

Global HRM Remuneration and Performance Management: Case of KFC China

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Abstract: In the field of global human resource management, both remuneration and performance management play vital roles. Within an international context, remuneration plans should be managed effectively as they are a powerful motivation method. This study surveys one of the biggest fast food companies, Kentucky Fried Chicken Corporation (KFC Corporation), in China from a human resource management (HRM) perspective. It will examine KFC's implementation of programs related to performance and compensation. Moreover, this paper considers solutions that address inherent weaknesses in the company.

Keywords: Human Resource Management; KFC China; Address Inherent Weaknesses

1. Background of KFC China

Kentucky Fried Chicken Corporation (KFC) is the one of biggest fast food brands established by Colonel Harland Sanders from America. After dominating the US domestic fast food market with its brand valued at over 5.5 billion dollars (See figure 1.1), KFC started its international expansion during the 1970s through the 1980s. In 1987, KFC opened its first outlet in China, and became the first Western fast food company in the country. In China, KFC did not offer and sell the same 'fast food' options as they did in the US domestic market. KFC's mission in China was not simply 'fast food' (Drewery, 2011). Instead, the company relied on its front-line employees to build a concept of providing customers an exciting and unique American experience. To that end, KFC China provided a play area for children, which was complementary to KFC China's service packages for children's birthday parties. With all these activities, KFC China did not position the brand as the most affordable dining option (Drewery, 2011).

KFC China typically employs more than 60 people in one store. However, the division of authority among front-line employees is blurry because the duties are rigid and complex and they just refer to the work schedule to identify their job for the day.

2. Implementation of KFC US from an HRM Perspective

First, the mission of KFC US is to serve food to customers in a fast pace. Apparently, this is different from KFC China's mission. Delivering food service promptly does not require ability from their front-line employees to express company culture to their customers. Therefore, great skill is not a critical factor for front-line staff. KFC US has developed its wage structure starting with an hourly wage system (e.g. 7.99\$-12.42\$ per hour) (Witkowski et al, 2003). After completion of 2000 work hours, the compensation plan changes to a regular wage rate (Witkowski et al, 2003). However, KFC US provides bonuses alongside its hourly wage system, in which even an intern can receive commission based on their daily sales. Moreover, job position descriptions are grouped according to the functional areas of employees, which means that KFC US provides different compensation ranges for various types of jobs (Witkowski et al, 2003).

Second, KFC US offers its employees a basic benefits plan (e.g. free meals, employee discounts). Additionally, KFC US takes employee benefits more seriously. For example, KFC US offers the health insurance that includes medical and dental insurance. Moreover, the organisation provides 'employee discounts' on gym memberships and fitness facilities. It also offers stock benefits for managers, in which they can purchase KFC stocks at a discounted price. KFC US' complete benefit plan sparked incredible growth in the level of employee satisfaction, based on KFC US' annual report in 2016. The benefits plan pushed employee satisfaction levels up

by 53% compared to the previous quarter (Yum! Brand,2016).

Moreover, in early 2012, KFC US developed the new performance management called 'Objective Management', however, this method seems did not work well on its employees. The organization created two standards (e.g. OT stands for up to standard, BT stands for below standard). The manager evaluates employee performance based on only two standards with no feedback. Not surprisingly, this method is useless because of KFC US did not providing a clear description these two standard. It could be the reason that cause the sales declined 12.7% of KFC US in the first quarter ended March in 2013 (Shi & Yang,2019).

3. Implementation of KFC China from an HRM Perspective

First, front-line employees have played significant roles in KFC China's journey, yet the compensation structure for front-line employees does not reflect their value. The compensation structure of KFC China reflects an unequal payment system.

Second, aside from the salary system, KFC China also provides basic benefits to its employees (e.g. one daily meal and staff room). It may be surprising to know that KFC China does not provide general work insurance and other long-term incentives for their front-line employees (Yu & Zhang, 2009). This lack of incentive plans have caused dissatisfaction among employees, which has brought great trouble in the form of a 'chicken war' against Ronghua Chicken, a Shanghai state-owned enterprise (Lee & Yu, 2015). In this battle, KFC China faces a strong competitor, Ronghua Chicken, and work enthusiasm among its front-line staff continues to decline. In contrast, Ronghua Chicken provides better employee benefits compared to KFC China.

