

**MANAGERS' PERCEPTIONS OF A TOTAL
PACKAGE COMPENSATION SYSTEM**

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ABSTRACT

The changing business environment in South Africa has resulted in significant organisational change taking place, as South African companies attempt to remain competitive in an increasingly globalised economy. A key feature in this change process is the way in which managers are remunerated, with a number of companies implementing a total package approach to managerial compensation.

The purpose of this study was to examine management perceptions of a total package system, in terms of the fairness, equity and efficacy of the system. The research took the form of a case study in one large organisation, using a sample of 162 respondents. A questionnaire was used as the data collection tool, and the outcomes were analysed using the Spearman's rank correlation co-efficient and interpretational analysis. The analysis was then discussed in terms of the established theory base.

Several factors that predicted perceptions of fairness, equity and efficacy of a total package remuneration system were derived from the analysis. These were consolidated into a process model for use by executives and compensation professionals in designing and implementing total package compensation systems. The model will facilitate the alignment of managerial effort behind organisational objectives, ensuring synergy between the compensation system and the achievement of strategic business objectives.

DECLARATION

I declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree Master of Management in Human Resources in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in any other University.



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GLOSSARY OF TERMS

The following terms have been used in this study:

Managers are defined as employees whose jobs are graded (according to the Hay job evaluation systems) as being greater than 380 Hay Units, but less than 1100 Hay Units. There is no requirement that these employees have managerial accountabilities in terms of subordinate staff. Specialist employees are therefore included.

Total Package Remuneration refers to a system of remuneration where the "cost to the company" of the individual's employment is determined by valuing their cash remuneration as well as all fringe benefits (including employer contributions to benefit funds). Employees then have flexibility within certain parameters to exchange fringe benefits for the equivalent value in cash, and vice versa within the overall total package. Security benefits such as retirement funding and medical aid contributions are typically compulsory, and cannot be exchanged for cash equivalents.

This definition does not include incentive pay or variable pay components. It further does not include long term compensation elements such as share options.

CHAPTER 1. INTRODUCTION

1.1. Factors Driving the Implementation of New Compensation Systems

The world of work has experienced considerable change in recent years. There has been a growing realisation that hierarchical organisations which are bureaucratic in nature are no longer sustainable in an ever-changing global environment (Kanter, 1995). This has resulted in organisations examining how they are structured, with a view to becoming more responsive to market and customer needs, and to facilitate the introduction of enabling systems that improve employees' performance in support of organisational objectives (Wilson, 1995).

Management of organisations has also changed considerably. The traditional top-down control approach is being replaced by an approach to management that is based on employee involvement and commitment. This means decidedly less hierarchy devolution of decision making to the lowest level possible and greater emphasis on employee development (Lawler, 1990).

Whilst no single model of management has replaced the hierarchical, direct-and-control approach, several principles have emerged to guide management of staying focused on that which will make organisations successful. These principles, outlined by Thomas (1995) are:

- Focus on what is valued by the customer, to ensure that the organisation remains responsive to customer needs, and therefore retain current customers and attract new ones.
- Break down the walls that impede change and responsiveness, to enable people in the organisation to talk and work together to achieve joint success.

- Build partnerships with internal and external suppliers and customers, to ensure that there is greater focus on providing results through the sharing of power and the encouragement of employees to view themselves as stakeholders in the service provision value chain.
- Reduce low value-added activities to increase efficiency.
- Increase speed in all aspects of work to facilitate greater responsiveness to customer needs and to ensure that the organisation remains competitive.
- Continually seek improvements. This is critical if organisations are to remain ahead of their competitors in the current business environment.

This new approach to management calls for innovative approaches to compensation. Companies today must accordingly use a number of innovative compensation systems that are linked closely to business strategy (Kanter, 1995) and which take account of the changed relationship between people and their work organisation (Lawler, 1990).

These factors and the increased emphasis on greater employee empowerment and responsibility have brought about a change in the way organisations approach managerial compensation. Many organisations are, accordingly, redesigning their compensation systems.

A survey of a number of Blue Chip South African organisations revealed that over 58% of participants had adopted a total package and/or flexible package approach to compensation (JCI/Old Mutual, 1997). This confirms that many organisations are redesigning their compensation systems with a view to introducing greater flexibility and employee responsibility for compensation decisions. They also seek to

align employees behind the achievement of organisational objectives, whilst attempting to obtain an accurate assessment of the full cost of employment (Armstrong and Murlis, 1994). The limited theory that exists regarding these systems suggests that the total package approach will enable employers to achieve these objectives.

There are a number of factors that may confound organisational success in this regard. As with any change initiative, changing compensation systems requires buy-in from employees if the new system is to be accepted. This requires considerable communication with employees, both before and after the conversion process. Further, employees need to understand and be convinced of the benefits of the new compensation system. Failure to achieve this may result in employees regarding the new compensation system with suspicion, leading to demotivation and subsequent decreases in employee performance (Armstrong and Murlis, 1994).

Organisations need to know whether, from the employees' perspective, total package remuneration structures actually achieve what organisations regard as the benefits of implementing such a remuneration system. This research accordingly attempted to answer the question "Are total package remuneration systems perceived as aligning employees behind organisational success and motivating superior performance?"

This was examined in terms of the perceptions that managerial employees have of the system, as well as how the organisation's implementation methodology influenced these perceptions.

1.2. Previous Research

Several studies have been conducted in South Africa regarding employees' perceptions of elements of their remuneration. Most notably, Currin (1997) examined managers' perceptions of

compensation in terms of the fairness of their compensation and the factors that they regarded as determinants of their remuneration. A stated objective of her study was to provide information that would assist in formulating a more suitable remuneration model for future South African compensation systems.

Bussin (1994) examined the perceived impact of short-term executive incentive schemes. He found that incentives, as a component of the overall compensation system, acted as a motivator and increased company performance. He also found that incentives tended to be more effective if employees knew what was required of them. This principle is broadened by Armstrong and Murlis (1994) to apply to the introduction of compensation systems, where there must be some linkage between an employee's level of overall performance and contribution and the extent of that employee's compensation.

Notwithstanding the research previously conducted into managerial perceptions of different aspects of their compensation, there is still a dearth of South African research in respect of *total package* compensation systems. This research therefore built on Currin's (1997) and Bussin's (1994) findings, by exploring the impact that the introduction of a total package remuneration system has on employees' perceptions of the compensation system, and what the predictors of these perceptions are likely to be.

1.3. Relevance of the Research Problem to South African Management

The topic is of relevance to South African management, as new compensation systems are being implemented in a number of organisations (JCI/Old Mutual, 1997). It was hoped that this research would add to the understanding of the impact that the implementation of a total package compensation system has on managerial motivation, and on their perceptions of the system.

This is of particular importance for South African organisations and their top management, who are now having to compete for both employees and customers with new international market entrants. These entrants draw on considerable compensation system design experience in ensuring that employees are sufficiently aligned behind organisational purpose. This issue is of considerable importance in a knowledge worker environment, where the success of the organisation depends on the extent to which employees are willing to share their intellectual capital with the organisation (Ulrich, 1998). Global organisations are also able to ensure that the approach to compensation supports the achievement of business objectives whilst facilitating and sustaining managerial motivation in the face of international and local competition. These organisations pose a considerable threat to South African organisations in terms of aggressive headhunting and recruiting of key specialist and managerial staff (P-E Corporate Services, 1997).

In order to be able to attract and retain key value creators, South African organisations need to ensure that the compensation system chosen and the means by which it is implemented are supportive of sustained superior performance. Accordingly, this research should lead to consideration of appropriate design and implementation strategies for total package compensation systems, based on the experiences of a large, blue chip organisation.

1.4. Research Objectives

The research objectives of this study were as follows:

1. To investigate the predictors of managers' perceptions of a total package compensation system in terms of three primary variables: fairness, equity and efficacy

2. To determine what factors (influencing variables) are likely to influence management perceptions of a total package compensation system
3. To develop a process model for the implementation of a total package remuneration system, taking into account the outcomes of the analysis of management perceptions of the compensation system, as well as the variables that are found to influence these perceptions.

The literature reviewed in the following chapter provides a theoretical framework within which this research study will be conducted.

CHAPTER 2. LITERATURE REVIEW

2.1. Introduction

This chapter provides a theoretical overview of the factors to be considered in the selection and implementation of a new reward system for managerial employees. It examines the changing global employment environment and the impact that this has had on organisations and the management of these organisations. It further examines how managerial work has changed over the past several years.

These changes in the world of work are then considered in terms of reward management: what the aims of reward management are, and how compensation can be used as a motivator of employees. Two process theories of motivation are elucidated in this regard.

The integration of pay with the organisation's culture, goals and values is explored, with a view to examining how these influence the introduction of a new reward system. The change management aspects of introducing such a system are then discussed, in terms of how change management principles may assist in the implementation of a new reward system.

2.2. The Global Employment Environment

The 1990s are characterised by increased globalisation and an increase in the importance of mobile knowledge workers in the global economy (McGowan, 1997). There is also a growing emphasis on the provision of services, and the development of high technology goods (Kegley and Wittkopf, 1996). The emphasis placed by organisations on the service economy is as a consequence of this factor, where service generally comes from relationships between customers and the

organisation, which are founded on the commitment and competence of individuals (Ulrich, 1998).

