can issue medicine for immediate use that is taken from stocks of flawed or excess products that cannot be sold. This appears to be an instance of providing a good for cost advantage. However, the companies also pay in goods for other reasons, depending on their particular situation.

Some non-cash compensation is provided for legal reasons. For example, paid leave, is required by law. Additionally, in the manufacturing companies, employees in the production, transportation, cleaning, and laboratory departments are required by law to wear uniforms for consumer safety. Pharma B provides uniforms for these employees, but in very vivid colors to prevent employees from using them at home. Pharma A does not give away uniforms, but instead sells them to its employees to prevent them from exploiting the firm by frequently requesting a new uniform.

Legal requirements may indirectly lead to new forms of payment. In the pharmaceutical industry, cleanliness is

legally required for consumer safety. At Pharma B, employees are not allowed to eat in the manufacturing areas as the residual food may attract insects and mice, and any employees who violate the rule and are caught are fined. In the past, paper wrappings and empty cartons of milk were found in the prohibited areas despite the rule, because some employees did not have breakfast before coming to work hungry. Pharma B solved the problem by allowing a coffee break once in the morning and again in the afternoon, but stipulating that employees can eat only in the break room, which is situated away from the manufacturing area. Food and drink are sold in the break room at lower than the market price, and an honesty system is employed as there is no cashier. Those who eat should put money in the pay box themselves. The company announced that the coffee break would be cancelled if it loses money, and the employees, who seem to want to keep the privilege, pay honestly, and sometime even overpay. Employees have to record their names in the guestbook before using the break room. The records show that about 30 per cent of the employees use the break room, and that it is frequented by the same employees, mostly in the morning. The employees benefit from the discount on food items, and at the same time the employer has solved the pest problem. It should be noted that Pharma A has also experienced a pest problem, but at the time of interview it remains unsolved.

Non-cash compensation is also provided for psychological benefits. Pharma A pays in fringe benefits to show that the organisation cares for its employees, to encourage employees to engage in social activities together (through annual group trips, annual parties, monthly birthday parties, and religious activities), and to promote sincere loyalty from employees. Some goods or services are provided because they help with production. Pharma B provides lodging for some employees. Drivers, for example, are allowed to live in a unit on site, as they are expected to be available after working hours when an executive wishes to go somewhere after work. Maintenance workers are also allowed to live on site so that they are on hand if the machines require emergency repair. Interestingly, it seems that the hotel pays in goods to avoid employees being overly cash sensitive, which is counter productive in the hotel industry where good service is the key to success. As the respondent from the hotel commented,

... cash is just a tool to promote an activity, event, or experience. If we want certain things to happen, we had better create them. Paying cash and creating experiences are two different things. In many cases, cash represents greed and selfishness. Good experiences raise morale. We do not want to promote a cash-oriented mindset among our staff . . . many compensation types fit into the cost saving scheme [such as in house entertainment allowances, lodging, gym facilities, laundry services], but they do not play an important role in our organization. There are reasons for the provision of each item. For example, employee meals will prevent everyone from going out to find food and failing to return on time. Someone may skip lunch because he or she has no money. The laundry service makes sure that staff put on clean and good condition uniforms.

This example is reinforced by the fact that the hotel does not pay a cash bonus for performance to employees on an organisation wide basis. Cash rewards are paid only to the employee who is selected as employee of the month, and this procedure seems to take the form of recognition, rather than economic benefits per se. Finally, non-cash compensation is also paid in the studied companies to help attract potential job candidates and to retain employees. In summary, the firms pay in goods or services not only to secure cost advantages and conform to legal requirements, but also to improve production outcomes. Non-cash compensation is also paid to raise employee morale and attract job candidates. Alone among the companies, the hotel pays in goods to avoid making its employees overly cash sensitive.

In terms of the effects of non-cash compensation on firm performance, all of the firms studied reported this type of compensation to have a positive effect. The respondent from the hotel in particular emphasised the importance of non-cash compensation: "... non-cash compensation contributes to better organisational performance because it delivers the necessities required for daily living and work activities. It also saves cost and time for everyone.". Notice that much of the non-cash compensation provided by the three companies consists of goods that help improve production.

The Use of Informal Compensation

Nature of Informal Compensation and the Reasons for Informal Pay at Pharma A

At Pharma A, the production manager informally pays cash to important employees (such as department heads or other significant employees) in various departments, and to employees in the mixing department. The cash comes from the founding owner, and is paid initially to the production manager (the respondent) as part of his monthly salary. The production manager then distributes this informal cash compensation each month.

