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Powell, Benjamin John

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KNOWLEDGE WORKERS PERCEPTIONS OF PERFORMANCE RELATED PAY

Benjamin John Powell

A research report submitted to Faculty of Commerce, Law and Management, University of Witwatersrand, in partial fulfilment of the requirements of the degree, Masters in Business Administration.

Johannesburg
March 2005

ABSTRACT

Companies implement performance related pay systems with the belief that it will improve employee performance. The companies rarely test the effectiveness of PRP after it has been implemented. This study will test knowledge workers' perceptions regarding the effectiveness of PRP. This research will contribute to empirical data available on the perceived effectiveness of PRP, specifically focusing on the perceptions of knowledge workers.

The research was conducted using a survey. A questionnaire was compiled from the literature and based on the feedback received from five interviews using open-ended questions. The quantitative questionnaire was then handed out at a Business School to knowledge workers from a wide variety of industries and on various salary levels in their respective organisations. A hundred and nineteen questionnaires were received back from two hundred questionnaires handed out.

The result indicated that performance related pay is not perceived by knowledge workers to encourage performance if PRP is linked to annual increases. The respondents indicated that PRP, if linked to annual increases, have a perceived effect on tenure, does not influence loyalty and does not contribute to the performance of knowledge workers. PRP were seen as recognition for work done but had no perceived influence on motivation.

DECLARATION

I, Benjamin Powell, declare that this research is my own unaided work. It is submitted in partial fulfilment of the requirements for the degree of a Masters in Business Administration at the University of Witwatersrand, Johannesburg. It has not been submitted for any other degree or examination in this or any other university.

_____

Benjamin John Powell

March 2005

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Chapter 1

1. Introduction

1.1 Context of this study

The way people are remunerated has changed dramatically in the last twenty years. Hays (1999:48) states, “Long term rewards, 12-month reviews, annual raises and bonuses are obsolete. So stop managing time and place, start managing people and performance”.

Performance related pay (PRP) allows employers to remunerate their employees according to their performance and/or competence rating (Armstrong & Murlis, 1998). Ramsaroop (2003:1) explains “Companies implement PRP in the belief that it will help them to motivate staff to higher productivity and/or retain staff who are performing at high levels.” PRP allows employers to base employees’ salaries on various performance criteria, which in theory should be in line with the company’s objectives and strategy.

PRP intends to motivate employees to improve productivity, whether this objective is achieved is seldom investigated and employers are seldom sure that the intended purpose is realised through PRP (Ramsaroop, 2003). It is important to understand whether PRP is an effective tool to motivate employees and improve productivity.

The move to the new economy created knowledge as the new commodity and because knowledge workers’ hold this knowledge rather than the organisations, it is important to test the effectiveness of PRP on these employees. Knowledge workers are very mobile and they, rather then the organisation, hold valuable information individually (Sutherland, 2004). Organisations need to understand the perceived implications on knowledge workers when implementing a PRP system.

This study evaluates knowledge workers' perceptions of PRP. The results provide management with a sample of knowledge worker perceptions regarding the perceived effectiveness of PRP.

1.2 Purpose of this study

The purpose of this study is to build on the existing body of knowledge available on performance, PRP and knowledge workers. PRP is widely used to increase productivity of employees; therefore it should be thoroughly researched to make sure that it is achieving the desired objective.

This study builds on the research by Ramsaroop (2003), where the perceptions of PRP were studied in one organisation and from various management levels. This research will specifically test a wide range of knowledge workers' perceptions of PRP and the perceptions of PRP will be tested in relation to a number of variables. The research will identify the most prevalent types of PRP and performance measurement tools used.

This study should be of value, specifically to remuneration committees, human resource departments and consultants working in the remuneration field. However, the study will also give management an insight into the perceptions of knowledge workers with regard to motivation, performance management and PRP and therefore should be of value to any person managing knowledge workers.

1.3 Problem statement

The research will establish whether there is a link between the perceptions of knowledge workers with regard to PRP and the intended purpose of employers when implementing PRP. It will give an indication as to the perceived

effectiveness of PRP by knowledge workers from different industries and different salary levels in their respective organisations.

1.4 Significance of this study

The new economy focuses on knowledge as the new commodity and companies are becoming more reliant on the knowledge workers they employ, to gain a competitive advantage (Sutherland, 2004). It is therefore important to know what techniques are effective in optimising the performance of knowledge workers.

Performance related pay is one of the techniques used by organisations to improve employee performance (Armstrong & Murlis, 1998). There have been many articles written about PRP, some advocating its use and some articles questioning the effectiveness of PRP.

There has been little research done on the effectiveness of PRP to motivate knowledge workers. This research tests the perceived effectiveness of PRP as a tool used by companies to enhance knowledge worker performance.

1.5 Delimitations

This study is exploratory of nature and attempts to build on the existing body of knowledge relating to PRP and knowledge workers.

This study does not apply to any specific industry. The sample is knowledge workers studying towards a postgraduate management degree across a wide spectrum of industries and salary levels.

This study does not look at the appropriateness of PRP, it only analyses knowledge workers' perceptions regarding the effectiveness of PRP.

1.6 Assumptions

The following assumptions were made:

- the postgraduate students used in the sample have had exposure to PRP;
- the postgraduate students used in the sample were able and willing to express their opinion on PRP; and
- the postgraduate students used as a sample were considered knowledge workers.

1.7 Defining terms

The following definitions were selected for the purposes of this study:

1.7.1 Performance related pay:

“Performance related pay links pay progression to a performance and/or competence rating. The rating could be carried out during a performance review, or it could be conducted at a different time exclusively for PRP purposes. PRP is sometimes called merit pay i.e. based on merit rating, but this term is used less nowadays” (Armstrong & Murlis, 1998:280).

1.7.2 Knowledge workers:

A combination of the following definitions was used to define knowledge workers.

Kinnear (2000:1) defines knowledge workers as “employees who have specialist knowledge and are involved in the activities of research; applied

research; development work leading to new products or processes; and consulting based on specialist knowledge". Brown and Duguid (1996) define a knowledge worker as a learning person who is at the centre of knowledge transfer in an organisation. Drucker (1974) describes knowledge workers as employees that hold powerful knowledge, which the employees own rather than the organisation.

These definitions aim to qualify the classic postgraduate student studying part-time towards a postgraduate business qualification, typically a person with some management experience, as a knowledge worker.

Chapter 2

2. Literature review

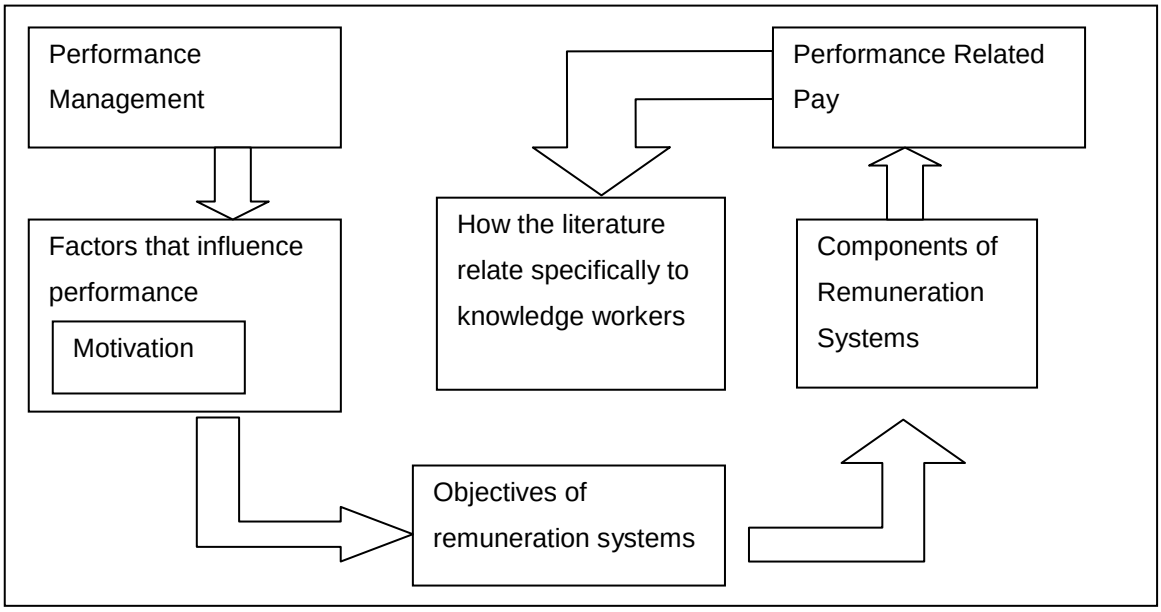
2.1 Introduction

The literature review will first look at performance management. This section will also look at performance measurement since performance can only be managed if measured accurately (Ingram, 1996). The performance management section leads into the different factors that influence performance. Employee motivation is a key driver of performance and a number of the theories will be analysed (Armstrong & Murlis 1998).

The next aspect of the literature review will look at pay as one of the factors that influence performance (Robbins, 1998). The objectives of remuneration systems will be investigated and how these objectives link back into performance management. The literature will also look at the components of remuneration systems. PRP is then investigated with arguments for and against the use of PRP (Milkovich & Newman, 1990).

The last area of the literature review will focus on knowledge workers and how the rest of the literature relates to this specific group of employees. Figure 1 indicates the logical relationship between the various components of the literature review.

Figure 1: The logical flow of the literature review process



2.2 Performance management

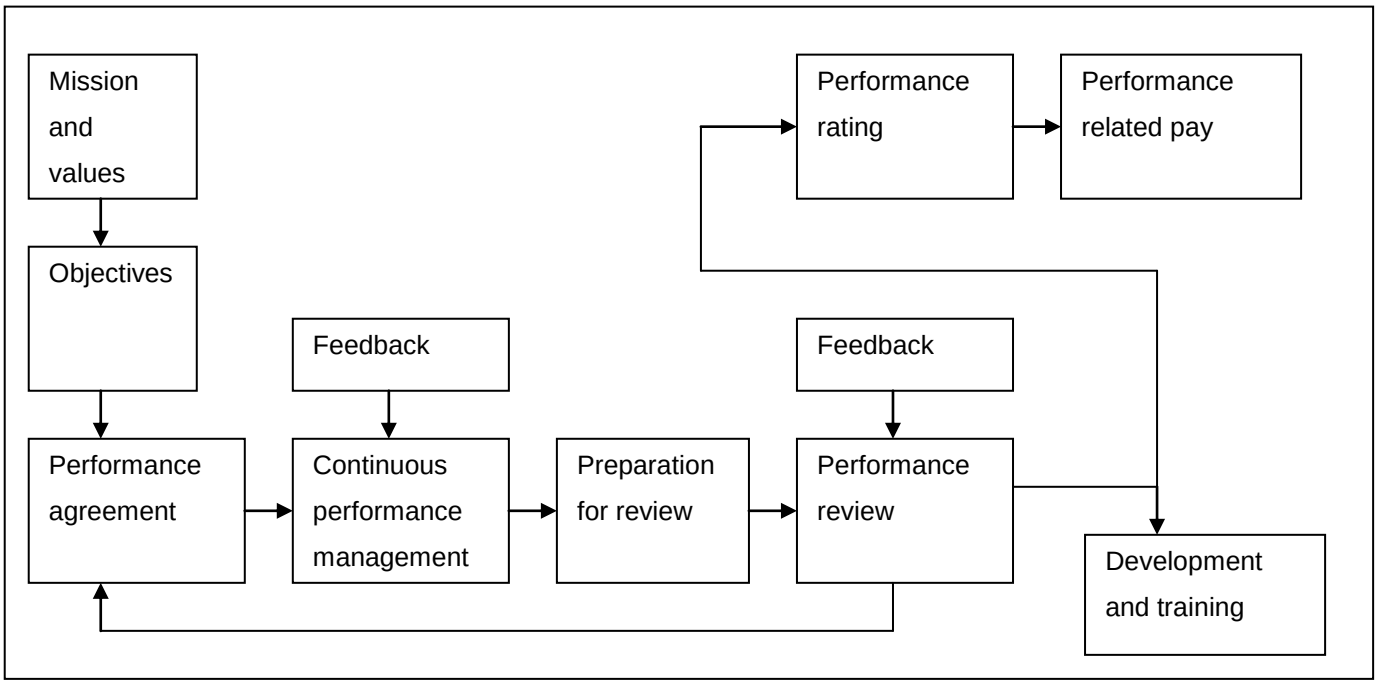
This section of the literature will review various authors' views on performance management. It is necessary to understand what performance management is intended for and then to look at the history of performance management, where after the key success factors for implementing a performance management system will be investigated.