In addition to needing to become and remain internationally competitive, organisations are restructuring to meet the demands of a radical shift in the context in which business is conducted. McGowan (1997) refers to this as the global informational economy, which is characterised by open global markets, trans-global transactions which negate the impact of time on business.

Within this environment, there is an increase in the emphasis placed by organisations on contribution to organisational success made by individual employees (Armstrong, 1996; Ulrich, 1998), and on containing the spiralling costs of employment. This brings about a change in the relationship between organisations and employees: whereas previously, employees had job security in exchange for loyalty, knowledge workers now owe allegiance to their professions, and are extremely mobile. Further, organisations are entering into a new compact with employees, wherein employers give employees the opportunity to develop new skills and greatly enhanced employability in exchange for better productivity and some degree of commitment to company purpose and community for as long as the employee works there (Waterman, Waterman and Collard, 1994).

This means organisations find it more difficult to retain highly qualified employees (Drucker, 1994; Reich, 1991). These factors have resulted in a critical skills shortage in a number of professions and countries.

Given these factors, many organisations are introducing new and innovative compensation systems (Armstrong, 1996; Hay Management Consultants, 1997), to provide valuable knowledge workers with increased flexibility and control over their compensation.

2.3. The New Organisation

Business transformation is a common feature of South African corporate life, with over 94% of respondents in a recent executive survey on change and transformation indicating that corporate restructuring is essential to remain ahead of competitors. The main driver of this change is the need to suddenly respond to global competition (Ryan, 1997).

Large organisations have little choice but to change the way they operate and become more information based. Demographics in terms of the changing nature of the workers from clerical or manual workers to knowledge workers (Reich, 1991), and the need to become innovative and entrepreneurial require that this occurs (Drucker, 1988). Knowledge-based organisations will lose performance capability unless they are innovative, and will be unable to retain skilled and knowledgeable people, on whom performance depends (Drucker, 1995).

The change to information organisations requires a change in the way in which organisations are staffed (McKinsey and Company, 1997). Traditional management levels, which serve as conductors of information between top management and employees are becoming less relevant, as information is likely to flow more easily in information organisations (Drucker, 1988). There is also far greater emphasis in new organisations on how people do their work (competencies, skills and behaviours), as opposed to what people do (tasks) (Towers Perrin, 1996). This requires a fundamental re-evaluation of the roles of managerial employees within constantly changing and evolving organisations. This process of change is likely to threaten the status and opportunities of many people in organisations, particularly those in the middle management ranks with longer service who are the least

mobile and tend to feel the most secure in their work and jobs (Drucker, 1988).

In the aftermath of downsizing, an increase in global competition, growing customer expectations, fewer layers of management and an increase in employee obligations, the organisations of the 1990s are finding that the changes have not always been perceived by managers as being for the better. This, together with the fact that knowledge employees who often have several possible job opportunities at any time have essentially become volunteers in organisations, makes the new organisations vulnerable to the loss of intellectual capital (Ulrich, 1998)

In order to facilitate the success of the new organisation, compensation systems that support and motivate employees to contribute to organisational objectives are critical. These compensation systems need, therefore, to reward such contribution. Organisations are also under pressure to contain costs, and are therefore moving towards the introduction of compensation systems that enable them to determine the true cost to the organisation of employment (Armstrong and Murlis, 1994). Total package provides employers with an opportunity to accurately gauge this cost.

2.4. The New Managerial Work

In the new organisation, managers need to learn to operate without the "crutch of hierarchy" (Kanter, 1989, p88), and to operate across functional boundaries, whilst playing a more strategic role in organisations. Considerable challenges are presented to managers in the new organisation, as services are purchased from external suppliers and self-managed teams become more common. Strategic alliances and partnerships also require that managers function across organisational boundaries (Kanter, 1989).

As a consequence of the changing organisation, managers need to become more integrally involved in value creation for the organisation, by supporting organisational strategy (Kanter, 1989). This requires greater use of networks, and optimising collaborative relationships with other areas. To successfully make the change from operating within a hierarchical and vertically oriented organisation to the new flatter, networked organisation, an appropriate system of rewards needs to be implemented for managerial employees in information organisations (Drucker, 1988; Kanter, 1989).

The expectations and life experiences of emerging managers have also shifted dramatically from those of traditional managers. The new breed of young managers (under the age of 34), who are replacing older managers hold fundamentally different ideas about work loyalty and commitment. This is primarily as a result of the experiences of their baby boomer parents in recent years, which have been characterised by downsizing, layoffs and the technology boom. These so-called "Generation X-ers" (Healy, 1998) do not believe that they will be as successful as their parents, and have consequently become more entrepreneurial to earn success. This marks a break from an entitlement approach to success, and a growth in self-reliance. The composite result of these factors is that Generation X-ers do not perceive that they work for themselves, rather than for the company (Healy, 1998). This therefore represents a fundamental change in the relationship between these managers and the organisation.

Compensation systems that equate hierarchical status to the value that specialist and managerial employees add to organisations are no longer relevant in this context. New compensation systems that recognise individual contribution to organisational success, as well as the employee's need to have a measure of control over how their compensation package is structured are therefore required (Armstrong, 1996).

2.5. Aims of Reward Management

Armstrong and Murlis (1994) have identified several aims of reward management: reward systems should be designed in such a way that they facilitate the attainment of individual and organisational objectives by employees, and that they take account of the employees' individual needs. They should provide levers for organisational culture change, supporting performance, innovation, risk-taking and quality. The ability of employees to choose between a range of benefits in this instance is also critical (Marmer Solomon, 1998). Further, reward systems should provide the employer with value for money. The implementation of the total package compensation system should have taken these aims into account.

2.6. Compensation and Motivation

“Pay motivates job performance to the extent that merit increases and other work related rewards are allocated on the basis of performance” (Milkovich and Newman, 1990: p253). Within the context of the changing organisation and the changing role of managers, the implementation of compensation systems needs to take place following careful consideration of the motivational impact of rewards on employees in increasingly flexible and non-hierarchical organisations (Kanter, 1989).

Motivation at work has been identified as occurring in two ways:

Intrinsic motivation is derived from job content, and can be described as the process of motivation by work itself in so far as it meets people's needs or leads to the expectation that their goals will be achieved (Flude, 1992). People seek the type of work that satisfies them, and intrinsic motivation is therefore self-generated. Management can, however, facilitate an increase in intrinsic motivation through the implementation of various human resources systems such as job

enrichment, career development programmes and by allowing creativity and innovation as part of job content. Intrinsic motivation strongly influences the concept of empowerment (Armstrong and Murlis, 1994).

Extrinsic motivation refers to what is done to or for people to motivate them. It arises from the provision by management of rewards such as salary increases, promotion. Extrinsic motivators are said to have an immediate and powerful effect, but may not be long lasting. Intrinsic rewards, however, have a deeper and longer terms effect as they are not imposed externally, but are rather inherent in individuals (Armstrong and Murlis, 1994).

This research will be concerned primarily with extrinsic motivation. Money (compensation) can serve a number of reward functions for employees (Walleye and Szilagyi, 1982). These are:

- It is a goal that people strive to in varying degrees;
- It can be an instrument that provides valued outcomes;
- It is a symbol indicating the employee's value to the organisation;
- It can function as a general reinforcer because it is so frequently associated with valued rewards that it assumes its own reward value.

As money serves as a highly tangible means of recognition, it can provide positive motivation in the right circumstances. Although not ranked as the primary determinant of employee satisfaction, it was found that managerial employees (excluding directors and senior management) rated salary (an extrinsic motivator) as the second most important motivating factor, after "having an interesting job" (a typically intrinsic motivator) (Flude, 1992). Compensation also featured as a reason both for people remaining in and leaving organisations

(Sullivan, 1998). It is critical, within this context that compensation systems are designed with the needs of the intended target employees in mind, as badly designed or poorly implemented compensation schemes can demotivate employees (Armstrong, 1996).

It is important to understand how compensation serves as a motivator. In this regard, two process theories of motivation will be examined to explain how compensation influences motivation (Armstrong and Murlis, 1994). Process theories have been chosen in preference over other motivation theories. This is because they focus on the psychological processes or forces affecting motivation, as well as on basic needs. This makes them useful to management, as they provide guidance on motivation techniques, and can therefore be used to facilitate the enhancement of employee motivation (Armstrong, 1991)

2.6.1. Expectancy Theory

Expectancy theory states that if heightened motivation to perform is to occur, employees need to:

- Feel able to change behaviour;
- Feel confident that this change will produce a reward;
- Value the reward sufficiently that the change is justified (Armstrong and Murlis, 1994).

Expectancy theory explains why extrinsic motivation is only successful if there is a clear link between effort and reward and if the value of the reward is worth the effort required to attain it (Armstrong and Murlis, 1994). This is further explained by Biesheuvel (1982), who states that if employees desire higher pay, and expect that a reasonable chance exists that this will follow if they improve their performance, then they will be motivated to do this. This will only occur if the extra effort

involved in improving performance is deemed to be appropriate in terms of the expected reward.

Armstrong (1996) notes that the strength of expectations that a reward will follow a certain type of behaviour are typically based on past experiences. Where a change occurs, such as the introduction of a new compensation system, past experience becomes an inaccurate measure of possible implications. In such circumstances, motivation may be reduced.