Moreover, same as KFC US, KFC China also developed and used unclear performance appraisals on its employees. In 2013, KFC China confronted a serious labour scandal, in which KFC China was accused (in a Guangzhou-based newspaper report in late March) of exploiting employees due to unfair performance evaluation system and overworking of staff. After the scandal, the trade union stated on April 3, 2013 that KFC China violated China's labour laws. Consequently, KFC China's sales revenues plunged by 37% in the following month, as the public refused to support the brand, which led to the collapse of its headquarter stock prices(Lee & Yu,2015).

4. Comparison of HRM implementation between KFC US and KFC China

First, KFC China and KFC US have executed different product positioning strategies. KFC US mainly focused on the 'fast food' industry, while KFC China emphasized on brand effect. This means that KFC China exerted its efforts on creating a high-end Western catering service brand, rather than an affordable diner experience. Consequently, the difference in marketing positioning strategies of these two organisations require different HRM practices as well. KFC China had lower market labour costs. It did not design a more suitable compensation plan and merely adopted the same hourly wage system of KFC US.

Second, when comparing their benefits plans, KFC US provided its employees more impeccable benefits. This may be because the Chinese government provides general public health insurance for all its citizens. Thus, KFC China did not find it imperative to provide work insurance for its employees. Except of basic benefits, KFC China did not offers any non-tangible benefits to its employees.

5. Recommendations from KFC China an IHRM Perspective

First, global HRM has the responsibility of applying a rewards strategy based on the current demand of organisations. Thus, KFC China's HRM department should re-design its compensation structure based on employee expectations. To do that, the initial step is to clarify the various types of jobs in each store and to cancel the job rotation system. KFC China should survey all its front-line employees as well as different types of job positions, and remove redundant positions. In this way, the organisation can rearrange the most suitable talents for each job position.

Studies show that non-tangible rewards have a positive impact on performance, either independently or in conjunction with financial rewards. It is not surprising that 78% of CEOs and 58% of HR vice presidents agree that these rewards truly motivate employees(Dessler, 2001).

Second, in terms of the components of KFC China's reward structure, the company should attach importance to the development of employee benefits in the long term. It should develop a new benefits package that can either be family-friendly benefits or

work-life benefits(Dessler, 2001). For example, KFC China may offer preschool child-care centers for all its employees who have children, a full-time elderly-care consultant, and weeks of paid vacation for staff and their family members(Dessler, 2001). Offering intangible rewards boosts employee retention and creates a healthy work culture within the organisation. In addition, results from a survey of 250 questionnaires involving the relationship between intangible rewards and organisational commitment indicated that over 82% of participants believe that there is a highly positive correlation between organisational commitment and intangible rewards (Saqib et al, 2015).

Furthermore, KFC China should establish the Behaviorally Anchored Rating Scales (BARS) as a new method of performance appraisal. The BARS method is a quantified rating scale with narrative examples showing good or poor performance (See figure 1.2)(Edwards &Rees,2016). Employers can set specific examples for each position to guide employees. Clearer guidelines help employees to improve their performance. KFC China should establish the BARS model for each job position. For example, figure 1.2 shows a simple performance standard of a cashier. It is action-oriented, which implies that it leads the cashier employee to identify what behaviour is deemed as acceptable or unacceptable. Thus, employees can easily take steps to improve performance in their jobs or roles(Dessler, 2001). In comparison to the objectives by management method, the BARS method is more equitable and is fully individualized. Because the BARS method heavily emphasizes on different behaviours associated with different job positions, employers can individually and uniquely design and apply for each job position (Hom et al,1982). Moreover, the report based on performance appraisal feedback shows that the BARS method provides more efficient feedback collection compared to the objectives by management method, in which the former can increase the organisation’s feedback collection efficiency by 15% (Hom et al, 1982).

Conclusion

Evidently, employees are a key resource element of KFC China. A reasonable remuneration system is the core driver of employee commitment. Therefore, global HRM’s responsibility is to ensure the validity and effectivity of the organisation’s compensation system. In the future, joint ventures such as KFC should design their compensation system in depth to match their long-term goals.