Viedge (2003:74) defines performance and performance management, as "Performance is what people say or do. When companies employ people, they pay them either for the physical work they do or for what they say. Performance management is shaping what people say and do to the needs of the organisation." Armstrong (1994) gives a similar definition, but adds that it is a process and it is owned and driven by line managers.

Armstrong (1994:13) defines the process of performance management further, "Performance management is based on the agreement of objectives,

knowledge, skill and competence requirements and work and development plans. It involves the joint and continuing review of performance against these objectives, requirements and plans and the agreement and implementation of improvement and further development plans."

Figure 2: The performance management process



Source: Armstrong (1994:42)

Armstrong & Murlis (1998) state performance management can be broken down into four key components:

- first planning and contracting against agreed measures;
- then managing and coaching for performance improvement;
- followed by feedback and review; and
- lastly to give reward and recognition where due.

Managers have managed performance in the past with merit ratings, management by objective systems and performance appraisals. These systems have all been discredited as effective systems to measure and manage performance, since most of these systems have become a paper based

exercise, rather than a process to measure performance (Armstrong & Murlis, 1998).

Performance can only be managed if it is measured. Ingram (1996) argues that performance management can only be effective if the performance is measured accurately. He found that the balanced scorecard system combined with benchmarking is the most effective performance measurement instruments. Edwards (1996) disagrees and argues that the best way to measure performance is through 360-degree feedback, because it improves the reliability of the feedback since it comes from multiple sources.

Armstrong & Murlis (1998) do not support a specific system as the best to manage performance with; they argue performance management refers to processes and policies that can be implemented to improve performance. Armstrong (1994) states that some of these performance management systems are just merit rating systems, management by objective systems or performance appraisal systems under a new name.

Armstrong & Murlis (1998) state the key organisational performance levers that affect the successful implementation of a performance management system, are:

- first and foremost leadership;
- the values and culture of the organisation;
- the work processes and business systems;
- the organisation, team and job design;
- management processes and systems;
- reward and recognition; and
- individual and team capability.

Viedge (2003) warns that performance management systems might make logical sense in theory but in practice they do not succeed, he lists the reasons why performance management systems can fail as:

- Individual goals are not linked to strategy,

- no consequences for non-performance,
- employees do not understand what is expected of them,
- lack of competency to perform the job,
- managers do not use individual goals to drive performance,
- too many goals per employee,
- complex forms are used,
- no link between performance and reward and recognition,
- unidentified obstacles to performance,
- no feedback,
- employees are not held accountable for results; and
- performance management is seen as separate from the day to day management of people.

From the list above, it is clear that the success of performance management can be hampered by a number of factors and these should be taken into account before a performance management system is implemented. It is also critical for the organisation to have a clear strategy, which can be filtered down to the various departments or divisions in order to align the strategy with the performance management system (Viedge, 2003).

Armstrong (1994) states that a performance management system should be used as a basis for a PRP system. He describes PRP as one of the processes of performance management, but not a necessary one. Thus, performance management can work without PRP but PRP cannot work without performance management.

“Performance management is a means of getting better results from the organisation, teams and individuals by understanding and managing performance” (Armstrong, 1994:23). It is therefore necessary to understand which factors influence performance. The next section will look at some factors that influence individual or group performance.

2.3 Factors that influence performance

The previous section has highlighted the importance of performance management and performance measurement, it also highlighted a number of factors that influence the successful implementation of a performance management system. These factors should therefore directly or indirectly have an influence on individual and group performance. This section of the literature review will investigate which other factors influence individual or group performance.

Peiperl & Trevelyan (1997) state that the employee's ability to perform is the biggest contributor to performance. Gerber, Nel, & Van Dyk (1998) state that performance is a product of ability and motivation related to a specific function. Milkovich & Newman (1990) agree with the match between job requirements and the employee's ability and motivation but argue that conditions outside the control of the individual are also factors that influence performance. Sharma & Smith (2002) agree that ability and motivation are important drivers but also list employee focus as an additional driver of performance.

Atsan, Erdem & Ozen (2003) did not focus on the traditional drivers and identified trust as an important contributor to team performance. Pfeffer (1998) found employees perform better in an environment which is fun, where there is freedom and mutual respect.

Most authors agree that pay has an influence on performance (Ingram & Thompson, 1995; Pfeffer, 1998; Armstrong & Murlis, 1998; Milkovich & Newman, 1990; Kuhn & Yockey, 2003 & Belfield & Marsden, 2003).

Sharma & Smith (2002) state that a culture of leadership from all employees is necessary to optimise performance. They also suggest that a performance management system, which all employees are familiar with, needs to be

implemented to shape and monitor the culture of the organisation and to improve performance.

Viedge (2003) tabled a detailed list of factors that influence individual performance relating to the individual and to the organisation.

Table 1: Factors influencing individual performance

Relating to the individual	Relating to the organisation
Commitment to the organisation	Leadership
Selection	Structure of working units
Personality	Systems and procedures
Attitude	Enabling support
Skills	Empowerment
Ability	Opportunity to perform
Knowledge	Job design
Being present (not absent)	Rewards (pay and benefits)
Motivation	
Energy level	

Source: Viedge (2003:75)

The literature highlights a number of factors that influence performance; most of the authors list motivation and rewards as factors. It is therefore necessary to investigate the theories on motivation and how these link into pay.

2.3.1 Employee motivation

Motivation is an important component in attempting to predict human behaviour (Gerber *et al,* 1998*)*. It is therefore important for this study to analyse the various motivational theories, to see how they influence performance.

Armstrong & Murlis (1998) identified two distinct types of motivation, intrinsic and extrinsic. Intrinsic motivation is self generated, but could be enhanced through employee empowerment, job design, policies and procedures. Extrinsic motivation revolves around the external factor used to motivate people, which could include PRP and promotions.

Gerber *et al* (1998) group the theories into different categories than Armstrong & Murlis (1998); they group them as content theories and process theories. Content theories revolve around what motivates people and what needs they want to satisfy. Process theories revolve around how people are motivated and what process is followed to initiate behaviour.

2.3.1.1 Content theories

A major criticism of these content theories is that they do not take into consideration that man is a thinking animal (McLaughlin, 1990). These theories include, Maslow's hierarchy of needs theory and Hertzberg's two-factor theory (Armstrong & Murlis, 1998).

2.3.1.2 Process theories

Some of the process theories include; Adam's equity theory, expectancy theory, goal setting theory, reinforcement theory, attribution theory and self-efficacy theory. Armstrong (1994) states the theories which have contributed most to the philosophy of performance are: goal setting theory, reinforcement theory and expectancy theory, these will be discussed in more detail.

2.3.1.2.1 Goal setting theory

This theory suggests that employees will perform better if they have specific goals to achieve (Armstrong & Murlis, 1998; Gerber *et al*, 1998 and Robbins, 1998). Armstrong (1994) lists the criteria for the goals as: -

- they should be specific;
- challenging but reachable;
- must be seen as fair and reasonable;
- employees should participate in goal setting;

- feedback should be used to create pride, satisfaction and commitment to achieve even higher goals.

Goal setting could be seen as closely related to PRP since the employee would have certain performance criteria (goals) to achieve and on achievement, the employee would be rewarded.

2.3.1.2.2 Reinforcement theory

This theory is a combination of goal setting and expectancy, where employees are rewarded through incentives for achievement of specific goals and this enforces better performance in future (Armstrong & Murlis, 1998; Gerber *et al*, 1998 and Robbins, 1998).

Reinforcement could be achieved through PRP, however if the goals are perceived to be unrealistic or if the reward is insufficient then employees might become demotivated according to goal and expectancy theories and then PRP will not be effective.

2.3.1.2.3 Expectancy theory

Expectancy theory argues that employees expect that an increase in performance would lead to a desirable outcome and this motivates employees to perform better (Armstrong & Murlis, 1998; Gerber *et al*, 1998 and Robbins, 1998). Armstrong (1994) states that in order to have a heightened motivation to perform employees would need to feel: -

- able to change their behaviour;
- confident that a change in behaviour will produce a reward; and
- the reward is worth the change in behaviour

In the context of this study, expectancy theory is relevant; since PRP revolves around creating the expectancy that the employee will be rewarded if the employee performs according to the requirements of the employer.

2.4 Pay

The research will look at pay as a performance driver and evaluate some of the literature on the objectives of a remuneration system. The components of remuneration systems will also be investigated in order to understand the various types of pay.

2.4.1 Objectives of remuneration systems

Bussin (2003:16) sums up the importance of remuneration as, “It is a manager’s perennial question: How do I get an employee to do what I want? Regardless of which theorist or author is referenced, one thing is common to all – salary is an essential and important ingredient to the question asked.” This indicates that when organisations implement a remuneration system, they must be cognisant that remuneration is an important component of answering their constant question and it is therefore important to implement a system that would achieve the desired objective.

Armstrong & Murlis (1998:28) state that “The development of reward management policies, structures and practises will be underpinned by the assumptions about how people can best be motivated to deliver high levels of performance”. The ability of a reward system to motivate employees to behave in a manner that management would like them to behave, would therefore determine it’s effectiveness.

Currin (1997) found that remuneration is a very powerful influence on the behaviour of employees. Currin (1997:14) states, “Given a chosen business strategy, management identifies possible tools that can be used to communicate that strategy to all employees. The compensation system is one such tool”.

Devanna, Fombrun & Tichy (1984) state that a reward system should assist in the attraction and retention of the right staff, influence the motivation of employees and the culture of the organisation; the system should also reinforce and define the structure of the organisation and it should be cost effective.

Armstrong & Murlis (1998) expand on the list of Devanna *et al* (1984) with this detailed list for the objectives of a reward system:

- The reward system must support the achievement of the organisation's strategic and short-term objectives;
- it must communicate the organisation's values and performance expectations to employees;
- culture management and change must be supported through the reward system;
- the system should drive and support desired behaviour from employees;
- value added performance ought to be encouraged;
- it has to promote continuous development;
- it must be competitive in the employment market in order to attract and retain the right staff;
- the system must motivate all employees;
- it should promote team work;
- the system has to be flexible enough to cater for the needs of all employees;
- the costs should justify the benefit received from the system; and
- the system should be fair and equitable.

The objectives stated by Armstrong & Murlis (1998) cover some of the needs of employees identified in the various motivational theories. The objectives to motivate all employees and to encourage and enforce the right behaviour are very broad statements and could be hard to achieve.

Swart, de Beer & Kruger (1997) argue that a remuneration system illustrates to employees just how valuable they are to their organisations and state that an effective remuneration system can: -

- motivate employees to perform,
- create a culture where employees care about the success of the organisation,
- create the fringe benefits employees need in a cost effective manner,
- attract and retain the right staff for the organisation to be successful,
- communicate the values, goals and competencies required to succeed,
- encourage people to develop their skills and abilities in areas that will best aid the organisation; and
- assist in creating an organisational cost structure that is realistic.

The literature highlights a number of objectives that can be achieved with a remuneration system, it is therefore important for management to understand how to implement the right remuneration systems in order to achieve the desired effect on their employees and in turn for their organisations to provide them with a competitive advantage.

2.4.2 Components of remuneration

This section of the literature review will focus on the components of remuneration systems to help understand the various aspects that constitute a compensation system.

Milkovich & Newman (1990:3) define compensation as “all forms of financial returns and tangible services and benefits employees receive as part of an employment relationship.” Milkovich & Newman (1990) describe compensation under two headings, direct and indirect compensation. Direct compensation refers to base pay, merit pay, incentives and cost of living adjustments. Indirect compensation refers to protection programmes, reimbursement for time away

from home and employee services and perquisites, which could be described as fringe benefits, such as pension, life cover and medical.