2.6.2. Equity Theory

Equity theory states that people will be motivated if they are equitably treated and demotivated if they are treated inequitably (Adams, 1965). Armstrong (1996) makes the distinction between equity, which concerns treating people fairly in comparison to other people in terms of their worth and value added, and equality, which relates to people being treated exactly alike. This is an important distinction as people need, in terms of expectancy theory, to realise that increased effort results in increased potential for rewards. By its very nature, reward requires a measure of discrimination between those who make extra effort and those who do not. Equity, however, involves feelings and perceptions (Auxilium West, 1997), and is always a comparative process (Armstrong, 1996).

Jacques (1961) links equity to the "felt fair" principle: pay systems will be fair if they are felt by employees to be fair. This is based on several assumptions:

- There is an unrecognised level of fair payment for various levels of work. This means that employees typically understand the relative value of their particular contribution in comparison to the

contribution of employees at other levels of the organisation;

- Knowledge about the standard is unconsciously shared among the employee population, and employees know what is required of them in order to obtain different levels of reward;
- Pay must match the level of work and the capacity of the individual to do it, ensuring that employees remain motivated by appropriate reward for appropriate competence. This is also congruent with the overarching philosophy of the new pay (Zingheim and Schuster, 1992).

2.6.3. Fairness, Equity and Consistency

Motivation strategies should influence the development of reward strategies, to ensure that employees regard them as fair and equitable. Consistency is also crucial, as it provides employees with an indication of what rewards are likely to accrue following certain levels of performance. Consideration therefore needs to be given to how reward systems perform in terms of fairness, equity and consistency (Armstrong, 1996).

Fairness: Reward systems should be both fair and seen to be fair. It should therefore be transparent, with every employee knowing how the various parts of the system operate and how they can be affected by these (Armstrong, 1996). In this regard, employees and/or their representatives should be involved in the design of the system (Bowey, 1997).

Equity: This is achieved when employees are appropriately rewarded in relation to colleagues, and in accordance

with the value of their contribution. Measurement needs to be objective to ensure equity (Armstrong, 1996). Employees also need to perceive their compensation as related to the external market, for the type of work they perform or the type of value they help to create (Auxilium West, 1997).

Consistency: The system should facilitate consistent decisions about individual pay levels. These decisions should be facilitated by policies that are accessible to line management, but that are flexible enough to allow line managers to deal with each circumstance based on its merits. These exceptions should, however, be dealt with in a manner consistent with the organisation's reward philosophy. The guiding principle in this regard should be "constancy towards ends, but flexibility about means" (Armstrong, 1996: p51).

Total package, by virtue of its flexibility and the extent to which employees have responsibility for managing their own remuneration mix should be positively perceived in relation to the above criteria. This is, however, strongly influenced by the implementation process.

2.7. The New Pay

Lawler (1990) coined the phrase "the new pay" to reflect the need for understanding an organisation's culture, goals and values. It also refers to understanding the challenges of a more competitive global economy, and taking these factors into account when formulating a new compensation strategy.

The major contribution made by Lawler (Armstrong, 1996) to the "new pay" concept was his advocacy of "people based" pay. This is

distinguished from job based pay by paying people according to their value in the market, and in relation to their knowledge, skills and overall contribution. The new pay is therefore useful in helping to achieve both the individual and organisational behaviour that organisations require if their business goals are to be met. Pay systems must accordingly flow from the overall business strategy (Lawler, 1990).

Schuster and Zingheim (1992) have elaborated on the concept of the new pay, by describing its fundamental principles. Employees are regarded as the primary reason for sustainable organisational success, and the new pay is consistent with organisations becoming world class by partnering with employees. Pay is also regarded as an element of organisational communication, and can be managed to convey the right messages about the organisation's values, performance expectations and standards.

With the growth of globalisation and international business, organisations also need to be aware that compensation structures that work well within a corporate head office may not be suited to operations in other geographic locations, including those within the same country as the headquarters (Gedvilas, 1997). There is, therefore, the requirement that account is taken of employee diversity in the design of new pay compensation systems.

The concept of the new pay should not be regarded as a set of prescriptions: instead, it is a philosophy of reward. The new pay is therefore a way of thinking about reward. The various concepts identified in the discussion on the new pay should therefore form part of the basis of practical implementation of reward management within organisations.

Total package, as a compensation approach, should ideally be implemented within a context that is facilitative of achievement of

personal goals and objectives, and where both intrinsic and extrinsic factors are present to ensure an overall, consolidated approach to reward management. This context is critical, as it will have an impact on employees' perceptions of the compensation system in terms of its fairness and equity.

2.8. Introduction of a New Reward System

Implementation of a new compensation system often implies considerable change for employees (Armstrong and Murlis, 1994). In order to facilitate employee alignment and facilitate buy-in from employees, the change process accompanying the introduction of a new compensation system need to be carefully managed by the organisation.

This section will examine the types of change management issues that should be considered when implementing a new compensation system, as well as the principles that should inform the actual implementation of the system.

2.8.1. Management of the Change Process

It has already been noted that changing a remuneration system may have the effect of demotivating employees (Armstrong, 1996). Accordingly, organisations implementing a new compensation system should be mindful of employees' possible reactions to change, and take appropriate steps to manage the change process effectively.

A key outcome of any transformation or change exercise should be to answer the question: "how do you create a climate of organisational alignment in your organisation that results in optimal productivity and performance?" (Trahant, Burke and Koonce, 1997). For broad-based organisational change to be successful, the change must be implemented at two distinct

levels within the organisation: transformational and transactional (Trahan et al, 1997). The transformational aspect provides insight into how much employees know about the external environment of the organisation. This is critical, as employees need to know what the macro-level driving factors are of the change – an essential aspect of doing business in a global environment. From a transactional perspective, the focus should be on the organisation's internal structure (Trahan et al, 1997). This includes aspects such as organisational structure, culture, career development, feedback and the extent to which work is meaningfully organised (Hawk, 1995). This approach to transformation ensures that both internal and external factors are considered in the implementation of the change process.

Roberts and Friedman (1991) identified a number of steps that organisations should take to implement long lasting change. These steps facilitate the alignment of employees to the strategic plan of the organisation, and inspire individuals with a sense of urgency and the will to change. The steps are as follows:

- **Clearly define the corporation's mission and specify the implications**

Organisations must have a clearly defined mission for employees to substantially buy in. The strategy needs to specifically describe how things will be when the change is implemented and what will be different after this has been achieved. This can best be achieved by conducting interactive employee meetings, and by making continuous reference to the strategy as the guiding logic for decision-making (Roberts and Friedman, 1991). Pascale, Millemann and Gioja (1997:p136) refer to this as "building an intricate

understanding of the business”, where a line of sight is created between the overall strategy and individual performance. The question “what difference can I make?” is, in this way, more easily answered.

– **Communicate with employees around their “need to know”**

The greater the change, the more employees need to know why this is necessary. The best way to achieve this is through interactive forums, rather than by broad-based organisational memoranda and bulletins. The change message must also be continually reinforced, to ensure that employees believe the change is real and happening (Roberts and Friedman, 1991). Involvement is critical in any change process, because if employees recognise that the change is in everyone’s best interests, the quality and acceptance of the new system is likely to be higher, and employees are more likely to buy into the change (Hawk, 1995).

– **Continually demonstrate the criticality of change**

To create and maintain the sense of urgency regarding the change, top management must continue to focus on the change, and on continuous improvement. Initiatives in this regard should be kept visible, and top management (Roberts and Friedman, 1991) should model behaviours and priorities needed by others.

– **Align employees in support of critical success factors**

Strategy should be linked effectively to individual employees’ priorities. It is important to clarify how the new direction affects individual objectives. Further, top management

should ensure that employee performance measures against these objectives are weighted heavily in determining salary and bonus treatment (Roberts and Friedman, 1991). In order to do this successfully, organisations need to “manage from the future” (Pascale et al, 1997), which means that critical success factors need to facilitate the achievement of the future goals of the organisation, rather than being present-focused.

It is not sufficient to simply explain how the change links to organisational objectives: instead, successful change programmes should enlist employees’ passion and energy to support the company mission and strategy (Trahan et al, 1997). This can be achieved by creating emotional bonds between employees and the company’s mission; something that can only be effective if employees identify with and support the mission, and therefore the criticality of the change in achieving the mission.

– **Involve employees early and often**

Successful change efforts involve the implementers in planning and carrying out the change. Top management therefore need to build understanding and commitment to the required changes through broad involvement in shaping solutions to problems (Roberts and Friedman, 1991). This is critical: unless top management is able to define the new terms and conditions of employment and persuade their subordinate managers of the benefits of these, it is unrealistic for the top management to expect employees to fully buy in to the change and accept the new terms (Strebel, 1996).

– **Encourage appropriate behaviours**

It is essential to evaluate the signals that are being sent to employees to ensure support for strategies and the required behaviours and priorities. This prevents the possibility of miscommunication, where the messages being sent by top management are being misunderstood or misinterpreted during the communication process. Top management also need to ensure that those employees who do champion the new direction are sufficiently rewarded and recognised (Roberts and Friedman, 1991).

– **Build a high performance environment**

Top management needs to ensure that line management take the lead in linking corporate strategy to individual objectives. This ensures that middle level management to not subvert the process of change, and that there is alignment of management thinking in respect of the new direction (Roberts and Friedman, 1991).