The production manager originally initiated this form of pay to solve the problem of high turnover in the mixing department (the majority of employees who receive this informal pay are in the mixing department). The mixing job is extremely tiring (but this fact is not necessarily known to the employees in other departments), and formerly absenteeism was high because the workers needed to rest, and the turnover rate was high because of the fatiguing

nature of the work. This caused the company many problems in the past. The production manager solved the problem by paying cash informally to compensate employees for their hard work. This system has worked well, and absenteeism and turnover have decreased. The production manager then extended the informal pay scheme to include the heads and key employees of several other departments. The cash rewards are only given after five to seven years of working in the company. Employees must perform well, report what is going on in the workplace to the production manager, and train any newly hired employees who are not yet efficient at their work or loyal to the business.

Cash payments vary across company managerial level and can be linked to the national economy. For low level employees (assistants to department heads) in the mixing, punching, coating, and glazing departments, the average amount of cash given per employee is 200 Baht per month (the average salary is 6,000 Baht per month). For middle level employees (department heads), the average amount of cash paid per employee is 500 Baht per month (the average salary is 8,500 Baht per month). The amount of cash is sometimes adjusted to match inflation. As the pay is added to the production manager's salary and then distributed to the payees, the informal pay is tax free for the payees. However, the amount of informal pay given to each payee is not very large, so there is no real tax reduction benefit for the payees.

The production manager chooses not to ask the department heads or supervisors to distribute the money, but distributes the cash himself, partly for fear of embezzlement and partly because he wants to maintain power over these key employees. The informal pay system makes the payees more cooperative and more responsive to his orders, especially if those orders go beyond the job descriptions of employees or relate to jobs for which a formal order has not yet been issued. He also chooses to pay informally because this method is more flexible. The recipient employees are told that the informal compensation is not to be expected each month, and that it is paid only at the discretion of the production manager and can be cancelled at any time. Flexibility seems to be an important motive for the use of this system. In fact, the firm even changes its employee evaluation and compensation practices annually to prevent employees from resisting change by arguing that the current practices are the organisational norm or tradition.

In addition to the informal cash payments, a New Year's party and gifts are other forms of informal compensation used by the companies. At Pharma A, gifts are given to outstanding employees during the New Year Festival, but the management does not announce truthfully that the gifts are given for good performance. Instead, they claim that a gift is given because a certain employee has been with the business for a long time and has a good attendance record (it is usually the same employees who receive the gifts each year). This is to avoid conflict, as all employees may believe that their performance is good and that they deserve a gift, but attendance rates and tenure are objective.

Nature of Informal Compensation and the Reasons for Informal Pay at Pharma B

At Pharma B, informal pay includes cash bonuses, financial assistance, and New Year gifts. Cash bonuses are informal, in the sense that the company's charter, policy, and employment contracts do not indicate the company's obligation to pay bonuses (either discretionary or nondiscretionary), and indeed, the company does not pay bonuses in years when profits are scant or nonexistent, or when economic conditions are not good. An annual cash bonus of about 115 per cent of a monthly salary is paid to employees whose attendance and performance are good. If an employee's attendance or performance is inadequate, his or her bonus will be reduced accordingly. The main purpose for paying bonuses is to minimise absenteeism and lateness. This is because unplanned leave or lateness disrupts the workflow. The company does not have extra labour to cover those who come in late or who take leave. If someone is absent, then another employee must work harder to cover the absentee. Lateness is also problematic, as the production manager does not know whether a late employee will be absent for the whole day or not, and hence, whether it is necessary to find someone from another department as a replacement.

In addition to the discretion bonus, Pharma B also awards discretionary financial assistance (of up to about 50,000 Baht) to a good employee with long tenure upon his or her request. The financial assistance comes in the form of interest free loans and scholarships for children's education. Employees can apply through the HR manager, who knows well about the situation and performance of each employee. If the HR manager considers that it is appropriate to help, then a loan or a scholarship is requested from the executives. Discretionary scholarships for a child's education (which include both tuition fees and living expenses) are granted on a case by case basis to the long-time employee with good performance and with his or her child having the area of study considered to be 'good,' such as pharmacy. Note that what is 'good' is subjective, which gives the employer the freedom to decide whether to grant a free scholarship. For an 'average' employee or an 'average' area of study, the company gives a loan, rather than a scholarship. Loans can also be requested for other purposes, such as for home improvement. Finally, Pharma B pays in terms of New Year gifts (many of which are received from the firm's trading partners). Gifts are given to the key employees who work closely with an executive, perform well, and have been with the company for a long time. There is no commitment from the firm and the employees cannot expect these gifts every year. With respect to the reasons for paying informally, the respondent from Pharma B reported that the company chooses to pay informally rather than formally because such arrangements are more flexible and easier to change.