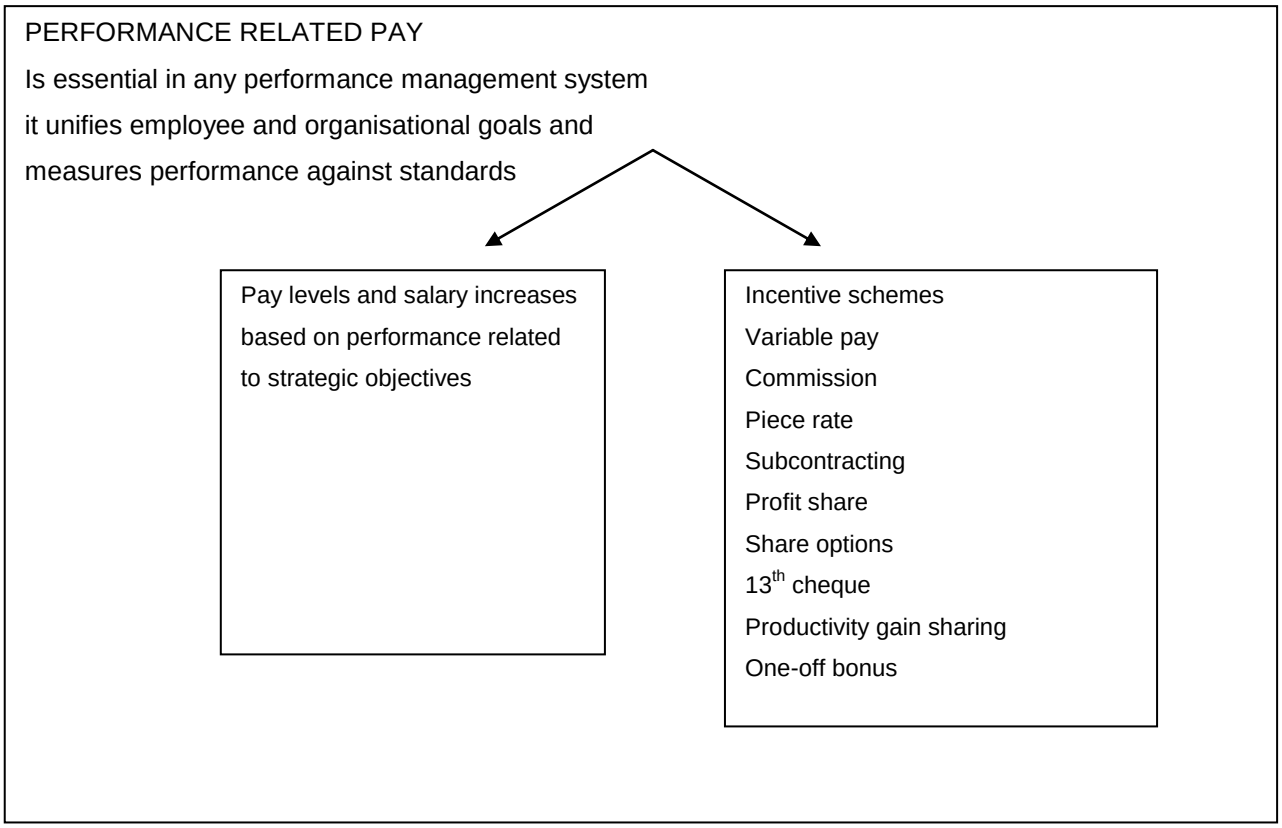
Bussin (2003) groups remuneration under two different headings, fixed pay and variable pay. Merit pay is included under fixed pay and is referred to as PRP. Variable pay includes long- and short-term incentives as well as share incentive schemes, which could be share options, performance shares or share purchase schemes. Base pay is described as the fixed cash component paid to the employee for work performed (Bussin, 2003; Milkovich & Newman, 1990).

Merit pay or PRP rewards an employee for good performance after the performance occurred; this could be in the form of a merit salary increase or a lump sum of money. This type of pay is linked to performance (Milkovich & Newman, 1990).

Incentives could be divided into long-term and short-term incentives. An individual, team or organisation usually links short-term incentives to a specific objective. Long-term incentives are usually offered to managers to focus their attention on long-term objectives or strategies; these could include stock options or deferred payments (Milkovich & Newman, 1990).

For the purpose of this research, a combination of merit pay and variable pay will be classified as PRP as per Burnett (2000) & Milkovich & Newman (1990), thus bonuses and merit increases would be included in the definition of PRP. This is also in line with the way Sutherland (2003) defines PRP as per Figure 3.

Figure 3: Performance related pay



Source: Sutherland (2003)

Pfeffer (1998:110) states “Compensation is becoming more variable as companies base a greater portion of it on stock options and bonuses and a smaller portion on base salary, not only for executives but also for people further and further down the hierarchy”.

Burnett (2000:12) agrees “Managers should strive to ensure that their remuneration structures include a combination of guaranteed pay and performance related pay in order to achieve a competitive advantage”. This indicates that the next aspect of the study should investigate PRP as a remuneration system that could potentially improve employee performance.

2.5 Performance related pay

PRP is usually associated with an increase in base pay and linked to specific performance criteria of an individual or a group (Armstrong & Murlis, 1998). Gerber *et al* (1998) include incentive pay as a form of PRP and describes PRP as payment system where output is directly related to input.

2.5.1 Objectives of PRP

Mabey, Skinner & Clark (1998:126) state, “The design of reward systems, particularly where a performance-related element is involved, is a complex matter.” They found that PRP should rather focus on a few key objectives than a whole range and these objectives should be clearly communicated to all employees in order to create trust and be effective.

Armstrong & Murlis (1998) disagree and state that PRP aims to achieve the following host of objectives:

- motivate all employees to perform better;
- deliver a positive message to employees about the organisations performance expectations;
- focus attention on the key performance issues;
- reward performance equitable;
- act as a change agent of culture where a more performance orientated culture is needed;
- reinforce existing cultures of high performance;
- highlight individual and team performance;
- retain and attract quality staff that will expect PRP; and
- align staff costs with company performance.

McLaughlin (1990) agrees that PRP could achieve multiple objectives if implemented successfully. He provides the following eight guidelines for implementing PRP successfully:

- the potential compensation must be quantifiable not a vague promise;
- the system must be understood and employees must be committed to the process;
- employees must believe that they are capable of achieving the goal or performance criteria;
- the goal or performance criteria must be challenging enough;
- the reward must be large enough to be significant to the employee;
- pay very well for good performance and even better for great performance; and
- make the reward proximate to the event.

Wiscombe (2001) states there are various factors that can contribute to the success or failure of a PRP system. She highlights the factors for a successful PRP system as:

- When it is measurable and objective;
- when the PRP system is designed for the entire company's success;
- when employees have significant incentives;
- when the whole organisation is involved; and
- when there is clear expectations.

She also highlights the factors that can contribute to an unsuccessful PRP implementation as:

- When it does not encourage team work;
- when it pushes one outcome to the detriment of others;
- when it is too subjective;

2.5.2 Arguments in favour of PRP

PRP is widely used and had grown rapidly based on the assumption that money is the best motivator. If money is a good motivator then PRP would lead to increased productivity, because employees would be motivated by the fact that their performance is linked to their pay. It would also reduce staff costs, because company performance would be linked to, staff costs and it could result in the organisation being more competitive (Milkovich & Newman, 1990).

Ingram & Thompson (1995) state that PRP is a powerful tool with which to align shareholders' and managers' interest. Pfeffer (1998) agrees that a company culture can be fostered through rewarding the activities, behaviours and values, which are aligned with the company strategy. This corresponds with expectancy and reinforcement theories.

PRP is equitable and it provides a tangible way for identifying achievement and communicates the performance objectives clearly to all employees (Armstrong & Murlis, 1998; Milkovich & Newman, 1990). This is in line with goal setting theory as long as the objectives are broken down into specific realistic goals.

Research by Kuhn & Yockey (2003) found that incentives were preferred when based on individual performance rather than group or company performance. Pfeffer (1998) disagrees; he argues that incentives should be based on group or company performance in order to be effective. Although these authors disagree on the implementation of PRP, they support the underlining argument that paying for performance is effective.

Empirical evidence supports the fact that employees believe the most important factor in determining salary increase should be performance and that tying pay to performance has a positive impact on employee productivity (Belfield & Marsden, 2003; Milkovich & Newman, 1990).

2.5.3 Arguments against PRP

The counter argument is that the effectiveness of money as a primary motivator is questionable (Kohn, 1993; Mabey *et al*, 1998; Pfeffer, 1998 & Skinner & Clark, 1998). Pfeffer (1998) argues that if you attract people with money they will leave for money. Kohn (1993) also questions the assumption that people will do a better job if they have been promised some sort of an incentive and he argues that it will only achieve temporary compliance.

Brough (1994) and De Silva (1998) disagree. They state that PRP should be implemented, as part of an initiative to change the culture of an organisation, which is obviously a longer-term objective than temporary compliance; they do however warn that PRP in isolation is not effective.

Kohn (1993:55) states that empirical evidence showed "the more cognitive sophistication and open-ended thinking that was required, the worse people performed when working for a reward." This evidence indicates that the principle behind PRP might be imperfect. Kohn (1993) also found that goal-setting programmes and training had a far greater impact on performance than PRP systems.

PRP is also criticised because the performance criteria are not always objective and may lead to unfair assessments, which would lead to a flawed system (Armstrong & Murlis, 1998; Hall & Torrington, 1991 & Milkovich & Newman, 1990). This also relates to research done by Belfield & Marsden (2003), which indicates that PRP is only effective if matched with an equally effective monitoring environment.

PRP could focus employees too narrowly and they might tend to only focus on the performance criteria set in PRP rather than longer-term objectives

(Armstrong & Murlis, 1998). Milkovich & Newman (1990) and Brough (1994) also question the effectiveness of PRP used for blue-collar workers.

There is evidence to support that there is no link between PRP and performance and some of the biggest problems in PRP is how organisations implement the system (Milkovich & Newman, 1990). Stredwick (2000) states that PRP has a built-in conflict because the system might reward individual achievement while the human resources objective is to encourage teamwork.

From the literature, it is clear that the authors do not agree on the effectiveness of PRP, to improve performance. Some authors question the underlying principle of PRP while others refer to implementation problems that result in a flawed system. Pfeffer (1998) reminds leaders to see pay for what it is "only one element in a set of management practises that can either build or reduce commitment, teamwork and performance". Mabey *et al* (1998:127) concludes, "Finally, PRP is more likely to be successful in certain types of environments and with certain types of employees."

The literature will now focus on knowledge workers to understand if they are the type of employees that respond positively to PRP. There is an ongoing debate about the effectiveness of PRP. There is also no empirical evidence on the effectiveness of PRP to enhance the performance of knowledge workers.

2.6 Knowledge workers

2.6.1 Introduction

This section of the literature review will focus on knowledge workers and how the rest of the literature relates to these types of employees. Drucker (1974) introduced the concept of knowledge workers by describing them as employees that hold powerful knowledge, which the employees own rather then the

organisation. Viedge (2003) defines this knowledge as a combination of formal academic study and experience.

Knowledge work is defined as “systematic activity that traffics in data, manipulates information and develops knowledge. The work might be theoretical and directed at no immediate practical purpose, or pragmatic and aimed at devising new applications, devices, products or processes” (Despres & Hiltrop, 1995:12).

2.6.2 Factors influencing knowledge worker performance

Amar (2004:89) describes the reason for the study of motivation of knowledge workers, as “Organizations that desire to use knowledge in their products, processes, and services, have to know how to engage the human mind in their operations.” Amar (2004) found three sources of work motivation for knowledge workers: the job they are doing, the outcome of the job (including all extrinsic rewards and penalties) and thirdly the system or the environment in which they work. This is closely related to expectancy theory, but with an additional element, namely the environment.

Research by Kinnear (2000) and Chick (2001) identified knowledge workers needs as independence, individualism, purposeful work, effective working relationships and personal achievement. Sutherland (2004) found that although most knowledge workers were satisfied with their current work situation more than 60 % would leave their current employer within two years.

Tymon & Stumpf, (2003) argue that organisations need to spend money on their knowledge workers for learning and development to keep their knowledge workers motivated to perform. This creates a problem if 60 % of knowledge workers are going to leave regardless if they are happy or not, unless organisations can create some kind of lock in through the training and development expenses.

Baumann, Brett, Reilly & Stroh (1996) links variable pay to tenure and found a negative relationship between tenure and variable pay. The higher the percentages of variable pay of total remuneration the shorter the tenure. This study was conducted with middle level managers, which cannot necessarily be classified as knowledge workers. However, this study could indicate that PRP could cause shorter tenures from knowledge workers, if based on variable pay rather than merit increases. The research by Sutherland (2004) indicated that dissatisfaction with promotion opportunities and nature of work was the most highly correlated with the intention to quit. This is consistent with the research done by Kinnear (2000) and Chick (2001).

Sutherland (2004) found that variable pay and base pay are rated fourth and fifth respectively by knowledge workers, as the most important factors affecting retention; higher than individual recognition and freedom to work independently, indicating that knowledge workers regard pay as important, but not as important as other factors.