The introduction of a new managerial reward system may represent a fundamental change in the way the relationship between the employer and its management is managed (Armstrong, 1996). If these factors are not considered when implementing a new compensation strategy, there may not be sufficient employee support for the new system. This may have a negative impact on employees' perceptions of the new system.

Where companies that are embarking on change processes wish to harness the energy and creativity of committed managers, it is important that the change is regarded as having followed fair process (Chan Kim and Mauborgne, 1997).

Central to the idea of fair process is that individuals are more likely to trust and co-operate freely with systems when they feel that fair process was observed.

Chan Kim and Mauborgne (1997) have identified three principles of fair process:

Engagement, where people are involved in decisions that affect them by being asked for input and by allowing them to refute the merits of each other's ideas and assumptions. Engagement communicates managerial respect for individuals' ideas. It results in better decisions by management and greater commitment by those implementing the decisions.

Explanation ensures that those involved and affected understand the final decisions. Explaining the thinking that underlies the decision inspires confidence that the issues have been appropriately considered before implementation.

Expectation Clarity means that once a decision is made, management must state clearly the new rules. Although the expectations communicated at implementation may be demanding, employees should know up-front what is expected of them, and what standards will be used to measure them.

Achieving fair process does not mean the surrendering of managerial prerogative: instead, it is a process that pursues the best ideas whether they are put forward by one or many (Chan Kim and Mauborgne, 1997).

Accordingly, when introducing a new compensation system, top management need to ensure that this is effected within the

context of appropriate change management. This is especially true when the new compensation system is being introduced in conjunction with other organisational changes (Armstrong, 1996).

2.8.2. Implementing the New Reward System

Based on equity and expectancy theories, and founded on the principles of good change management, a number of key principles have been identified by Bowey (1997) as necessary to ensure buy-in to new remuneration strategies. The application of these principles to the implementation of a new compensation system will facilitate employee buy-in and support for the system, and will enable employees to take ownership of the system.

– Involvement

Employees should be involved in the development of new remuneration systems. They should further be consulted on the potential problems they foresee. This will ensure that employees support the system through its initial implementation stage, and that they share a sense of ownership of the system. This will also result in a commitment towards its success (Bowey, 1997). Robbins (1993) further contends that an open policy regarding communication about pay has the effect of building trust and providing a mechanism for enhanced perceptions of fairness. Lawler (1990) adds that employee involvement in the design of a compensation system leads to favourable results, as key compensation issues are identified, and employees accept the final design of the compensation system more readily. Further, employees are more likely to have confidence in the system as they have more information about the system, are

committed to it, have control over what happens and trust the system (Lawler, 1983).

– **Demotivators**

All obstacles that frustrate high achievement should be removed. It is futile attempting to reward achievement if employees' efforts are frustrated by lack of time, training, equipment, support systems or other resources (Bowey, 1997).

– **Equity**

Any performance standards applied to either goals or behaviour changes should be fair and comparable for all employees in a similar role in a similar organisation (Bowey, 1997). As equity relates primarily to employee perceptions of equity (Auxilium West, 1997), it is critical that the pay system is perceived by employees to be equitable.

– **Reinforcement**

Procedures to provide reinforcement of employee effort should be in place. This ensures that employees are aware of their employer's interest in their performance, which facilitate learning regarding how to earn the desired rewards (Bowey, 1997). Reinforcement and recognition are powerful contributing factors to retaining employees in organisations (Sullivan, 1998), and it is therefore critical that these processes are implemented in the organisation.

– **Relevance of Reward**

Time should be spent in the design of a reward system in ensuring that employees desire the proposed rewards (Bowey, 1997). This is elaborated by Armstrong and Murlis

(1994), who suggest that employees will regard rewards as relevant if the reward system is flexible, and so meets the individual's respective lifestyle requirements.

-- **Goals**

Goals, targets and behaviour changes should be developed in consultation with employees, and these should be as specific and clear as possible (Bowey, 1997). In relating rewards to performance or goal achievement, however, the approach adopted by organisations should not be overly rigid or mechanistic (Armstrong and Murlis, 1994).

Total package remuneration systems represent a considerable change from the manner in which compensation is typically managed in South Africa. Accordingly, there may be some suspicion amongst employees regarding the new systems, which is likely to be exacerbated by a lack of understanding of the system and its composite elements. The new total package system also requires that employees assume a greater measure of accountability for their remuneration, which may be uncomfortable for employees who are accustomed to being "looked after" by the organisation.

2.8.3. Desired outcomes of a total package compensation system

Armstrong (1996, p163), defines total remuneration (total package) as "*the total value of all cash payments and benefits received by the employee*". A number of desired outcomes are identified (Armstrong, 1991; Armstrong and Murlis, 1994) of introducing such an approach to compensation:

- Greater ability for the organisation to define the real cost of employment
- Increased flexibility for employees in terms of exchanging cash for benefits according to specific lifestyle requirements and/or choices
- Greater responsibility by employees for the management of their own compensation mix (the mix of cash and non-financial elements)
- Enhanced tax planning opportunities for employees
- Greater transparency in the composition of remuneration packages, as there are typically no "hidden extras"

These desired outcomes relate primarily to the notions of *employee involvement in the design of their own compensation*, as well as *employee choice as to the most appropriate cash-benefit mixture for their particular circumstances*. These are critical factors, as if compensation is to motivate employees, it is essential that it satisfies real rather than assumed needs (Armstrong, 1991).

Management needs to acknowledge that pay and pay systems have both substantive and symbolic components. In signalling who and what in organisations are valued, pay helps both to reflect and create organisational culture. Management must therefore be sure that the messages sent by the pay system are *intended and that the pay system is consistent with the culture of the organisation* (Pfeffer, 1998).

2.9. Literature Review Conclusion

It appears that considerable thought needs to be given to the design and implementation of a new total package reward system. Failure to take cognisance of the issues highlighted in the above review may result in the compensation system demotivating employees, which is counterproductive in terms of organisational performance. This may be further exacerbated by employees not supporting the new compensation system, resulting in a lack of ownership of the system by those employees, and a subsequent lack of trust in the appropriateness and fairness of the system.

It is critical that, in setting compensation philosophies and systems, that leaders realise that pay is but one element of a set of management practices that can either build or reduce commitment, performance and teamwork. Leaders therefore need to ensure that pay practices are congruent with other management practices, and reinforce rather than oppose their effects (Pfeffer, 1998).

These observations led to the positing of the research propositions in the following chapter.

CHAPTER 3. RESEARCH PROPOSITIONS

3.1. Research Question

This research sought to answer the question “Are total package compensation systems perceived to facilitate the alignment of employees behind organisational objectives, and further are they perceived as a motivating factor to employees to improve and sustain high levels of performance?” This question was explored primarily in terms of the perceptions of managers to whom the total package compensation system applies.

The researcher attempted to answer the question by examining the predictors of aspects of managers’ perceptions of their total package compensation system in terms of three primary variables, namely:

- The fairness of the new total package compensation system
- The equity of the new total package compensation system
- The efficacy of the new total package compensation system

3.2. Research Propositions

In attempting to answer this question, the following research propositions were posited:

Proposition 1. Management perceptions of the fairness of the new compensation system will differ depending on the extent of their involvement in determining the compensation system;

Proposition 2. Management perceptions of the fairness of the new compensation system will differ according to the extent to which they understand the new system;

- Proposition 3. Management perceptions of the fairness of the new compensation scheme will differ according to their length of service in the organisation;
- Proposition 4. Management perceptions of the equity of the new compensation system will differ according to the extent to which it is regarded as rewarding them for individual efforts
- Proposition 5. Management perceptions of the equity of the new compensation will differ according to the extent to which managers regard their compensation as determined by their contribution in relation to that of others
- Proposition 6. Management perceptions of the efficacy of the new compensation system will differ according to the extent that it is regarded as motivating them to improve their individual performance.
- Proposition 7. Management perceptions of the efficacy of the new compensation system will differ according to the extent to which they identify the system as rewarding the achievement of business objectives.

3.3. Research Outcomes

A process model for the implementation of a total package remuneration system will be built, taking into account the outcome of the analysis of management perceptions of the total package system as well as the variables that are found to influence these perceptions.

CHAPTER 4. RESEARCH METHODOLOGY

4.1. Survey

This research was undertaken using a survey. This involved two key steps: collection of data using the research instrument, and analysis and interpretation of the data (Leedy, 1997).

The survey was conducted within one organisation that recently introduced a total package remuneration structure. A questionnaire was used as the tool for data collection. Leedy (1997) identifies the questionnaire as being a common instrument for the observation of data beyond the physical reach of the researcher. Given that the population within which the research was conducted was large and geographically dispersed, this data collection method was regarded as appropriate.

4.2. Case Study

The rationale for selecting one organisation for the research is that the population would have experienced the introduction of the new compensation system within the same time frames. Similarly, the population would have been aware of other organisational change initiatives being conducted at the time, and there is therefore no chance of different intra-organisational dynamics from a variety of organisations influencing the outcomes, as may have been the case were a number of organisations selected from which samples could have been drawn.

4.2.1. Brief Description of the Organisation

The organisation within which the data was collected is a large financial services organisation. It employs over 27,000 employees in South Africa. Of these, approximately 4,000 are

managerial level employees. The organisation also employs approximately 3,500 employees throughout Africa, the United States, the United Kingdom and the Channel Islands. This study focused only on managers based in the local South African operation.