Nature of Informal Compensation and the Reasons for Informal Pay at the Hotel

At the hotel, informal compensation is paid in the form of gifts (the values of which range from 30 to 10,000 Baht). Some of the gifts come from suppliers and executives; the others are bought. While gifts are given to reward performance and tenure at Pharma A and Pharma B, gifts are distributed by a lucky draw, and almost all the employees receive a gift at the hotel.

In addition, the hotel is a good example of a firm that does not seriously enforce its internal control procedure, which in effect allows extra compensation for employees, as a respondent explained.

New Year's gifts [from suppliers] are prohibited by the managing director. Many gifts slip through because we do not seriously enforce the policy, and the rejection of such gifts is difficult – it could be impolite and ruin the relationship. Small gifts, such as calendars and organisers, are common, and can help promote good will and build relationships. The question is how small is small, as this could also develop into the bad habit of expecting to receive gifts from suppliers.

As for the reason for paying informally, the respondent gave a different answer from that of the other respondents.

Most employees do not distinguish between formal and informal [compensation]. If they receive things regularly, then those things will automatically become 'formal' to them. They seldom read the rulebook unless someone points something out to them, and formal or informal does not really matter to them because management has the ability and power to change the rules . . . If we want to start something new, then we try it first. With informal benefits, we can stop more easily if it does not work. Again, if we do something regularly for a long time, then people will think of it as formal regardless of the rules in the book. For example, we have had employee meals for over 30 years, and many people now think that it is required by law to provide employee meals. Only the personnel manager and a few other people know that this is something extra for them [employees]. We have now put employee meals into our employee handbook to make it official.

DISCUSSION

Non-cash Compensation

Lawler, Siengthai and Atmiyanandana (1997) found that compensation in Thai family businesses is characterised by few fringe benefits (except for family members), and that the situation in Thai public firms is similar (except for the management). However, in this case study, which was conducted in 2004-2005, it was found that a variety of non-cash compensation is paid. As in the United States and Europe, the use of non-cash compensation seems to have been on the increase in Thailand over the past decade. The Thai firms in this study pay in terms of non-cash compensation because they gain cost advantages from providing goods or services to a large number of employees, and because some forms of non-cash compensation help improve production. Non-cash compensation also improves employee morale and satisfaction. This is consistent with previous North American and European studies on human resource management and economics.

In addition to confirming the findings of previous Western studies, this study reveals that Thai companies provide non-cash compensation because they are afraid that employees will consume too little of certain beneficial goods. Although most are aware of the agency problems associated with the overconsumption of perks by executives, as argued by Jensen and Meckling (1976), the response from the hotel reveals that the company pays in goods or services to solve underconsumption problems, especially among low level or middle level employees. For example, to convey a good image, hotel staff should be in clean and neatly ironed uniforms. However, it is unlikely that employees would pay for a daily professional laundry service or spend much time and effort neatly cleaning and ironing their uniforms if a uniform laundry service were not provided. Similarly, if executives were required to pay to entertain business guests themselves, then they either might not do it at all or might take guests to a cheap restaurant outside the hotel. Providing an in house entertainment allowance ensures that executives will not reduce entertainment activities to a suboptimal level, and of course it is also more cost efficient for the hotel to provide the food and the entertainment venue itself. The findings also suggest that there may be additional benefits of using non-cash compensation for firms in hospitality industries, as the hotel respondent mentioned that the hotel pays in goods and service to avoid making employees overly cash sensitive, which is counterproductive for a hotel.

When designing compensation packages, the companies take into consideration the preferences of their employees. From the study data generally know the extent of these preferences or have a way of eliciting this information. For instance, at Pharma B, the firm sells food on site, rather than providing food for everyone as a fringe benefit. The practice of selling goods to employees rather than simply giving them away seems to be the company's response to its information disadvantage regarding employee preferences, such as who would want the food and drink and the

kinds of food and drink that employees like. The other companies use different means to learn more about employee preferences, such as the employee voting used by the hotel.