There are multiple factors that have been identified to specifically influence knowledge workers' performance, which indicate the individualistic nature of knowledge workers (Chick, 2001). Five key themes were identified in the research done by Chick (2001):

- personal growth opportunities and recognition;
- purposeful, challenging and relevant work;
- effective leadership and a trusting employee-employer relationship;
- individual competence and achievement; and
- operational independence.

2.6.3 Knowledge worker pay

Chick (2001:102) included "market-related pay, satisfaction with one's remuneration package and the fact that reward should be directly related to

individual contribution and performance", under the subheading of personal growth opportunities and recognition. This finding indicates that PRP influences performance of knowledge workers as long as it is based on individual performance rather then team or group performance.

Rupp & Smith (2003) agree that knowledge workers are motivated by performance-based rewards, the ability to see the link between input and output and involvement. They argue that these factors are important individually but the most powerful way to encourage ownership behaviour from knowledge workers is by leveraging all of these factors.

Despres & Hiltrop (1995) provide three dimensions for a reward system to be effective in the knowledge age, which excludes performance-based rewards, namely:

- The system should be externally competitive and sensitive to the perceptions of internal equity;
- the system should be perceived as logical, be administrated in a consistent way and as seen as contributing to the organisations strategic direction; and
- the system should address cultural, socio-political and work challenges issues primary and pay secondary.

Sutherland (2004:22) states "organisations need to develop and communicate compelling employee propositions that highlight the availability of challenging work, career development opportunities, as well as rewards based on individual performance." This is again in line with the research of Chick (2001) and Kuhn & Yockey (2003) that PRP could be effective for motivating employees as long as it is based on the individual's performance. Pfeffer (1998) disagrees and states that individual performance undermines teamwork, encourages employees to focus on the short term, lead people to link compensation to political skills rather than to performance.

Smith & Rupp (2004) found that knowledge workers have a negative perception regarding the link between performance rating and merit increase. It is argued that budget constraints are usually presented as the reason for not giving the 'earned' merit increase. Kuhn & Yockey (2003) agree that the success of a variable pay system depends on the nature of the system. This could be related to the findings from Despres & Hiltrop (1995) that performance measures for the knowledge era should shift from objective and rational to 'soft' performance measures.

Kinnear (2003) states that although knowledge workers might have the same needs as other employees they might respond to different satisfiers than in the past. Various authors argue that PRP has a positive influence on the performance of knowledge workers and should be based on individual performance rather than group or company performance to achieve the best results. However, PRP cannot be seen in isolation, since there are a number of other factors that influence performance of knowledge workers.

The literature indicates that PRP could be an effective tool to improve knowledge workers' performance. However there are concerns that PRP might encourage shorter tenures from knowledge workers and that the effectiveness of PRP's is dependant on how it is implemented.

2.7 Conclusion

The literature review indicates that there are many different opinions on PRP, some positive and some negative. The literature is more generalised and there is no empirical evidence of the effectiveness of PRP on knowledge workers, specifically. There is a need for empirical evidence to show whether knowledge workers perceive PRP as an effective motivational and performance enhancement tool.

The purpose of the study is to build on the research conducted by Ramsaroop (2003); her research was only focused on one company's perception of PRP and not specifically focussed on knowledge workers. Ramsaroop (2003) found PRP to be moderately successful in that organisation and gives the following recommendations for improved success with PRP: -

- PRP should have a specific objective, which
- should be communicated to staff ,
- it should address the perceptions of fairness,
- ensure the rewards are sufficient to warrant employee attention; and
- create a clear link between pay and performance.

This research focused on a wide range of knowledge workers from a variety of industries on different salary levels. The research tested these knowledge workers' perceptions on PRP and gave an insight into the perceived effectiveness or lack thereof from knowledge workers.

Chapter 3

3. Research propositions

Based on the literature review the following propositions are offered.

3.1 Proposition 1

The most common types of PRP used are:

- profit share;
- performance bonus; and
- share incentives.

3.2 Proposition 2

The perceived effectiveness of PRP will be positively correlated to:

- the respondents' performance rating;
- the respondents' perceived fairness of the performance measurement system; and
- the perceived effectiveness of the performance measurement tool used.

3.3 Proposition 3

There will be a positive correlation between salary increase received and the performance rating awarded.

3.4 Proposition 4

Knowledge workers will perceive PRP as more effective if based on individual performance rather than group performance.

3.5 Proposition 5

There will be a positive correlation between salary level and perceived effectiveness of PRP.

3.6 Proposition 6

It is perceived that linking annual pay increases to performance has a positive impact on knowledge workers' performance.

3.7 Proposition 7

The most common types of performance measurement tools used are:

- 360 degree feedback,
- balanced scorecard; and
- performance appraisals.

Chapter 4

4. Methodology

4.1 Introduction

This chapter focuses on the research methodology and how it was applied in this research. This chapter deals with the population, the sample size and selection, how the questionnaire was designed, the data collection process that was followed and the data analysis.

4.2 Research methodology

The research methodology was quantitative by nature, but did involve some qualitative aspects through structured interviews with five individuals. The research used a survey. Surveys are more efficient and economical than observations (Emory & Cooper, 1991). The survey was conducted using a questionnaire with close-ended questions. The response rate was increased through handing out the questionnaires in a classroom and collecting the questionnaires after completion.

4.3 Research population

Brown and Duguid (1996) define a knowledge worker as a learning person who is at the centre of knowledge transfer in an organisation. Drucker (1974) introduced the concept of knowledge workers by describing them as employees that hold powerful knowledge, which the employees own rather than the organisation. Viedge (2003) defines this knowledge as a combination of formal academic study and experience.

These definitions serve to qualify the population of working part time postgraduate students as knowledge workers.

The research population was all knowledge workers in South Africa.

4.4 Sampling methodology

Convenience sampling was applied, because of the time and financial constraints of this study. Convenience sampling is the least reliable sampling method and has no controls to ensure precision (Emory & Cooper, 1991). The researcher had access to the students at the Graduate School of Business at the University of Witwatersrand.

The sample consisted of all the part time students currently studying towards their Masters Degree in Business Administration (MBA) and students studying part-time towards their Postgraduate Diploma in Management (PDM) at the Graduate School of Business at the University of Witwatersrand. The sample excluded all full-time students, because they are not employed.

The questionnaire was handed out in four part-time classes with approximately 50 students per class, thus the sample target size was 200 students. The percentage of completed questionnaires was 59.5%.

These students represent a wide variety of organisations from various industries and are on various salary levels in their respective organisations.

4.5 Data collection instrument

It would have been too time-consuming to interview such a large sample; therefore, it was decided to use a questionnaire to collect the data. A brief introduction to the study was included in the questionnaire to inform the sample of the purpose of the research and to request their assistance in completing the questionnaire.

The questionnaire was confidential and anonymous. These questionnaires were handed out in classrooms with the permission of the lecturer and students were

asked to complete them and return them immediately, to increase the response rate.

4.6 Questionnaire design

The questionnaire was designed with the intention to collect the data needed to answer the research propositions and to make the questions as easy to understand as possible. The questions were kept short and to the point to avoid dual interpretation. The process used to develop the questionnaire had the following steps: -

4.6.1 Literature review

The preceding chapters explained the design of the questionnaire. This research was based on the research done by Ramsaroop (2003). Her research was on employee perceptions of PRP in only one organisation. This research used some of her questions as a basis and then the questionnaire was modified to focus more on knowledge workers from different industries, rather than different employees from one specific organisation. The seven propositions will be tested through the questionnaire.

4.6.2 Qualitative phase

Unstructured interviews were used to assist in modifying the questionnaire. These 5 interviews were with an academic, a remuneration expert, a practising manager and two knowledge workers. These interviews helped to increase the validity of the questionnaire. The open-ended questionnaire used for the interviews is shown in Appendix 1.

The data collected from these interviews was incorporated into the final questionnaire (see Appendix 2).

4.7 Data collection

The lecturers of the target classes were contacted and asked for permission to use some of the lecture time in order to ask students to complete the questionnaire.

The researcher explained to the class the purpose of the study and asked the students to complete the questionnaire and return them to the researcher. This was done in a classroom environment.

4.8 Data analysis

The questionnaires were collected, checked, and the responses were entered into an Excel spreadsheet for analysis. Incomplete questionnaires were excluded from the study, which decreased the response rate, but the response rate was high.

The next step was to apply descriptive analysis to the demographics of the sample in order to get an accurate description.

Proposition 1 required a frequency analysis of question 4.1 to understand what the most common types of PRP used in South Africa are. The respondents could indicate more than one instrument and the question ended with an open-ended question where respondents could enter any additional instruments used by their companies. The responses were displayed as percentages and ranked from most prevalent to least prevalent.

Proposition 2 required a Spearman correlation, to test if question 2.1 was correlated to questions 2.3, 2.5 and 2.6. Question 2.3 asked respondents how they rate the effectiveness of their PRP system. Question 2.5 asked respondents to rate the effectiveness of their organisations' performance measurement tool. Question 2.6 asked respondents to rate the fairness of the performance measurement tool used by their organisations. Questions 2.3, 2.5

and 2.6 might have an influence on how respondents rated the effectiveness of the PRP system.

Proposition 3 required a Spearman correlation. It was necessary to correlate question 3.1 with question 2.3. Question 3.1 asked knowledge workers to indicate what percentage increase they received; while question 2.3 asked what performance rating they received. These two responses should correlate if the performance measurement system is effective.

Proposition 4 required a frequency analysis of question 2.7 to understand what knowledge workers think performance measurement should be based on. The data from the responses were displayed as percentages and the modal were shaded to make for easier interpretation.

Proposition 5 required a Spearman correlation between questions 1.7 and 2.1. Question 1.7 asked knowledge workers to indicate their salary level, while question 2.1 asked knowledge workers to indicate the effectiveness of the PRP system used by their organisation. This proposition wants to establish if higher paid employees perceive their PRP system as more effective and lower paid employees perceive their PRP system as less effective.

Proposition 6 required a frequency analysis of question 2.7. The table contained a lot of information and it was therefore necessary to collapse it into a scale of three to ease the interpretation. The results were displayed as percentages, order ranked and the modal shaded to ease interpretation.

Proposition 7 required a frequency analysis of question 2.2 to understand which measurement tool is the most prevalent. The frequencies were calculated and displayed as percentages; the modal was shaded for ease of interpretation.

4.9 Limitations of the study

This study only tested perceptions of knowledge workers and cannot be interpreted as actual behaviour.

Convenience sampling is the least reliable of all sampling methods (Emory & Cooper, 1991). This study generalises knowledge workers perceptions based on the responses received only from Wits Business School students and is therefore not representative of all knowledge workers.

4.10 Content validity

Content validity ensures that the research measures what it intends to measure (Emory & Cooper, 1991). This research attempted to achieve content validity through conducting interviews with various parties before compiling the final questionnaire.

4.11 External validity

Convenience sampling was used and external validity could not be assured since, knowledge workers' perceptions would only be tested based on the perceptions of Wits Business School students. The sample, however, represented employees from various industries and they were on different levels of their respective organisations, the sample was sufficient for this research.

4.12 Reliability

Reliability was not tested in this research.

Chapter 5

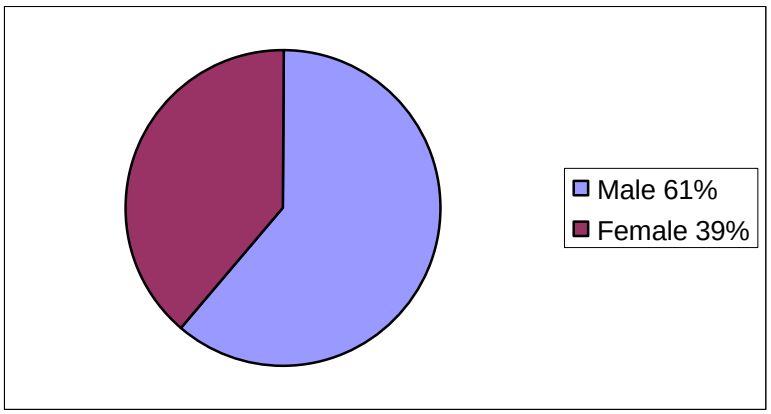
5. Analysis of the results

5.1 Introduction

The results of the questionnaire were analysed against the propositions, in this section. The hundred and nineteen questionnaires were analysed using various statistical techniques.