The local operations of the organisation have, for the last three years, been engaged in a process of significant organisational change. The organisation migrated from a large, "one size fits all" service provider to an organisation comprised of a range of specialist banking units. These units are designed to service specific niche market clients.

During this process of change, the organisation also fundamentally changed its approach to the remuneration of managerial level employees. This change involved the movement away from a remuneration philosophy based on basic salary plus a variety of typically grade-linked fringe benefits, to a total package remuneration structure. The conversion to total package took place during the latter half of 1996, with different levels of management converting on a phased basis. This process was accompanied by an extensive internal communications effort using a variety of media, including video, presentations and printed matter. The entire conversion process was complete by the end of November 1996.

4.3. Population to be Researched

The population that was researched consisted of the management of the organisation in which the research is being conducted. A number of criteria were set for defining the population:

- Only those managers who had been operating at the management level for at least a year before the introduction of the new compensation system and who were still employed by the organisation were included in the population. This ensured that managers selected into the sample were both aware of and had experience of the two compensation systems, and were present during the communication process regarding the new compensation system.
- Executive managers (those with job sizes in excess of 1100 Hay Units) were specifically excluded from the population. These managers, although also having recently experienced a similar change in compensation system, would have been more involved in the strategic discussions regarding its implementation. They would also be more aware of the various business unit strategies than possibly those at the other management ranks would have been, and would therefore have been more familiar with the rationale for and the process of implementing the new system.
- Managerial employees from the corporate and merchant banking unit were excluded from the population. These employees had been remunerated on the basis of the total package compensation system for approximately 12 months longer than managerial employees in other business units. Also, there were certain structural and design differences in the way the total package system was being implemented in this unit. The asset finance unit of the organisation was also excluded from the population on account of considerable restructuring initiatives underway in the unit at the time of the research. These factors were likely to be confounding variables (McCall, 1986), which would potentially influence the research findings, and the employees in this unit were accordingly excluded.

4.4. Sampling and Sample Size

A combination of a stratified and a systematic sampling method (Leedy, 1997) was used in the selection of the sample for the research report. A full list of all managers in the population was drawn from the organisation's employee database. Managers were divided into the three management strata, namely junior, middle and senior management. Thereafter, every 7th record in each stratum was included in the sample.

The various levels of management are defined as follows:

<i>Level of Management</i>	<i>Job Size Range (Hay Job Evaluation Method)</i>	<i>Population</i>	<i>Sample Size</i>
Junior Management	338HU - 525HU	965	166
Middle Management	526HU - 740HU	692	125
Senior Management	741HU - 1100HU	163	26
TOTAL		1820	317

4.5. Data Collection

Data collection occurred in two phases.

– Phase 1

Phase 1 involved a series of structured interviews with experts and managers regarding the research problem. The purpose of these interviews was to identify further issues for exploration in the second phase of data collection. The interview data was also used to validate the research instrument.

Data from Phase 1 was analysed using content analysis. The outcomes of this were included in the final design of the data collection instrument for Phase 2.

– Phase 2

Data collection in the second phase took the form of a descriptive survey. Leedy (1997) refers to the descriptive survey as a process of observing with close scrutiny the population bounded by the research parameters, and then making a careful record of what is observed.

Data collection was accomplished using a questionnaire, which is identified as a common instrument for observing data in a descriptive survey (Leedy, 1997). The questionnaire was designed to test the research propositions previously identified. The introductory letter and the questionnaire can be found in Appendices 1 and 2.

4.5.1. Questionnaire Design

Questionnaires are regarded as an appropriate tool for gathering research material in a survey (Leedy, 1997). To ensure that the questionnaire was effective as a data collection tool, care was taken in the design of the questionnaire. In designing the questionnaire, the following factors have been taken into account:

- The questionnaire was kept as short as possible
- Each question was stated as briefly as possible
- Instructions for the questionnaire were included for each section of the questionnaire.

The questionnaire was developed by the researcher, following consideration of the relevant literature and the research propositions.

In addition to ensuring that the physical layout of the questionnaire facilitates respondents answering appropriately, the researcher took an additional step to ensure that the questionnaire was appropriately designed. The questionnaire was pre-tested on sample of 6 respondents. The data was collated to ascertain whether there were any difficulties with the information gathered in terms of relevance to the research. Amendments were made to the questionnaire where necessary, before it was distributed to respondents.

4.5.2. Distribution and Collection of the Questionnaires

Questionnaires were distributed to respondents via the organisation's internal mail system. This ensured that the respondents all received the questionnaire at approximately the same time. This enabled the researcher to exercise a measure of control over the time frames of the research, as the unpredictability of the external mail system is to an extent removed.

Respondents were asked to return the questionnaires, using an addressed envelope provided for this purpose, via the internal mail. This ensured that items did not go astray as a result of incomplete or incorrect addressing by the respondents.

4.6. Data Analysis

Data collected via the questionnaires was primarily ordinal-scaled data. This level of data arose from the use of the 5-point Likert Rating Scale (Wegner, 1993). This meant that whilst there was an implied difference between the categories, this difference could not be measured exactly.

Accordingly, only non-parametric statistics could be used for the analysis of the data (Wegner, 1993).

4.6.1. Spearman's Rank Correlation Coefficient

The Spearman's Rank Correlation Coefficient (R_s) was used to find a measure of association between two random variables, as the data was ordinal (Wegner, 1993). The following is noted in terms of the use of the Spearman's Rank Correlation Coefficient:

- A low correlation will not necessarily imply that the variables are unrelated, but simply that the relationship is poorly described by a straight line;
- A correlation does not imply a cause-effect relationship, but rather an observed association (Wegner, 1993).

In this study, a primary variable was identified for each of the research propositions to be investigated. A Spearman's rank correlation co-efficient was determined between the primary variables of fairness, equity and efficacy, and the various influencing variables identified as being relevant to the respective propositions.

The resultant correlations were analysed in an attempt to explain the extent of the associations (as indicated by the value of R_s). These associations were then analysed in terms of the relevant literature, with a view to drawing certain conclusions about the outcomes of the analysis.

4.6.2. The t Statistic

According to Groebner and Shannon (1989), the t statistic can be used to test whether the Spearman's R_s is significant, where the sample size is greater than 10. The t test was used, following the computation of R_s , to establish the significance of

the relationships between the variables. The t statistic was determined as follows:

$$t = R_s \sqrt{\frac{n-2}{1-R_s^2}}$$

The null hypothesis (H^0) is: The relationship as indicated by the Spearman's Rank Correlation Co-efficient is not significant.

The t test was conducted at the 0.05 significance level using $n-2$ (160) degrees of freedom to determine at which point R_s became significant. In order to reject the null hypothesis, t should be greater than the critical t value of 1.975, obtained from the t -distribution table. At an R_s value of 0.154, t is equal to 1.975. Accordingly, at any R_s value of greater than 0.154, the null hypothesis was rejected, indicating that the relationship between variables as indicated by R_s was significant.

4.6.3. Interpretational Analysis

Two open-ended questions were included in the research instrument to allow respondents to make specific comments about the new total package compensation system. The responses to these questions were documented and analysed through a process of interpretational analysis. Gall, Borg and Gall (1996) identify interpretational analysis as an appropriate approach to analysing case study data. This analysis was conducted with a view to examining the data for constructs, patterns and themes that could be used to explain the phenomenon being studied. The outcomes of the

interpretational analysis were supplemented by relating these to and explaining them in terms of relevant literature.

The results of the analysis are discussed in the following Chapter.

CHAPTER 5. ANALYSIS OF RESULTS

5.1. INTRODUCTION

Of the 318 questionnaires distributed, 162 were returned within the period stipulated by the researcher. This gave a response rate of 51%.

A problem cited by Leedy (1997) of survey research is that the researcher cannot control the collection of data beyond the distribution of the survey instrument. Within this context, the response rate is regarded as favourable, and the sample as being representative of the population being studied.

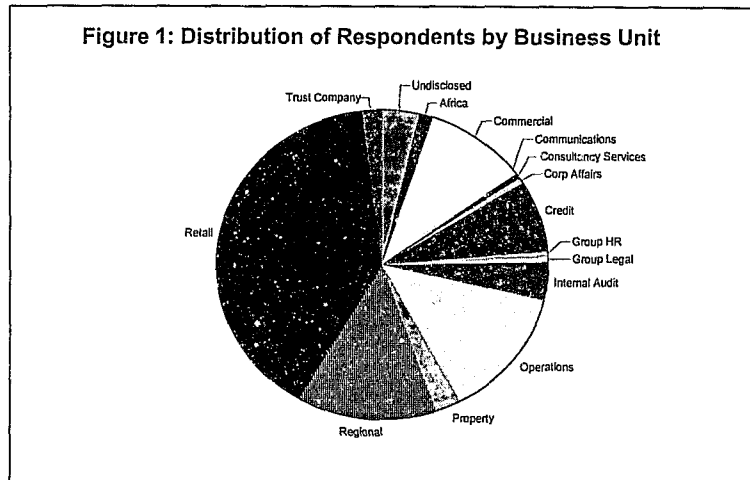
In this chapter, the results obtained from the questionnaire will be analysed.