Informal Compensation

Similar to North American and European firms, Thai companies pay informally because it is more flexible. In addition, informal compensation is paid to reduce turnover and to elicit more information and more cooperation from employees, especially where cooperation is needed on tasks outside an employee's job description. At Pharma A, the production manager pays informally to obtain power over key employees so that they will obey his orders and report the factory 'news' to him. Interestingly, in this situation informal pay also has the side effect of deterring undesirable action such as strikes. Because employee dissatisfaction is reported to the manager immediately, issues can be resolved early. It is also difficult to initiate strikes without cooperation from the key employees, who really run the operation and who cannot be replaced easily. The informal compensation that they receive makes the key employees more likely to be on the side of the manager than the worker.

The research findings suggest that compensation design may be influenced by the characteristics of an organisation's leadership. Both Pharma A and Pharma B experienced difficulties in their mixing departments. Pharma A invented an informal pay system to solve the problem, and subsequently implemented it throughout the factory. At Pharma B, in contrast, the problem remains unsolved. Both companies are family businesses whose founders are Thai-Chinese. At Pharma B, operations are controlled by the second generation of the family. At Pharma A, in contrast, the most powerful figure is the founder, who is still very active as a consultant to the business, although day to day operations are controlled by his wife and older brother (i.e. the first generation of the family). According to the respondent from Pharma A, the founder is a very capable, resourceful, and creative person, and places a great deal of trust in the production manager, who invented the informal pay system. It may be that the creativity, resourcefulness, and trust of the organisational leader has encouraged a more unconventional compensation practice. However, this is not to imply that Pharma B is less capable of solving problems. It is merely that the company uses conventional means creatively to solve problems, rather than inventing an unconventional solution. For example, both businesses experienced a problem with employees eating in manufacturing areas, but whereas the problem remains unsolved at Pharma A, Pharma B solved the problem by installing a conventional coffee room.

Lawler, et al. (1997) observed that compensation in Thai family businesses is characterised by less formalised incentives. This feature can be evidenced such as year end bonuses (equal to two or three months' salary based on the performance of the firm) paid at discretion of the owner, whereas compensation in Thai public firms is characterised by a greater use of formal evaluation and an increased use of merit pay over seniority pay (although seniority is still an important determinant of wage and salary adjustments). Although the incentives in the family businesses (for the subjects of this study) seem less formalised, this does not necessarily illustrate that merit pay is used less in family businesses than in public companies. The production manager at Pharma A reported that labour conflicts and loss of face are avoided by using 'seniority' pay to reward performance. In particular, New Year gifts are given based on performance, although the company claims that the gifts are given because the recipients have been with the company for a long time and have a good attendance record. The firm is concerned about the effects of performance evaluation and performance pay on employee satisfaction and morale, and thus, claims that such rewards are for tenure to avoid creating dissatisfaction among employees who receive no reward for performance. This implies that some of the 'seniority' pay documented in previous studies may actually be paid to reward performance. It also suggests that researchers should be careful in their interpretation of 'seniority' pay in Asian countries, where it is important to avoid loss of 'face.'

A comparison of the two pharmaceutical companies also suggests that compensation and reward systems seem to become formalised as organisations are transferred from the founding to the second generation. This observation is consistent with the findings of Gersick, Davis, Hampton and Lansberg (1997). At Pharma A, which is run by the first generation, informal cash compensation is paid secretly and selectively to reward performance and elicit cooperation. In contrast, at Pharma B, which is managed by the second generation, discretionary bonuses, scholarships for children's education, and employee loans are paid openly to reward performance. Although such discretionary financial assistance remains informal and is not included in the employment agreements, the compensation is paid openly, and any employees can apply for financial assistance. Additionally, it appears that informal compensation is often used to reward performance based on subjective evaluation. For example, discretionary financial assistance is awarded to 'good' employees in Pharma B, and informal extra cash is paid to those who perform 'well' at Pharma A. Whether an employee is 'good' or not seems to be based on the employer's subjective evaluation. Finally, the term 'informal compensation' is often used to refer to compensation that is based on an implicit contract, and is usually based on the expectation that the other contracting party will honour the contract. Thus, the distinction between formal and informal compensation lies in the contract enforcement method, whether legal (for formal contracts) or based on trust and reputation (for informal contracts). In developed countries, legal enforcement is effective, and there is, therefore, a clear distinction between formal and informal compensation. In this situation, informal contracts may be preferred for the flexibility that they afford given the legal liability that arises from formal contracts. If, however, legal enforcement is ineffective, then there may not be a clear distinction between formal and informal compensation. As the hotel respondent commented, employees may

not perceive the difference between formal and informal compensation if the management can change the compensation practice at any time. Furthermore, employees may not be legally protected if their firm changes its employment contracts or compensation policy without their consent.