5.2 Demographics

Figure 4: Gender distribution of the respondents



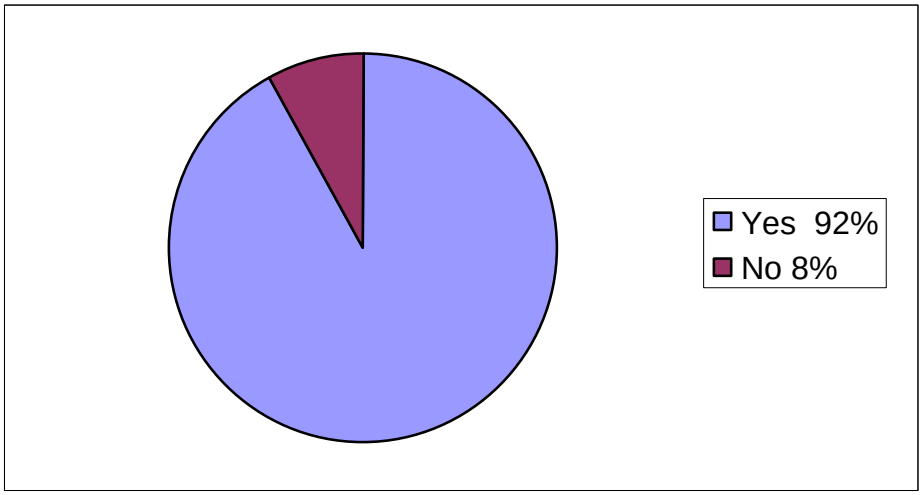
It is evident from figure 4 that two thirds of the respondents were male.

Table 2: Age distribution of the respondents

Age	Min	21
	Max	51
	Median	30
	Mode	28
	Mean	30.7
	Range	30

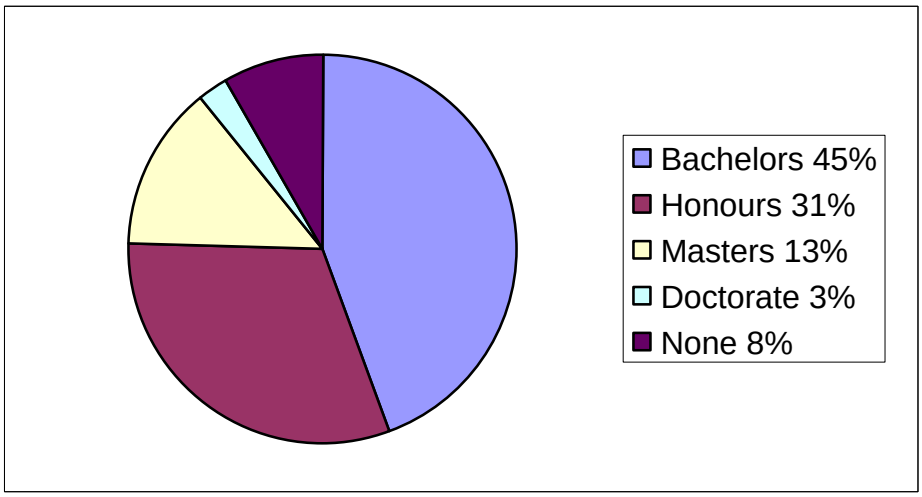
The youngest respondent was 21 and the oldest 51. The mean of 31 is consistent with part-time postgraduate students.

Figure 5: Percentage of respondents with degrees



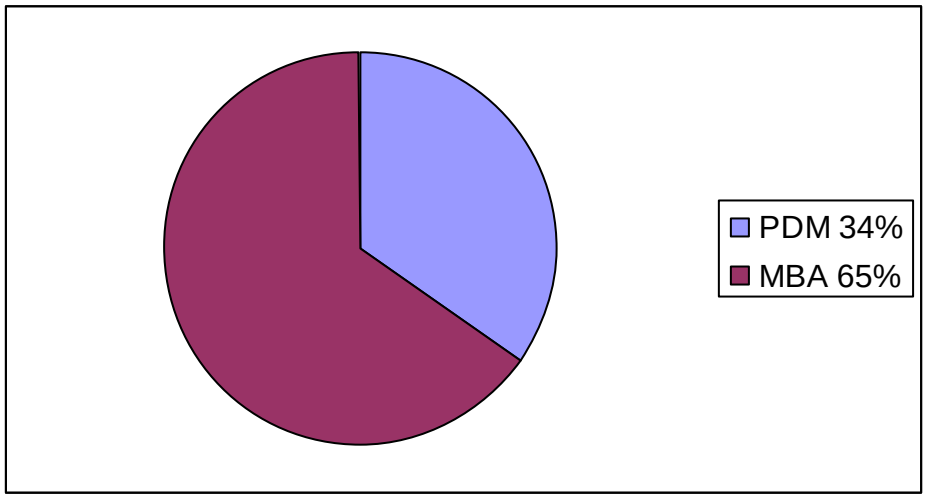
Only 8% of the respondents did not hold a degree. This is consistent with what one would expect of a postgraduate business school, since the business school does admit a limited number of non-graduates.

Figure 6: Distribution of types of degrees of the respondents



The majority of the respondents hold a bachelor degree while 47% hold a postgraduate degree.

Figure 7: Distribution between MBA and PDM



The majority of the respondents were MBA students.

Figure 8: Distribution of respondents by industry

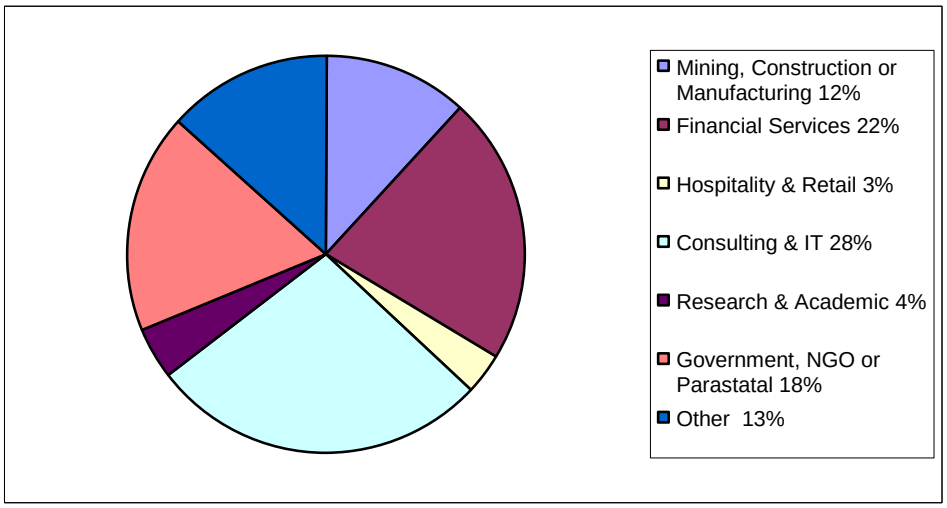
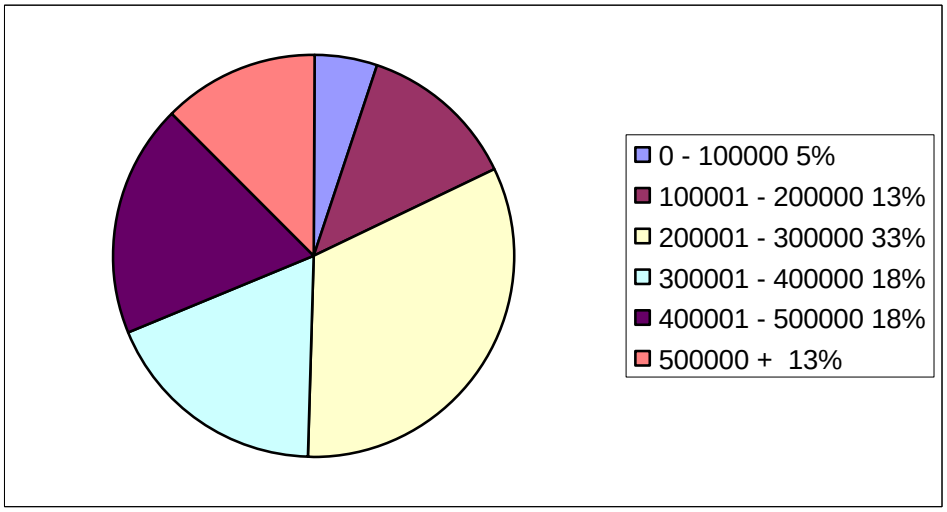


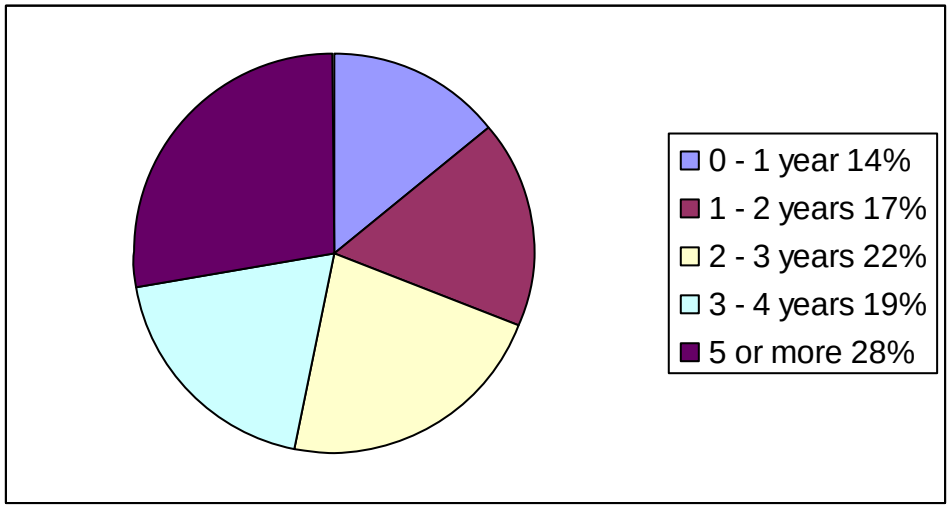
Figure 8 indicates respondents were from a wide range of industries. Some of the industries listed under 'other' included pharmaceutical, media & advertising and health.

Figure 9: Salary distribution



Most respondents earned between the two and three hundred thousand per annum, and only five percent of the respondents were in the lowest salary bracket.

Figure 10: Tenure of service of respondents



The largest percentage of respondents have been with their employer for longer than two years, however, figure 10 also indicates that 72 % of all respondents have been with their current employer less than five years. These findings indicate that this is a highly mobile respondent group.

5.3 Summary of demographic data

The mix between male and female was fairly even with ten percent more males than females. The average age of the respondents was thirty with a large range from twenty one to fifty one years old. 92% of the respondents had a degree, which had a 40% chance of being a bachelor's degree. The majority of respondents were MBA students. Most of the industries were well represented except for hospitality & retail, and research & academic. The average salary was R270 000 and the average tenure was 2-and-a-half years. The above pie charts indicate that the sample represents a wide range of knowledge workers.

5.4 Proposition analysis

The rest of this chapter presents the data per proposition as formulated in chapter 3. The propositions, as formulated, are shown in bold.

5.4.1 Proposition1: The most common types of PRP used are:

- profit share,
- performance bonus; and
- share incentives.

This proposition looked at which of these pay instruments are perceived to be the most prevalent when organisations want to reward good performance, since authors do not agree about the components of pay that constitute PRP. The question asked knowledge workers to indicate which pay incentives are used by their organisation to reward performance. Respondents could select more than one instrument from the list. The question had an open-ended question to allow respondents to furnish any pay incentives not listed.

Table 3: Pay incentives

Pay Incentive	Count	Percentage
Bonus	90	76%
Annual increases	84	71%
Profit share schemes	26	22%
Share Incentive schemes	18	15%
Commissions	16	13%
None	7	6%
Other	1	1%

It is clear from the table above that most knowledge workers associate reward for good performance with bonuses and annual increases. Profit share and share incentive schemes are third and fourth respectively. 13% of the respondents perceived commission as an instrument organisations use to reward performance. Six percent of respondents had no incentive in place to

reward good performance. The only response to the open-ended question mentioned gifts and holidays as a reward employed for performance.

5.4.2 Proposition 2: The perceived effectiveness of PRP will be positively correlated to:

a) the respondents' performance rating,

This proposition was tested using Spearman correlation and correlating question 2.1 with question 2.3. Question 2.1 asked knowledge workers to rate the effectiveness of their companies' PRP system; the results of question 2.1 are illustrated below in table 4, with the modal category shaded to ease interpretation.