5.2. DEMOGRAPHIC DETAILS

The respondents were requested to supply various demographic details. These are analysed below:

5.2.1. Business Unit

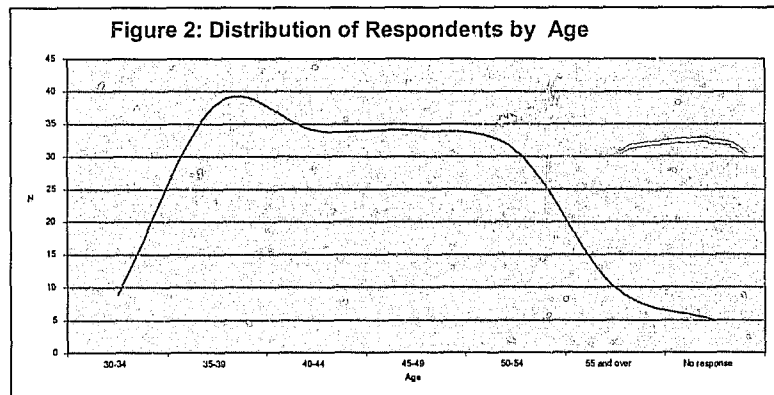
The distribution of respondents across business units is representative of the population across the business units. The distribution of respondents across business units is shown in Figure 1:



5.2.2. Age of Respondents

Respondents were asked to indicate their ages. The average age of respondents was 44.2 years, with a range of 30 years. The youngest respondent was 30 years and the oldest was 60 years of age.

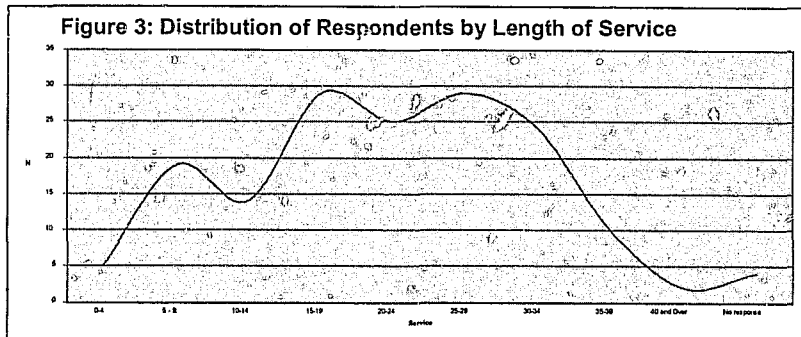
The distribution of respondents' ages is shown in Figure 2:



As illustrated by Figure 2, the age distribution is right skewed.

5.2.3. Respondents' Length of Service

Respondents were asked to provide their length of service with the organisation. The average length of service was 21.46 years, with a range of 39 years. The minimum length of service was 3 years, and the maximum 42 years. The modal length of service was 27 years. The distribution of length of service is shown in Figure 3 below:



5.2.4. Results from the Questionnaire

Appendix 3 shows the distribution of responses to each of the closed questions posed in the questionnaire. The modal response is highlighted for each question.

The results obtained from the questionnaire were used to analyse the various research propositions posited in Chapter 3.

5.3. ANALYSIS OF RESEARCH PROPOSITIONS

The seven research propositions were categorised into three main themes: the fairness, equity and efficacy of the total package remuneration system. Each of the themes and the propositions that were posited in respect of these are examined below. Where appropriate, reference is made to the raw data summarised in Appendix 3.

5.3.1. Fairness

Respondents perceptions of the total package system were explored by means of a direct question in this regard (section 2, question 3). The trend that emerged from the raw data was that respondents perceived the system as fair. There was a spread of responses, with 48% of respondents either agreeing or strongly agreeing that the system was fair. Twenty four percent of respondents either disagreed or strongly disagreed that it was fair. Over one quarter of respondents (27%) indicated neutrality of opinion. This is summarised below:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The total package approach to managerial compensation is fair	4%	20%	27%	47%	1%

Predictors of perceptions of the fairness of the total package system were tested by examining the correlation between the primary variable of fairness and a range of other variables that were regarded as influencing the perception of fairness. These variables related to the extent to which employees were involved in determining the system, the extent to which they understood it and their length of service.

Proposition 1: Management perceptions of the fairness of the new compensation system will differ depending on the extent of their involvement in determining the compensation system

Proposition 1 explored the relationship between managers' perceptions of fairness and their perceived involvement in determining the system. Their perceptions of their involvement were obtained via a number of questions exploring this in the questionnaire.

In the raw data, the majority of respondents indicated that they did not feel particularly involved in the decision to implement total package. Of particular interest was the strong response to the question that directly explored the respondents' perceptions of their involvement in the decision

to implement total package: 89% either disagreed (26%) or strongly disagreed (63%) with the statement. Respondents did, however, indicate that they felt involved in the *design* of their total packages. This could indicate that whilst at a more macro level they were not involved, they feel able to take control at the individual level.

The correlation between perceptions of fairness and involvement are listed in Table 1:

The company's approach to managerial compensation is fair		
Correlated with:	Spearman's rank correlation co-efficient (R_s)	Reject H^0
I feel removed from decisions regarding how I am remunerated	-0.389	Yes
I am not involved in the design of my total package	-0.261	Yes
I was involved in the decision to implement the total package system	0.216	Yes
The administrative procedures used to determine my total package and increases are not openly disclosed.	-0.180	Yes
I was not consulted about the changes in the way I am remunerated	-0.178	Yes

Table 1: Fairness and Involvement

The table indicates that there are statistically significant relationships between the primary variable of fairness and the various influencing variables. Of interest is the trend that emerged: people who felt more involved were likely to regard the system as more fair than those who felt less involved. Similarly, where employees agreed that they did not have involvement in certain aspects of the package design or implementation a negative correlation was evident, indicating that the perception of little or no involvement relates to a negative perception about the fairness of the system.

Several respondents indicated in the open-ended questions that the company should have consulted more meaningfully with employees. There was also a perception that the company could have done more to enquire what people actually wanted from the compensation mix, rather than imposing a series of options based on what the company thought people wanted.

Proposition 1 is regarded as valid on account of the outcomes of the data analysis and the fact that the relationships that emerged between the primary and influencing variables are all statistically significant.

Proposition 2: Management perceptions of the fairness of the new compensation system will differ according to the extent to which they understand the new system

Proposition 2 explored the relationship between the respondents' perceptions of fairness and their understanding of the total package system. The raw data reveal a similar trend to that found for the influencing variables in proposition 1. In each case, a number of respondents indicated neutrality of opinion (between 13% and 24%). Respondents tended also to either agree or disagree, with very few respondents indicating a stronger perception.

Respondents seemed more positive about the extent to which they understood the total package system, with most of the modal responses to questions relating to understanding occurring in the "Agree" category. The correlation between fairness and understanding are listed in Table 2:

The company's approach to managerial compensation is fair		
Correlated with:	Spearman's rank correlation co-efficient (R_s)	Reject H^0
I received enough information at the time total package was implemented to enable me to make personal choices about my total package	0.497	Yes
My total package is inaccurate as it is unfairly inflated by the inclusion of various fringe benefits previously provided for by the company	-0.464	Yes
I would be able to explain to a manager from another organisation how the company's total package remuneration system works	0.278	Yes
I understand the <u>policies and procedures</u> that govern how total package operates	0.228	Yes
There was too much other change in the organisation at the time total package was introduced for me to fully understand the change to total package	-0.218	Yes

Table 2: Fairness and Understanding

A fairly strong relationship is identified in the correlation matrix between the respondents' perceptions of the fairness of the system and the extent to which they perceived their access to information to make personal choices about package. Several respondents indicated in the open-ended questions that they would have liked face to face briefings and seminars on total package, accompanied by written communication. It appears, therefore, that whilst the communication campaign was perceived as successful, it still did not reach all those affected by the conversion to total package. Another common response in the open-ended questions was that respondents would have preferred greater personal attention from experts who could explain package in detail. There were also several comments about the lack of access to tax planning information.

The perceived access to information possibly influenced the responses to the questions about explaining package to an outsider and the understanding of the policies and procedures governing policy. Although

the relationships between these variables and fairness are weak, they are statistically significant. The trend is that the more comfortable respondents felt about their understanding of the system, the more likely they were to regard it as fair.

An interesting observation is that there is a perception that the total package is unfairly inflated as a result of the inclusion of fringe benefits (See raw data in Appendix 3). The benefits were previously part of compensation, but were not typically considered by managers in determining the cost to the company of their employment. The perception was reinforced by several responses to the open ended questions that suggested that the total package approach should be amended by removing fringe benefits from package.

Proposition 2 is regarded as valid on account of the outcomes of the data analysis.