Thai Culture and Its Impact on Compensation

Thai society is characterised by collectivism, rather than individualism (Hofstede 1994, Pornpitakpan 2000). Thus, Thai norms encourage interdependence and responsibility to members of a group to which one belongs, and a group can be a family, a circle of friends, a division or in a company. Generally, Thais are nice and kind to the group members, but may not be so to the outsiders (Pornpitakpan 2000, Zhu, Warner & Rowley 2007). To capitalise on this cultural characteristic, Thai companies often arrange various forms of social activities to create the sense of belonging to the same group. In this study, staff birthday parties, New Year parties, staff group trips, sport and religious activities are used to unite employees from different departments, and hence, to build loyalty to a company as a group. This is expected to lead to better cooperation among employees from various departments.

The common management style in Thailand is paternalistic (Kamoche 2000). Thai companies are expected to take good care of their employees and in return the employees are expected to be loyal. In Pharma A, the production manager mentioned that non-cash compensation is paid to show that the company cares for its employees, and to enhance employee loyalty. It seems that the company uses non-cash compensation as a tool to augment the paternalistic management style. Thai people value harmonious relationships. In practice conflicts, criticism, and any other act which may cause someone to lose 'face' are to be avoided (Komin 1990, Kamoche 2000). Moreover, Thai society is characterised by femininity, rather than masculinity (Hofstede 1994). While relationships, humbleness, and cooperation are generally valued more than achievement, ambitiousness, and competition, overt and honest performance evaluation may cause employees to lose 'face.' Consequently, high power incentive pay for performance may damage good relationships between superiors and subordinates and also among coworkers. In this study, it was found that pay for performance is disguised as seniority pay in Pharma A. In contrast within Pharma B, discretionary financial assistance is given to good employees with long tenure, and seniority is again cited as one of the reasons for the payment. In the hotel, rather than ranking all the employees at the end of the year and paying them accordingly, the hotel chooses to name only the top performer as 'Employee of the Month'. This way, comparison of performance and pay among coworkers can be minimised. The top performer earns 'face', but the others do not lose 'face'. However, if all the employees were to be ranked and paid accordingly, the one with worse evaluation and less pay would lose 'faces', and this might ruin good relationships among the coworkers.

Another important Thai norm is Theravada Buddhist concept of *kataññuta katavedita* (Pali), which is gratitude for and reciprocity of kindness or favour. When someone does a favour (*bunghun* for a significant favour, or *namjai* for a small favour) to another, the recipient is bound to remember the kindness and to reciprocate the favour whenever possible (Komin 1990, Kamoche 2000, Pornpitakpan 2000). Komin (1990) comments that one may exploit this *bunghun* relationship to generate power or influence over the recipient of favours. This seems to be the case in Pharma A where the production manager pays cash informally to selected employees. Because the payment is informal, and hence, voluntary, rather than formal, and thus, obligatory, the informal payment is considered *bunghun* or *namjai*. By accepting cash from the production manager, the payee is psychologically bound to return the favour to the payer. The payees become more cooperative and informative to the production manager. The situation is similar in Pharma B, because the financial assistance is not obligatory and the amount can be significant, the recipient is likely to feel indebted to the firm. Additionally, Thai society is characterised by the orientation toward flexibility to adapt in accordance with situations and opportunities (Komin 1990). Deviation from norms and commitments is tolerated in Thailand (Pornpitakpan 2000). This norm seems to lead to the successful implementation of an informal compensation scheme, because this norm possibly makes informal compensation more acceptable to employees (both the payees and nonpayees). Without such tolerance, employees may resist informal compensation. Discretionary compensation may be interpreted as discrimination, and selective payment may not be tolerated.

CONCLUSION

This paper describes the compensation practices that were observed in three Thai companies. The findings illustrate the nature of the non-cash and informal compensation used and the reasons underlying each type of payment. Two pharmaceutical manufacturers and a hotel were the study sites of this investigation. The evidence demonstrates that the Thai firms studied pay in terms of various kinds of goods and services, ranging from necessary goods such as food, clothes, accommodation and health care to social activities such as parties and staff annual trips. The studied firms pay in goods and services to exploit a cost advantage, to improve production, to better recruit and retain employees, and to enhance employee morale and satisfaction. Some of the non-cash compensation is available to all employees while some is available only to a certain employee, because the good or service is related to his or her job. Executives receive extra non-cash compensation, often in the form of upgraded goods or services. In addition, cash and gifts are given to some employees informally. The firms pay informally to benefit from greater flexibility and to elicit more cooperation and information from payees.