Table 4: The perceived effectiveness of the PRP system

Very effective	Effective	Neutral	Somewhat ineffective	Ineffective	Not applicable
4%	23%	24%	18%	25%	7%

Table 5 indicates a wide spread of perceptions from the respondents. 50% of the respondents either perceived the PRP system to be from neutral to very effective while 43% perceived their PRP system as somewhat ineffective to ineffective. Seven percent of respondents did not have a PRP system or had no opinion on their organisations' PRP system. The majority of respondents had the perception that their organisations' PRP system was ineffective, if the neutral respondents are excluded.

Question 2.3 asked knowledge workers to indicate the last performance rating they received. The results for question 2.3 are indicated in table 5 and are presented as percentages with the modal category shaded.

Table 5: Last performance rating received

Under performed	Somewhat under performed	Satisfactory	Somewhat over performed	Over performed
1%	1%	34%	35%	29%

Table 5 indicates that most respondents received a good performance rating from their organisations.

The results for the correlation between question 2.1 and 2.3 are: -

- r = - 0.211
- r squared = 0.044

The significance level was 0.180 for alpha = 0.05.

The negative correlation is significant. The correlation is negative because of the difference in direction between the two scales. The correlation thus indicates that the lower the performance rating received by a respondent the less effective they perceive their PRP system i.e. there is a positive correlation between the perceived effectiveness of PRP and the respondents last performance rating received.

b) the respondent's perceived fairness of the performance measurement system

This proposition was tested using Spearman's correlation, testing if question 2.1 is correlated to question 2.6. Question 2.1 asked knowledge workers to rate the effectiveness of the PRP system used by their organisation and question 2.6 asked them to rate the fairness of their current performance measurement system. The results for question 2.6 are listed below and displayed as percentages with the modal shaded.

Table 6: Fairness of the performance measurement instrument

Very fair	Fair	Neither fair nor unfair	Not fair	Very unfair
4%	34%	27%	24%	10%

The results of correlating question 2.1 with question 2.6 are: -

- r = +0.497
- r squared = 0.247

The significance level was 0.180 for alpha = 0.05.

The results indicate that there is a significant positive correlation between question 2.1 and 2.6. This indicates that the more fair respondents perceive their performance measurement system to be the more effective they perceive their PRP system to be.

c) the perceived effectiveness of the performance measurement tool

This proposition was tested using Spearman correlation by correlating question 2.1 with question 2.5. Question 2.1 asked knowledge workers to rate the effectiveness of their companies' PRP system, while question 2.5 asked knowledge workers to rate the effectiveness of their organisations' performance measurement system. The results of question 2.5 are displayed below as percentages and the modal is shaded.

Table 7: The effectiveness of the performance measurement instrument

Very effective	Effective	Adequate	Not effective	Very ineffective
3%	15%	31%	34%	16%

The results of the correlation between questions 2.1 and 2.5 are: -

- r = +0.600
- r squared = 0.360

The significance level was 0.180 for alpha = 0.05.

The results clearly indicate that there is a significant positive correlation between the perceived effectiveness of the PRP system used and the perceived effectiveness of the performance measurement system used. Thus, the more effective respondents rated their performance measurement instrument the more effective they rated the PRP system.

5.4.3 Proposition 3: There will be a positive correlation between salary increase received and the performance rating awarded

This proposition was tested using Spearman's correlation through correlating question 2.3 with 3.1. Question 2.3 asked knowledge workers which performance rating they received, while question 3.1 asked them what salary increase they received. The results for question 2.3 are listed above in table 8. The results for question 3.1 are listed below in table 8 as percentages and the modal category is shaded.

Table 8: Percentage increase received

0 – 3%	4 – 6%	7 – 9%	10 – 12%	More than 12%
3%	36%	32%	16%	14%

The results for the correlation between questions 2.3 and 3.1 are: -

- r = + 0.390
- r squared = 0.152

The significance level was 0.180 for alpha = 0.05.

These results indicate that there is a significant positive correlation between salary increase and performance rating received. The positive correlation indicates that the higher a respondent's performance rating the higher the increase in the respondent's salary.

5.4.4 Proposition 4: Knowledge workers would perceive PRP as more effective if based on individual performance rather than group performance.

Authors do not agree on how performance should be measured. Some argue that PRP should be based on individual performance while others state that in order to encourage teamwork it should be based on group performance. All the authors agree, however, that the success of PRP is dependent on the way it is implemented. It is important to understand knowledge worker perceptions on the preferred measurement of performance, in order to implement a PRP system that successfully improves the performance of knowledge workers. Question 2.7 requested knowledge workers to state to which degree they agree or disagree with statements regarding what PRP should be based on. In each case, the modal category is shaded. The following results were recorded.

Table 9: Measurement of PRP

	Strongly agree 1	Agree 2	Neutral 3	Disagree 4	Strongly Disagree 5
Performance rating should be based on individual performance.	56%	37%	4%	2%	1%
Performance rating should be a combination of group and individual performance.	56%	33%	8%	3%	1%
Performance rating should be based on division or group performance.	18%	54%	12%	13%	3%
Performance rating should be based on company performance.	12%	48%	13%	24%	4%

Table 9 indicates that most respondents agreed with most of the statements. The highest agreement percentage on a single statement was for the statement that performance rating should be based on individual performance with 93% of the respondents either strongly agreeing or agreeing. The statement that it should be a combination of individual performance and group performance is in a close second place with 89% of respondents either strongly agreeing or agreeing.

5.4.5 Proposition 5: There will be a positive correlation between salary level and perceived effectiveness of PRP

This proposition was tested through correlating question 1.7 with question 2.1 using Spearman's correlation. Question 1.7 asked knowledge workers to indicate a salary bracket in which they fall, while question 2.1 asked them to rate the effectiveness of their PRP system. The answers to question 1.7 are displayed in figure 9 and the results of 2.1 are displayed in table 4.

The results of correlating question 1.7 with question 2.1 are: -

- r= - 0.157
- r squared = 0.025

The significance level was 0.180 for alpha = 0.05.

Thus from the results we can determine that there is no relationship between salary level and perceived effectiveness of PRP and thus salary level is not positively correlated to the perceived effectiveness of the PRP.

5.4.6 Proposition 6: It is perceived that linking annual pay increases to performance has a positive impact on knowledge workers' performance

Table 10 displays the results from question 3.4, which investigated the perceived effects of annual increases on knowledge workers.

Table 10: Linking annual pay increases to performance

	Strongly agree 1	Agree 2	Neutral 3	Disagree 4	Strongly Disagree 5
My annual increase had no impact on my performance.	17%	25%	23%	27%	8%
My annual increase motivated me to work harder.	4%	23%	32%	31%	10%
My annual increase shows me that my employer recognises my contribution.	14%	31%	17%	28%	11%
My annual increase has led to an increase in my loyalty towards the company.	6%	14%	31%	34%	15%
My annual increase would be a deciding factor in me leaving or staying with my current company.	18%	31%	25%	21%	6%
My annual increase would encourage me to stay with my current employer.	12%	25%	30%	25%	8%
I am able to see the link between the level of my annual increase and the company's performance.	4%	27%	23%	27%	19%
I am able to see the link between my performance and the company's or business unit's performance	7%	31%	29%	22%	12%

This table has a wide spread of responses indicating diverse perceptions over the effectiveness of annual increases to enhance performance. Interpretation of the table is complicated because of the five-point scale and the size of the table. Table 10 will be collapsed to three columns in Table 11, in order to ease interpretation.

Table 11: Collapsed table 10

	Agree & Strongly agree	Neutral	Disagree & Strongly Disagree
My annual increase would be a deciding factor in me leaving or staying with my current company.	48%	25%	27%
My annual increase shows me that my employer recognises my contribution.	44%	17%	39%
My annual increase had no impact on my performance.	42%	23%	35%
I am able to see the link between my performance and the company's or business unit's performance	37%	29%	34%
My annual increase would encourage me to stay with my current employer.	36%	30%	34%
My annual increase motivated me to work harder.	27%	32%	41%
I am able to see the link between the level of my annual increase and the company's performance.	31%	23%	46%
My annual increase has led to an increase in my loyalty towards the company.	20%	31%	49%

The data is better depicted in the collapsed table 10. The modal categories for agree and strongly agree have been ranked to improve interpretation. The table indicates that annual increases do not encourage performance. Annual increases do not motivate employees to work harder. The respondents did feel that their annual increases serve as recognition for performance. Annual increases do not encourage loyalty, but it is a deciding factor for the respondents to stay or leave their current employer. Most respondents did not see a link between their annual increase and the company's performance; they did however see a link between their own performance and the company's or business unit's performance.

5.4.7 Proposition 7: The most common types of performance measurement tools used are: 360-degree feedback, balanced scorecard and performance appraisal

Question 2.2 asked knowledge workers which performance measurement tool is used by their organisations. The question also had an open-ended option where respondents could add a measurement system if it was not one of the systems listed. The responses are listed in table 12 with the modal shaded.

Table 12: Performance measurement instrument

None	Performance Appraisal	Balanced Scorecard	360 Degree feedback	Other
9%	71%	18%	15%	5%

The table indicates that the most popular type of performance measurement is performance appraisal by a substantial margin compared to the rest of the performance measurement tools. Six candidates listed key performance indicators, key performance areas and key performance ratings as other instruments also used by their organisations to measure performance.

Chapter 6

6 Analysis of the results

6.1 Introduction

In this chapter, the results as analysed in the previous chapter will be interpreted. The results will be analysed per proposition as per chapter 3 and will be related back to the literature in chapter 2. The propositions as stated in chapter 3 are given in bold.

6.2 Proposition1: The most common types of PRP used are;

- **profit share,**
- **performance bonus and**
- **share incentives.**

This research attempts to understand whether PRP is an effective method to enhance knowledge worker performance. The research looks at the factors that influence knowledge worker performance and the factors that influence the success of PRP in the organisation. PRP has a variety of variables, which influence the perceived effectiveness of PRP; one of these variables is the type of incentives linked to PRP. This proposition aims to establish what types of incentives are most prevalent amongst the respondents' companies. This proposition was based on Bussin (2004) and the responses received from the open-ended questionnaire that were used to modify the final questionnaire.

From the results, as displayed in table 3, it is clear that performance bonuses ranked the highest of all the instruments, indicating that most companies use incentive bonuses to encourage performance. Annual increases were rated second most prevalent by the respondents, indicating that most companies attempt to link annual increases to performance, through merit increases. Profit share and share incentive schemes were rated third and fourth respectively,

indicating that they are widely used but not nearly as much as bonuses and annual increases.

The difference between the results and the proposition might be due to the technology bubble, which caused a move away from share incentives when it burst (Sutherland, 2004). Share incentives only work well when the shares increase in value from the time that they were offered to the employees. If the shares loose value then the share incentives have no value for the employees.

Proposition 1 is therefore not supported.

6.3 Proposition 2:The perceived effectiveness of PRP will be positively correlated to:

a) **the respondents' performance rating;**
b) **the respondent's perceived fairness of the performance measurement system; and**
c) **the perceived effectiveness of the performance measurement tool.**

The purpose of this proposition was to establish what factors had an influence on the perceptions of knowledge workers, relating to the effectiveness of their PRP system. This proposition was tested through correlating question 2.1, which asked respondents to rate the effectiveness of their PRP system to other questions relating to the possible influencing factors.

The results of question 2.1 as displayed in table 4 indicate a wide spread of perceptions regarding the effectiveness of PRP. The majority of respondents rated their PRP system as either somewhat ineffective or ineffective, if neutral is excluded. However, 65% of respondents rated their PRP system either as effective, neutral or somewhat ineffective, indicating inconsistency in knowledge workers perceptions of their PRP systems.

a) The first question correlated to question 2.1 to answer proposition 2a was the results of the question 2.3, relating to the performance rating last received by the respondent (see Table 4, on page 44). This proposition implied that if the respondent received a low performance rating the respondent might perceive the PRP system to be ineffective and the inverse would apply. The results showed a significant positive correlation of r = + 0.211. These results show that the higher a respondent's last performance rating the more effective they would perceive the PRP system.

b) The second question correlated to question 2.1 was question 2.6, which asked knowledge workers to rate the fairness of their performance measurement system (see Table 5 on page 45). This question tried to establish if knowledge workers perceived their performance measurement system as equitable, thus they believed it gave a true reflection of their output. Rupp & Smith (2003), stated knowledge workers are motivated by performance-based rewards, the ability to see the link between input and output. If knowledge workers cannot see the link between their input and output they might perceive the performance measurement system to be unfair and thus have the same perception of the PRP system.