Proposition 3: Management perceptions of the fairness of the new compensation scheme will differ according to their length of service in the organisation

Proposition 3 was posited on the assumption that employees with longer service would perceive the total package as less fair than their shorter serving colleagues. The fairness variable was correlated with a series of variables that were regarded as being influenced by the length of service of the respondents. The Spearman's rank correlation co-efficients are represented in Table 3 below:

The company's approach to managerial compensation is fair		
Correlated with:	Spearman's rank correlation co-efficient (R_s)	Reject H^0
The company's total package approach to remuneration negatively affects my status and standing amongst my peers	-0.296	Yes
Fringe benefits should not be negatively impacted by my level of performance	-0.222	Yes
Status, as determined by my management level in the organisation, is important to me	-0.072	No
Service (Coded into 5 year intervals)	0.030	No
I believe that managers at different levels should be distinguished by the type of fringe benefits available to them	-0.010	No

Table 3: Fairness and Age Related Variables

The correlation matrix reveals weak relationships between the primary variable of fairness and the majority of influencing variables. Length of service in particular related weakly to perceptions of fairness which is in contradiction to the assumption made in proposition 3. Statistically significant relationships are evident in respect of the impact of total package on the respondents' status and perceptions of fairness. Respondents who believed that fringe benefits should not be negatively impacted by individual performance were also less likely to perceive the system as fair.

In an attempt to explore further how length of service influences managers' perceptions of the fairness of the total package system, the respondents' length of service were correlated with the variables that were assumed to be influenced by the longer service to determine the extent to which this relationship could be defined. The results are represented in Table 4:

Length of Service		
Correlated with:	Spearman's rank correlation co-efficient (R_s)	Reject H^0
The company's total package approach to remuneration negatively affects my status and standing amongst my peers	0.067	No
Fringe benefits should not be negatively impacted by my level of performance	0.057	No
I believe that managers at different levels should be distinguished by the type of fringe benefits available to them	0.055	No
Status, as determined by my management level in the organisation, is important to me	-0.003	No

Table 4: Service and Service- Related Variables

Length of service does not have any significant relationship to perceptions about status and relative standing in relation to one's peers. Accordingly, proposition 3 is not regarded as valid for the purpose of this study.

5.3.2. Equity

The predictors of perceptions of the equity of the total package system were regarded as being influenced by the extent to which the total package system rewarded them for their individual efforts. The extent to which the total package rewarded them for their efforts in relation to that of others was also regarded as influencing their perceptions of the equity of the system.

The responses to a question dealing directly with perceptions of equity (section 3, question 9) as shown in Appendix 3 show that respondents do not have consistent views about the equity of the total package system. The modal response (Agree) accounts for 36% of respondents' opinions. Twenty seven percent expressed neutrality of opinion and a further 36% either disagreed or strongly disagreed that the system was equitable. Only

1% of respondents strongly agreed with the statement. This is summarised below:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The total package approach to managerial compensation is equitable	7%	29%	27%	36%	1%

The relationships between respondents' perceptions of the equity of the system and a range of influencing variables are explored in propositions 4 and 5.

Proposition 4: Management perceptions of the equity of the new compensation system will differ according to the extent to which it is regarded as rewarding them for individual efforts

In positing this proposition, the researcher assumed that rewarding employees for individual effort would positively influence the extent to which they regarded the compensation system as equitable. The raw data revealed that over half (53%) of the respondents agree that they are rewarded for individual effort. A further 13% strongly agreed with the statement. Respondents also typically disagreed that the system put too much pressure on them to perform, with 63% either disagreeing or strongly disagreeing with the statement.

Whilst respondents were positive about the extent to which they regarded the total package as rewarding individual effort, they were less positive about the message it communicated about their worth to the organisation. Forty one percent agreed or strongly agreed that it gave them a positive indication of their worth, whereas 40% either strongly disagreed or disagreed. Nineteen percent expressed neutrality of opinion. These responses are possibly influenced by the fact that 92% of respondents strongly disagree that the company does all it can to improve the tax efficiency of their packages. This was reinforced by the responses to the open ended questions, where a number of respondents indicated that the company should improve the tax efficiency of the packages. The impact of

taxation and the perceived lack of interest from the company to address this is therefore eroding the extent to which individual effort is rewarded.

The open-ended questions revealed a lack of knowledge of the Income Tax Act, and consequently unrealistic expectations of what the company could achieve in respect of tax efficiency. Examples of these misperceptions included suggestions that employees be permitted to pay for housing loans or children's education out of pre-tax earnings. There was also a perception that other organisations were doing a great deal more in respect of tax efficiency.

The proposition was further examined by correlating the managers' perceptions of equity with a series of questions that explored their perceptions of whether the total package system rewarded them for individual effort. These correlation are presented in Table 5:

The company's total package approach to managerial compensation is equitable		
Correlated with:	Spearman's rank correlation co-efficient (R_s)	Reject H^0
My total package gives me a positive indication about my worth to the organisation.	0.409	Yes
The company's total package approach currently puts too much pressure on me to perform	-0.307	Yes
The company does all it can to ensure that my total package is tax efficient	0.306	Yes
My level of compensation is determined by my individual contribution to Group and Business Unit performance	0.241	Yes

Table 5: Equity and Individual Effort

Statistically significant of relationships were identified between perceptions of equity and the various influencing variables. The strongest relationship exists between perceptions of equity and perceptions about the indication package gives respondents about their worth in the organisation in that the more positive employees perceive the indications given, the more they are

likely to regard the system as equitable. Where respondents perceived that there was too much pressure to perform, they were less likely to regard the system as equitable (that is, there was a negative correlation). Further, the more that respondents perceived that the company was attempting to improve the tax efficiency of packages, the more likely they were to regard the total package system as equitable.

The data gathered in relation to this proposition and the outcomes of the analysis suggest that this proposition is valid.

Proposition 5: Management perceptions of the equity of the new compensation system will differ according to the extent to which managers regard their compensation as determined by their contribution in relation to that of others

Perceptions of equity were assumed to be influenced by the extent to which employees regarded themselves as being rewarded at a similar level to colleagues who deliver similar value into the organisation. Proposition 5 set out to explore this relationship.

The raw data showed that employees did not perceive that their packages compare well with those of others who make a similar contribution to the organisation. Thirty seven percent expressed a neutral opinion, while 41% indicated either disagreement or strong disagreement to the statement. Only 23% of respondents agreed or strongly agreed with the statement. Notwithstanding this, there was not a great deal of support for a reversion to the previous base and add-on approach, with 20% of respondents either disagreeing or strongly disagreeing with this statement.

The relationships between the equity variable and the various influencing variables were explored by examining the correlation between managers' perceptions of the equity of the total package system and several factors that explored managers perceptions of their level of compensation in

relation to that of others. The results of these correlations are presented in Table 6:

The company's total package approach to managerial compensation is equitable		
Correlated with:	Spearman's rank correlation co-efficient (R_s)	Reject H^0
I believe that the company's total package policies and procedures are uniformly applied to all managers across the organisation	0.429	Yes
The company's current approach to total package ensures that managers take individual responsibility for their own pay	0.382	Yes
I think that the company should have retained its previous approach to managerial compensation (i.e. base salary and additional fringe benefits)	-0.365	Yes
Changes in my contribution to organisational success have a direct effect on my total package	0.328	Yes
The flexibility of my total package allows me to make choices regarding different aspects of my compensation	0.264	Yes
I believe that my total package compares well with people at my level of management who make the same contribution that I do	0.255	Yes

Table 6: Equity and Compensation in Relation to that of Others

A key indicator of equity is the consistent application of policies and procedures across the affected group. A relatively strong relationship was identified between perceptions of equity and perceptions of consistent application of policy.

Respondents also appeared to regard the total package approach as more equitable than the previous base plus add-on approach in that there was a negative correlation between perceptions of equity and the desire to revert to the previous system. Although this relationship was weakly defined, it is statistically significant.

Individual responsibility for pay (which could be interpreted either as being responsibility for decisions regarding pay or as being the ability to influence the levels of one's own pay) significantly related to perceptions of equity. Although a relatively weak relationship, this indicates a trend that employees who take control of their compensation levels are more likely to perceive the total package scheme as equitable.

The raw data indicated disagreement with the statement that respondents were compensated at a similar level to similar contributors to the organisation. In examining the relationship between this variable and equity, it emerged that the relationship was weaker than that for any of the other variable pairs examined in this proposition, although still significant.

On account of the relationships that emerged in respect of these data, proposition 5 is regarded as valid.

5.3.3. Efficacy

Efficacy is the extent to which the compensation system meets its overall objectives. Managers' overall perceptions of the efficacy of the compensation systems were tested by the inclusion of a direct question in this regard (section 3, question 13). Half of the respondents perceived the system as aligning management efforts in the achievement of organisational objectives. Six percent of respondents strongly agreed, whereas 44% agreed with the statement. Twenty eight percent expressed a neutral opinion, with 21% disagreeing and 1% strongly disagreeing. This is summarised below:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
Total package is an effective means of aligning management effort in the achievement of organisational objectives	1%	21%	28%	44%	6%

Two research propositions regarding efficacy of the total package system were postulated. Proposition 6 examined the relationship between the efficacy of the system and the extent to which it was perceived as motivating the improvement of individual performance. Proposition 7 examined the relationship between the perceived efficacy of the system

and the extent to which it was perceived as rewarding the achievement of business objectives.

Proposition 6: Management perceptions of the efficacy of the new compensation system will differ according to the extent that it is regarded as motivating them to improve their individual performance

Compensation is not the only motivator that drives individual performance. It is, however, regarded as one of several key factors that motivate an improvement in performance.

Proposition 6 was explored by posing questions that dealt with the extent to which total package was perceived as motivating the improvement of individual performance and the effect of respondents' contribution to organisational performance on their total packages. A question was also asked regarding the flexibility provided by package to allow individuals to meet lifestyle requirements.