While this study provides some interesting findings on the use of non-cash and informal compensation in Thai companies, the study explores the topic from the perspective of an employer. The research findings inform the readers of what an employer expects from non-cash and informal pay schemes, which may not be the same as the perceptions held by the employees. A significant challenge for future research is to investigate the opinions and preferences of employees in terms of the use of non-cash and informal compensation and the likely impacts of these reward systems on work relevant behaviours. By comparing the employer's and employee's perspectives, the research findings can help practitioners better design compensation systems to elicit desirable work related behaviours. In addition, this study is limited to a small number of companies to gain deeper insights on the topic, at the expense of generalisability of the research results. Future research may attempt to study the use of non-cash and informal compensation in a larger sample to assess the pervasiveness and the general pattern of the use of non-cash and informal compensation. Finally, informal compensation is based on an implicit contract. An employer is expected to compensate an employee after the employee has fulfilled their part of the implicit agreement. In reality, a dishonest employer may renege by paying no reward after an employee has performed. Trust is needed between the two parties to make the informal agreement work. Future research to investigate the relationships between the use of informal compensation and trust in organisations has the potential to lead to better understanding as to the conditions under which informal compensation can be implemented successfully.

The study findings offer some interesting research implications. It was found that certain types of non-cash compensation, such as gifts, are paid to reward performance. Many studies have investigated the relationship between cash or equity compensation and firm accounting or stock performance, but give inconclusive results (Duffhues & Kabir 2007), possibly because non-cash incentives are not included in the analysis. The results of this study also show that 'seniority' pay may actually be used to reward performance in some companies. This finding suggests that future research should consider the total compensation paid, rather than cash and equity compensation alone, and is grounds to encourage investigation to the possible relationship between 'seniority' pay and performance, especially in Asian countries where 'face' matters.

As for the practical implications, the research findings show that a certain kind of non-cash compensation helps improve production and enhances employee morale, which seems to confirm practitioners' urge for greater use of non-monetary compensation. Moreover, non-cash compensation seems to go well with a paternalistic management style, because non-cash compensation helps to show that the company cares for employee welfare and daily life necessities. This observation suggests that practitioners should consider the prevailing management style when designing compensation packages. Additionally, practitioners might consider the performance evaluation method used when they determine the payment method. While subjective performance evaluation provides useful information one of the difficulties in using subjective performance evaluation is the employee's perception of the presence of bias and favouritism in the evaluation. It was found that informal compensation is often used to reward performance, which is based on subjective evaluation. The implication of this condition is that rather than using formal bonuses based on subjective evaluation, firms may be able to avoid labour conflicts by supplementing the formal compensation contract with informal, individual agreements based on subjective performance evaluation. Finally, because informal or discretionary payment seems voluntary rather than obligatory, the recipient tends to feel indebted to the payer. In a country where gratefulness is a virtue and reciprocity of favour is expected (such as a country with Confucian culture), informal or discretionary compensation can be used to make the employee feel grateful, and hence, perform better.

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APPENDIX 1

The Use of Cash Compensation

This appendix briefly reports the cash compensation paid by the firms studied (note that retirement benefits are considered to be deferred cash compensation, rather than true nonmonetary compensation). The various types of cash compensation paid by the firms are summarised in Table 4.

Table 4 Types of cash compensation paid to employees

	Pharma A	Pharma B	Hotel
Monthly salary	✓	✓	✓
Cash bonus for tenure	✓	✓	
Cash bonus for performance	✓	✓	✓
Other			
Subsidy for a New Year party		✓	
Gift for a newborn child, funeral			✓
Provident (retirement) fund or social security fund	✓	✓	✓
Discretionary scholarship for children's education		✓	

In addition to salaries (including overtime payments), the firms pay cash bonuses (either for performance or for tenure) and makes contributions to provident funds or social security funds. Less common forms of cash compensation include monetary gifts for a newborn child, a funeral, and other important events, which are paid by the hotel, and discretionary scholarships for children's education, as paid by Pharma B. In addition, Pharma B provides a subsidy for a staff New Year party.