   The correlation tested whether there was a relationship between the perceived fairness of the performance measurement system and the perceived effectiveness of the PRP system. The results of this correlation indicated significant relationship where r = 0.497. These results indicate that the perceived fairness of the performance measurement system has an influence on the perceived effectiveness of the PRP system. The positive correlation indicates that the respondents would perceive the PRP system to be more effective if they perceive the measurement instrument to be fair. In the absence of fairness in the performance measurement system they would rate the PRP system to be ineffective.

c) The third question correlated to question 2.1 was question 2.5, which asked knowledge workers to rate the effectiveness of their performance measurement system (see Table 6 page 46). Ingram (1996) argues that performance management can only be effective if the performance is measured accurately, which indicates that PRP can only be effective if matched with an equally effective monitoring environment (Belfield & Marsden, 2003).

   The results of this correlation showed a significant positive correlation with r = + 0.600. These results indicate that the perceived effectiveness of the performance measurement system is correlated to the perceived effectiveness of the PRP system. The results therefore support the finding by Belfield & Marsden (2003). The positive correlation indicates that the more effective respondents rate the performance measurement system the more effective they would rate the PRP system. This correlation is more significant than the previous two and indicates a strong relationship between the performance measurement tool and the PRP system.

The above results confirm that this proposition is supported.

6.4 Proposition 3: There will be a positive correlation between salary increase received and the performance rating awarded.

This proposition tested the relationship between performance rating received and salary increase awarded. PRP should be linked to pay in some form or another to reward good performance. Therefore there should be some relationship between performance rating received and salary increase awarded if the pay instrument used to reward good performance was merit increases.

Correlating the respondent's last performance rating with the respondent's last percentage increase received, tested this proposition. The results indicate a significant positive correlation with r = + 0.390 (see page 47). These results infer that a significant number of organisations link annual increases to performance ratings.

These results correspond with the findings of the first proposition, which indicated that 71% of respondents' companies use annual increases to reward performance. This might indicate that although a large percentage of companies use annual increases to reward performance not all the PRP systems are effective, or it might be that other factors influence the effectiveness of PRP systems. This can be collaborated with question 2.1 where 25% of respondents rated their PRP system as ineffective. The results could be skewed because of the current low inflation rate in South Africa. The percentage brackets on the questionnaire were three percent each and 68% of the respondents received increases between four and nine percent.

The results do, however, indicate a significant positive correlation, indicating that the higher the performance rating received the higher the percentage increase awarded.

The proposition is therefore supported.

6.5 Proposition 4: Knowledge workers would perceive PRP as more effective if based on individual performance rather than group performance.

This proposition was tested using the results from question 2.7, which are displayed in table 9. The question had four statements and asked respondents to indicate to which extent they agree or disagree with the statements. The frequencies were calculated and displayed as percentages.

The first statement declared that performance rating should be based on individual performance of which 93% of the respondents either agreed or strongly agreed. The second statement stated that performance rating should be based on a combination of group and individual performance to which 89% of respondents agreed or strongly agreed. The third statement said performance rating should be based on group or division performance, to which 72% either agreed or strongly agreed. The last statement said performance rating should be based on company performance to which 60% of the respondents either agreed or strongly agreed.

Sutherland (2004), Chick (2001) and Kuhn & Yockey (2003) found that knowledge workers' performance rating should be based on individual performance rather than group performance. These results indicate that most of the respondents agreed with this notion. However, the respondents also agreed with the notion that performance should be a combination of individual and group performance. Furthermore, the majority of respondents' also agreed with the notion that performance should not be based on individual performance at all, rather company performance.

These results therefore support the proposition because the majority of respondents did prefer performance ratings based on individual performance. The responses were not consistent though, because many of the respondents also agreed that performance rating should be based on company performance.

6.6 Proposition 5: There will be a positive correlation between salary level and perceived effectiveness of PRP.

Hall & Torrington (1991) differentiate between incentives and PRP and argue that PRP is for the management elite while incentives are for the regular employees. This statement indicates there might be a difference in the perception of PRP across different salary levels.

Correlating the respondents' salary levels with their perceived effectiveness of the PRP system tested this proposition. The results indicate a non-significant negative correlation of r = -0.157. These results indicate that the respondents' salary levels had no relationship with the respondents' perception on the effectiveness of the PRP system. This indicates that PRP systems for knowledge workers do not necessarily have to be customised for different salary levels.

This proposition is not supported by the findings of this research.

6.7 Proposition 6: It is perceived that linking annual increases to performance has a positive impact on knowledge workers' performance.

Authors do not agree on the effectiveness of PRP as an instrument to enhance performance. However, empirical evidence supports the fact that employees believe the most important factor in determining salary increase should be performance and that tying pay to performance has a positive impact on employee productivity (Belfield & Marsden, 2003; Milkovich & Newman, 1990). Research conducted by Chick (2001) found PRP to be an important factor that influences the performance of knowledge workers.

The results show a wide range of responses with the highest percentage in the collapsed table for a single category being 49%. This wide range of responses indicates that respondents do not agree about the effectiveness of annual increases as a performance driver.

The responses will be discussed under the subheadings of the statements and the results are displayed in table 11. The results will also be compared to the findings in Ramsaroop (2003), since this research is based on that research but focuses on knowledge workers rather than different types of employees in one

organisation. This comparison highlights the difference in perceptions between the respondents in that study and the knowledge workers.

My annual increase would be a deciding factor in my leaving or staying with my current company

Most respondents either agreed or strongly agreed with this statement, which supports the finding in Ramsaroop (2003). This result could be linked to Hertzberg's theory that salary is a hygiene factor rather than a motivating factor. These results indicate that annual increases are expected and if absent or not on par could have a negative influence on staff retention. The reverse could also be true and should the annual increase be good enough it could encourage retention of knowledge workers.

My annual increase shows me that my employer recognises my contribution.

Most respondents either agreed or strongly agreed with this statement, while 39% of respondents either disagreed or strongly disagreed with the statement. This result is similar to the results achieved in Ramsaroop (2003).

This result indicates that most respondents had an opinion on the statement but the responses are almost equally distributed. The majority of respondents did agree that their salary increase showed that their employers recognised their performance. Some of the respondents might have strongly disagreed or disagreed with this statement because they did not receive an increase, which they felt, was fair. Thus, the respondents' last percentage increase might have influenced their answer to this question.

My annual increase had no impact on my performance

Most respondents agreed or strongly agreed with this statement, while 23% of respondents' did not have an opinion on this statement. The responses are not dominated by any opinion and are quite widespread. The fact that such a large

percentage of respondents had no opinion on this question might be due to the perceived insignificance of annual increases, especially in the current low inflationary environment. Ramsaroop (2003) achieved a different result; in that study, most of the respondents either disagreed or strongly disagreed. That indicates that annual increases had a bigger impact on the respondents in that study.

The difference between the findings in the study by Ramsaroop (2003) and this study could highlight the fact that knowledge workers have different needs with regard to PRP than other employees.

These results could be seen as contradictory to the results of the first statement and shows that the majority of respondents think their annual increase had no impact on their performance. This might indicate that knowledge workers consider annual increases a right and not a privilege.

I am able to see the link between my performance and the company's or business unit's performance

Most respondents either disagreed or strongly disagreed with this statement, while 29% of the respondents remained neutral on this statement. The majority of respondents felt that their performance does have an impact on their company or business unit. Ramsaroop (2003) had a similar result.

These results could contradict the findings of Chick (2001) where purposeful work was identified as one of the factors that influence knowledge workers performance, since the sample is knowledge workers a large portion might have purposeful work and that might then ultimately influence company or business unit performance.

My annual increase would encourage me to stay with my current employer

Most respondents agreed or strongly agreed with this statement, while 30% of the respondents had no opinion on this statement. Ramsaroop (2003) achieved a similar result. This statement is similar to the first statement, which asked respondents if their increase would have an influence on them staying or leaving their company, while this statement only asked if it could encourage them to stay. It is interesting to note that the percentage of respondents that agree or strongly agree on this statement is a lot lower than in the first statement. This indicates that a perceived unfair increase would encourage more knowledge workers to leave their current employer than what a perceived fair increase would encourage them to stay with their employer.

My annual increase motivated me to work harder

Most respondents either disagreed or strongly disagreed and 32% of the respondents had no opinion on this statement. Ramsaroop (2003) achieved a similar result, however a higher percentage of respondents agreed with this statement in that study than in this study.

These results could be influenced by the annual increase received by the respondents. If a respondent received a perceived low increase it might not have motivated that respondent to work harder, but if he or she received a perceived high increase it might have motivated that respondent to work harder. The perceived significance of the increases were not tested and could therefore not be correlated to this question to understand if most respondents actually perceived their increases as high or low.

These results could also be related to the fact that 50% of respondents perceived their performance measurement system as ineffective. Most respondents also perceived their PRP system to be ineffective, which might have contributed to respondents feeling that if the performance measurement

system is flawed then the PRP system was inaccurate and this was therefore reflected in their annual increases.

I am able to see the link between the level of my annual increase and the company's performance.

Most respondents disagreed or strongly disagreed. Ramsaroop (2003) also found that most respondents disagreed with this statement. The responses are extensive and there is again no clear indication of one category dominating the responses. These results did however indicate that the majority of respondent's did not see a link between their companies' performance and their annual increase, which could then be interpreted that annual increases should have been based on some other variable like individual or group performance.

My annual increase has led to an increase in my loyalty towards the company.

Most respondents had no opinion on this statement. Ramsaroop (2003) achieved a similar result. These results show that most respondents either disagreed or had no opinion on this statement, which indicates that most respondents did not agree that their annual increase improved loyalty towards their company. This statement relates to statements one and five, but produced different results. In statement one and five respondents agreed that annual increases would be a deciding factor when deciding to leave or to stay with their existing employer and in both the statements the majority of the respondents agreed with the statements, while in this case they strongly disagree. This indicates that the respondents might interpret loyalty not necessarily the same as staying with your existing employer.

Most of these responses indicate that linking annual increases to performance does not have a positive impact on knowledge workers' performance. This might be related to their annual increase received or it might indicate that annual increases are not the best instrument to link to PRP in order to achieve the best results.

The results also indicate that the study by Ramsaroop (2003) corresponds with this study. The only statement where the results differ relates to the impact of annual increases on performance, where most respondents in Ramsaroop (2003) indicated that their annual increase had an impact on their performance. The knowledge workers indicated that their annual increase had no impact on their performance. Although these results differ, the significance of these results was not tested.

Proposition 6 is not supported by the findings.

6.8 Proposition 7: The most common types of performance measurement tools used are: 360-degree feedback, balanced scorecard and performance appraisal.

A strong interdependency exists between the performance measurement instrument and the PRP system. Ingram (1996) argues that performance management can only be effective if the performance is measured accurately. He suggests that the balanced scorecard system combined with benchmarking are the most effective performance measurement instruments. Edwards (1996) disagrees and argues that the best way to measure performance is through 360-degree feedback, because it improves the reliability of the feedback since it comes from multiple sources.

This proposition aimed to establish which of the performance measurement instruments are most commonly used in South Africa. The results indicate the most prevalent type of performance measurement system is performance appraisals followed by balance scorecard and 360-degree feedback respectively. Performance appraisals were the most popular by a large margin. 70% of respondents indicated that their organisations used performance appraisals as a performance measurement tool. The question had an open-ended option for respondents to add any additional systems not listed and five

percent of respondents listed management discretion, key performance indicators and role related incentives as other performance management systems.

These results support proposition 7, but the rank of prevalence was different and the proposition would therefore be restated as:

The most common types of performance measurement tools used are: performance appraisals, balance scorecard and 360-degree feedback.

Chapter 7

7 Conclusion

7.1 Introduction

In this chapter, the main findings will be presented in a format that is useful for human resource departments, remuneration consultants and people interested in the performance of knowledge workers. The implications of the findings will be discussed and a conceptual framework presented to summarise the implications. Recommendations will be made based on the findings and suggestions for future research will be presented. This chapter concludes this research.

7.2 A conceptual framework

PRP is not a new concept. It is however still, a widely used concept and authors do not agree about the effectiveness of PRP. PRP can be implemented in a number of ways; it needs to be linked to a performance measurement instrument, which could be a number of different systems or a combination of systems. PRP needs to be linked to a pay mechanism to remunerate performance, which could be one mechanism or a combination of mechanisms. Ultimately the objective of a PRP system is to improve the performance of employees. This is achieved through financially rewarding employees for good performance.