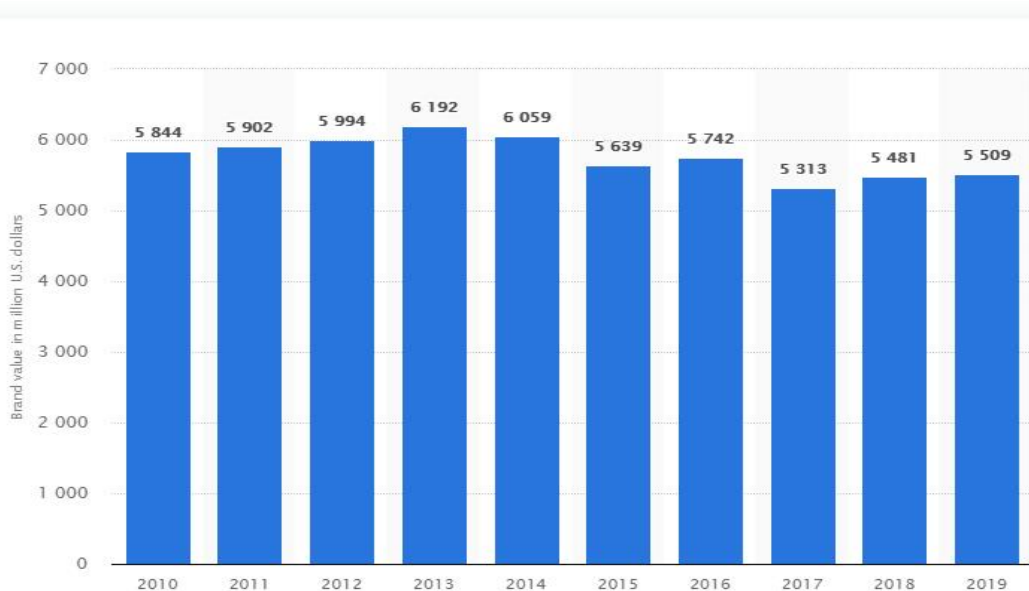


Figure 1 Brand value of KFC worldwide from 2010-2019. (Statista,2020)

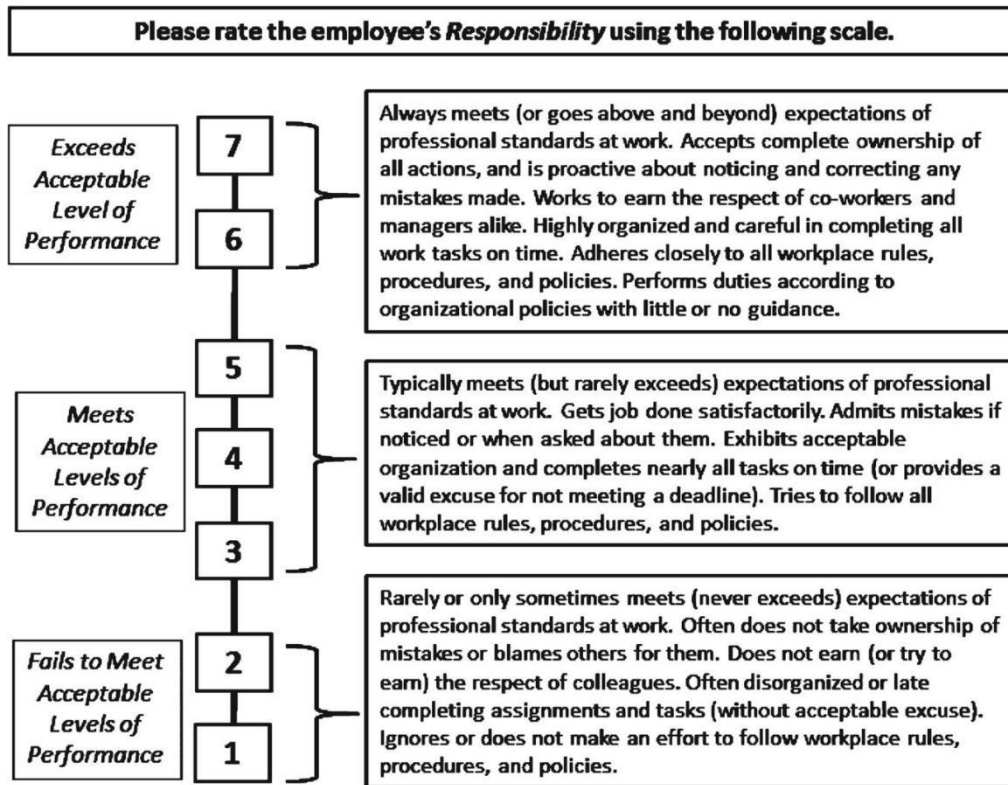


Figure 2 BARS for a cashier

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