This research looked at the perception of PRP from knowledge workers. Drucker (1974) introduced the concept of knowledge worker for the first time. Since then, most authors agreed with the concept of knowledge workers and with the importance of knowledge workers in the new world of work. Many

studies have been conducted to understand the specific needs of knowledge workers; relating to innovation, factors that influence performance and factors that influence retention (Amar, 2004; Chick, 2001 & Sutherland, 2004). These studies have all identified a number of specific needs of knowledge workers.

The results discussed in chapter 6 indicated that knowledge workers perceive PRP in a unique way and might require a different approach if companies are going to be successful in using PRP to improve knowledge worker performance.

The literature review indicated there is a strong interdependency between the performance measurement system and PRP, which was confirmed by the results. The fairness and the effectiveness of the performance measurement system influenced knowledge workers perceptions of the PRP system. It is therefore of paramount importance to first design and implement an effective and equitable performance measurement system, before introducing a PRP system, in order to get the desired outcomes.

Most respondents rated their performance measurement system as fair, but not effective. This indicates that more time needs to be spent on familiarising knowledge workers with the performance measurement system and possibly implementing the system with more consultation. The reason for knowledge workers perception might be that they do not understand the system well enough or that they do not agree with the way the system was implemented.

The results did indicate a strong positive correlation between the performance rating received and the percentage increase received. This indicates that the interaction between the performance measurement system and the PRP system seems to be relatively effective. This was also highlighted in the literature review as factor that could influence the effectiveness of a PRP system.

The results indicated that knowledge workers would agree to a performance rating based on individual performance, a combination of individual and group

performance, pure group performance or pure company performance. This indicates that knowledge workers are flexible in negotiating the criteria of their performance contracts. It is interesting to note that there was no relationship between salary level and perception of PRP, indicating that PRP systems would not have to be customised for different salary levels of knowledge workers.

The results indicated that annual increases do not increase performance and had no impact on knowledge worker performance. Annual increases have an influence on retention and are seen as recognition for contribution. The results also show that annual increases do not encourage loyalty. The influence on retention is more negative than positive, indicting that a good increase have a lower probability to retain a knowledge worker than the what a bad increase would have in loosing a knowledge worker. This indicates the mobility of knowledge workers and a feeling of entitlement towards annual increases.

Figure 11: Findings of linking annual increases to performance for knowledge workers

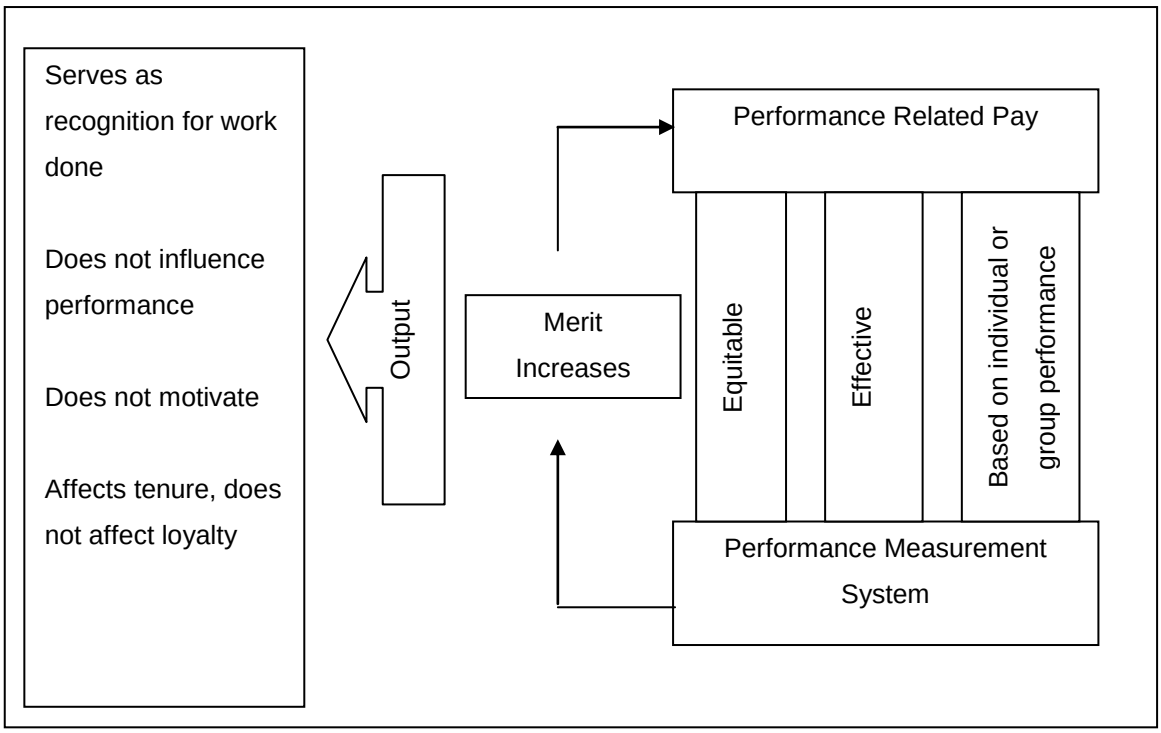


Figure 11 illustrates the findings from the study. The figure indicates that there is a strong relationship between PRP and the performance measurement system. This interdependency was found to be the fairness and the effectiveness of the systems. The study found a significant positive correlation between the perceptions of the measurement system and the perception of the PRP system. The study also found that knowledge workers agreed with being measured on an individual or a group basis, contradictory to the literature and therefore the third pillar were added to the model. Furthermore, the model indicates the outputs as identified through the study for linking pay to performance with merit increases. The perceived outputs are then listed.

7.3 Recommendations to managers

A number of recommendations can be identified from the results. These recommendations are aimed at improving the effectiveness of PRP when used for knowledge workers to enhance their performance.

There is a strong interdependency between performance measurement and PRP. This indicates that if the performance measurement system is flawed then the PRP system is also flawed. Management should therefore take great care when implementing a performance management system.

The performance measurement system should firstly try to achieve the objectives of the company. Secondly, the system should be equitable. The interaction between the performance measurement system and the PRP should effective and well explained to all stakeholders.

The study indicated that performance measurement for knowledge workers can be based on individual or group performance and that salary level does not have an influence on the perceived effectiveness of PRP. This indicates that a

PRP system does not have to be specific for specific salary levels and that the performance criteria could be negotiated as long as it is fair and effective.

The pay mechanism used to link performance measurement and PRP should be chosen through consultation. This research indicated that merit increases do not improve performance. However, this study only relates to knowledge workers and the perceptions of blue-collar workers might be very different.

The results achieved in this study could also indicate that pay is not the only driver of performance of knowledge workers and that companies who are want to improve their knowledge workers performance might have to look at the other factors that influence knowledge workers performance and build those factors into their human resource policies.

7.4 Recommendations for future research

The research has highlighted a number of areas, which could be researched further. These include:

- Conducting this study with a larger, more representative sample to confirm these results;
- conducting a similar study using qualitative techniques with open ended questionnaires;
- carrying out research into pay mechanisms and the effects of these various pay mechanisms on knowledge workers;
- conducting a study into performance of knowledge workers and focus on the demographic differences;
- research on a performance measurement model for knowledge workers; and
- research into the effects of performance measurement on knowledge workers.

These research topics would contribute to the body of knowledge available on knowledge workers. They would assist managers to get a better understanding of knowledge workers and how to manage them effectively

7.5 Conclusion

This research investigated knowledge workers perceptions of PRP. The study built on the research conducted by Ramsaroop (2003), were that research focused on a post implementation assessment of PRP in one organisation. This research tested the perceptions of a wide range of knowledge workers on the effectiveness of PRP.

The results of the study were analysed and interpreted against the literature. The outcomes of this research shed new light on the unique needs of knowledge workers and the methods on how to improve knowledge workers performance. The results were then used to identify new areas of research on knowledge workers and PRP.

This research therefore answered some questions but also highlighted more questions, but certainly contributed to the debate on the effectiveness of PRP and the study into knowledge workers.

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APPENDIX 1 - Open ended questionnaire

Open ended questionnaire that was used to interview an academic, a remuneration expert, a practising manager and two knowledge workers.

1 What in your opinion are the most prevalent types of PRP used by employers in South Africa?

_____
_____
_____
_____

2 What in your opinion are the advantages of PRP?

_____
_____
_____
_____

3 What in your opinion, are the problems associated with performance related pay?

_____
_____
_____
_____

APPENDIX 2 - Questionnaire

Dear Fellow Student

Respondent number

I am conducting research into the perceptions of knowledge workers regarding performance related pay. This research is done in partial fulfilment of a Masters degree in Business Administration for which I am currently registered at Wits Business School.

Please can you complete this questionnaire, which should take you approximately 5 minutes, as accurately and honestly as possible? Please note that this questionnaire is completely confidential and will be used for academic purposes only.

Thank you very much for your assistance.

Kind regards
Benjamin Powell

Section1: Demographics

Please cross the appropriate box where required.

1.1 Gender

Male	Female
1	2

1.2 Age

1.3 Do you have a degree?

Yes	No
1	2

1.4 If yes to question 1.3, what is your highest achievement?

Bachelors	Honours	Masters	Doctorate
1	2	3	4

1.5 What are you currently studying towards?

PDM	MBA
1	2

1.6 In which industry are you currently employed?

Mining, Construction or Manufacturing	Financial services	Hospitality & retail	Consulting & IT	Research & Academic	Government, NGO's or Parastatal	Other
1	2	3	4	5	6	7

If other, please specify:

_____

1.7 What is your current annual salary range, including all incentives?

Less then 100 000	100 001 – 200 000	200 001 – 300 000	300 001 – 400 000	400 001 – 500 000	More then 500 001
1	2	3	4	5	6

1.8 How many years have you worked for your current employer?

0 – 1 year	1 – 2 years	2 – 3 years	3 – 4 years	5 or more
1	2	3	4	5

Section 2: Performance Related Pay

2.1 How effective do you think your organisations' performance related pay system is?

Very effective 1	Effective 2	Neutral 3	Somewhat ineffective 4	Ineffective 5	Not Applicable 6

2.2 What performance measurement tool is used by your organisation?

None (a)	Performance appraisal (b)	360degree feedback (c)	Balanced Scorecard (d)	Other (e)

If other please specify_____

2.3 What was the last performance rating you received?

Note, please mark the most appropriate block.

Under performed 1	Somewhat under performed 2	Satisfactory 3	Somewhat over performed 4	Over performed 5

2.4 How do you judge your own performance in your organisation?

Under performed 1	Somewhat under performed 2	Satisfactory 3	Somewhat over performed 4	Over performed 5

2.5 How do you rate the effectiveness of your organisations' performance measurement tool?

Very effective	Effective	Adequate	Not effective	Very ineffective
1	2	3	4	5

2.6 How do you rate the fairness of your current performance measuring system?

Very fair	Fair	Neither fair nor unfair	Not fair	Very unfair
1	2	3	4	5

2.7 Please indicate to what extent you agree or disagree with the following statements.

	Strongly agree 1	Agree 2	Neutral 3	Disagree 4	Strongly Disagree 5
Performance rating should be based on company performance.					
Performance rating should be based on division or group performance.					
Performance rating should be based on individual performance.					
Performance rating should be a combination of group and individual performance.					

Section 3: Annual Increase

3.1 What was the last percentage increase you received?

0 – 3 %	4 – 6 %	7 – 9 %	10 – 12 %	More than 12 %
1	2	3	4	5

3.2 How would you rate the fairness of your latest increase?

Very fair	Fair	Neutral	Slightly unfair	Unfair
1	2	3	4	5

3.3 What impact did your annual increase have on you?

(Please consider your last increase and indicate to what extent you agree or disagree with the following statements)

	Strongly agree 1	Agree 2	Neutral 3	Disagree 4	Strongly Disagree 5
My annual increase had no impact on my performance.					
My annual increase motivated me to work harder.					
My annual increase shows me that my employer recognises my contribution.					
My annual increase has led to an increase in my loyalty towards the company.					
My annual increase would be a deciding factor in me leaving or staying with my current company.					
My annual increase would encourage me to stay with my current employer.					
I am able to see the link between the level of my annual increase and the company's performance.					
I am able to see the link between my performance and the company's or business unit's performance					

Section 4: Variable Pay

4.1 Please indicate which of the following types of pay incentives are used by your organisation to reward performance.

	None (a)
	Bonus (b)
	Profit share schemes (c)
	Share incentives schemes (d)
	Annual Increases (e)
	Commissions (f)
	Other (g)

If other please specify_____