Over half of respondents (51%) indicated either agreement or strong agreement with the statement that the total package system gave them flexibility to structure their packages to meet lifestyle requirements. This is in contrast to 26% who indicated either disagreement or strong disagreement. Twenty four percent of respondents indicated a neutral opinion. This is of interest because despite 92% of respondents having had concerns that the company does not do enough to make the total package more tax effective, managers seemed positively disposed to the flexibility granted by package.

Sixty six percent of respondents perceived that their individual contribution to Business Unit and Group results had an impact on their level of compensation. This is in contrast with 22% who either disagreed or strongly disagreed. Twelve percent expressed a neutral opinion.

Respondents were less positive about the extent to which **changes** in their contribution to organisational success would influence their total package.

Only 46% agreed or strongly agreed with the statement. Thirty five percent either agreed or disagreed, while 18% of respondents expressed neutrality. Possibly linked to these responses were responses to the question dealing with the extent to which total package allows for sufficient differentiation between people with different levels of performance. Forty percent of respondents either agreed or strongly agreed that there was sufficient differentiation, whereas 38% either disagreed or strongly disagreed.

Respondents were asked whether they perceived the current total package as motivating them to improve their performance. Only 30% of respondents agreed or strongly agreed, compared with 45% who either disagreed or strongly disagreed. It would appear, therefore, that the perceived lack of differentiation between different levels of performance may have had an impact on the extent to which total package is perceived as motivating improved performance.

Proposition 6 was further tested by examining the relationship between managers' perceptions of the efficacy of the system and a range of influencing variables. These variables were correlated with the question that dealt directly with the efficacy of the system. The correlation matrix is presented in Table 7:

Total package is an effective means of aligning management effort in the achievement of organisational objectives		
Correlated with:	Spearman's rank correlation co-efficient (R_s)	Reject H^0
The company's current total package approach motivates me to improve my performance	0.302	Yes
Changes in my contribution to organisational success have a direct effect on my total package	0.290	Yes
My level of compensation is determined by my individual contribution to Group and Business Unit performance	0.259	Yes
The company's approach to total package gives me the flexibility to structure my remuneration to meet my individual lifestyle requirements	0.176	Yes
I believe that the company's total package compensation system allows for sufficient differentiation between managers with different levels of performance	0.174	Yes

Table 7: Efficacy and Individual Performance

The relationships between the primary variable of efficacy and the influencing variables are all statistically significant. The strongest relationships emerged between the efficacy variable and those which dealt with respondents' contributions to group and business unit results, the extent to which changes in individual contribution impact on total package and the extent to which package is perceived as a motivator.

In examining these relationships, several trends emerge:

- Managers who perceived the total package system as being determined by individual contribution to group results and to business unit results were more likely to view it as an effective means of aligning management efforts behind the achievement of organisational objectives.

- Managers who perceived the total package system as being affected by changes in their contribution to organisational success were more likely to perceive that the system had greater efficacy.
- Managers who perceived the total package system as motivating the improvement of individual performance were more likely to perceive the system as being effective in aligning management efforts.

Although the relationships that give rise to these trends were relatively weakly defined, they are significant in terms of the *t* test. This supports the assumption made in proposition 6.

Proposition 7: Management perceptions of the efficacy of the new compensation system will differ according to the extent to which they identify the system as rewarding the achievement of business objectives

It was regarded as important that the total package system should align management performance behind business objectives. It was assumed that, should this occur, managers would perceive the system as meeting one of its key objectives.

It was assumed that if the total package system were to reward the achievement of organisational objectives, it would have to have had top management support. Two questions were asked to explore respondents' perceptions of this. Seventy two percent of respondents regarded the total package system as having top management support. Only 4% either disagreed or strongly disagreed with the statement. These outcomes contrasted with the respondents' perceptions of whether the Chief Executive takes an interest in the way that managers are remunerated: 41% of respondents agreed that this was the case. A further 36% of respondents were neutral on this question. It would appear that the perception was that whilst top management are supportive of the

introduction of package, there is little interest from the Chief Executive as to how the system is implemented.

Questions were posed exploring the extent to which Group and Business Unit performance determine individual compensation. Seventy one percent of respondents regarded their compensation as being determined by Group results, and 63% regarded Business Unit results as determining their compensation. In both cases, the level of neutral perception was low (8% and 13% respectively).

A question was posed to explore the extent to which the respondents perceived the total package system as rewarding behaviours that are in line with the achievement of the organisation's strategy. Forty seven percent of respondents agreed or strongly agreed with the statement, whereas 26% either disagreed or strongly disagreed. Twenty eight percent of respondents had a neutral perception. This seems to indicate that, at an individual level, total package may not be perceived as totally effective.

Proposition 7 was explored by correlating respondents' perceptions of the efficacy of the system with their perceptions of the extent to which the system rewards the achievement of organisational objectives. The correlation matrix is presented in Table 8 below:

Total package is an effective means of aligning management effort in the achievement of organisational objectives		
Correlated with:	Spearman's rank correlation co-efficient (R_s)	Reject H^0
Total package rewards behaviours that are in line with the achievement of the organisation's strategy	0.437	Yes
My level of compensation is influenced by Standard Bank Group performance	0.302	Yes
My level of compensation is determined by my Business Unit's performance	0.259	Yes
The Group Chief Executive takes an interest in the way in which employees are remunerated	0.232	Yes
I believe that top management supported the introduction of the total package system	0.150	No

Table 8: Efficacy and Achievement of Business Objectives

A relatively strong relationship was observed between efficacy of total package and the extent to which it rewards behaviours that are in line with the achievement of organisational objectives. Respondents who regarded the total package system as being successful in this regard were, accordingly, more likely to rate the system as more effective in aligning managerial efforts in the achievement of organisational objectives.

The relationship that emerged between efficacy and the impact of Group results in determining levels of compensation was stronger than that emerging between efficacy and the impact of business units' results. This could suggest that whilst employees are organised into business units, the identification with the overall group remains a key factor in terms of the definition of compensation levels.

Top management support for total package did not relate significantly to the perceptions of the efficacy of the total package system. Respondents who perceived the Chief Executive as taking an interest in the way they are

remunerated were, however, more likely to perceive the total package as rewarding the achievement of business objectives. This relationship was statistically significant. This could suggest that support is not sufficient – instead top management need to be interested in the total package system (perhaps interpreted as visible buy-in) for it to be positively perceived by the managers.

Proposition 7 is regarded as valid, because in spite of the relatively weak correlations between the primary variable and the influencing variables, most of the variables were significantly related to the primary variable.

The outcomes of this chapter are analysed in the following chapter in relation to the literature.

CHAPTER 6. INTERPRETATION OF RESULTS

6.1. INTRODUCTION

This study was conducted using a sample of 162 respondents, a considerably large sample. The sample was also selected using a random sampling method that ensured representivity, and accordingly the results discussed in Chapter 5 are regarded as representative of the perceptions of the population.

The purpose of this chapter is to determine the extent to which the research question was answered through the analysis of the research propositions. This chapter also examines the extent to which the outcomes of the analysis of the research propositions support the theoretical perspective provided in Chapter 2.

6.2. ANALYSIS OF THE RESEARCH PROPOSITIONS

This research was based on the assumption that total package compensation systems should be perceived to facilitate the alignment of employees behind organisational objectives (Armstrong, 1996), and to further act as a motivating factor to employees to improve and sustain high levels of performance (Armstrong and Murlis, 1994). Three primary variables were identified in the literature as being critical in ensuring that any new compensation system is able to achieve these objectives, namely:

- The fairness of the new total package compensation system (Armstrong, 1996)
- The equity of the new total package compensation system (Adams, 1964)
- The efficacy of the new total package compensation system (Lawler, 1990)

These primary variables were examined in respect of a total package compensation system. The research propositions were posited with a view to identifying the factors that influenced respondents' perceptions of these primary variables.

6.2.1. Identifying the Predictors of Fairness, Equity and Efficacy

The outcomes of the research, as described in Chapter 5, were examined with a view to identifying the predictors of the fairness, equity and efficacy of the compensation system. These were derived by examining the correlation matrices, and identifying between two and five overarching themes that emerge for each proposition, based on the relationships that emerged between the primary variable, and the influencing variables. These themes are presented in this chapter, in the discussion of the respective propositions.

6.2.2. Fairness

Jacques (1961) indicates that for a compensation system to be fair, it has to be perceived as fair by the employees to whom it applies. The perception of fairness is regarded as being influenced by a number of separate issues: involvement in the design of the compensation system (Bowe, 1997) and understanding of the system (Armstrong, 1996). As the introduction of a new compensation system marks a change from the familiar, it can be regarded as a change management issue (Armstrong, 1996). As a change of this nature represents a considerable departure from the traditional base pay plus add-on fringe benefit approach which is likely to be more difficult for longer serving employees to embrace. Accordingly, factors surrounding length of service were also contemplated as possibly influencing perceptions of the fairness of the system (Drucker, 1988).

The spread of responses to the direct question regarding the perceptions of fairness is summarised below:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The total package approach to managerial compensation is fair	4%	20%	27%	47%	1%

The responses indicate that employees typically perceive the total package system as fair, with almost half of the respondents agreeing with the statement. Almost a quarter of respondents do not, however, perceive the system as fair.

Fairness: Analysis of the Research Propositions

Three research propositions were posited in respect of the fairness of the compensation system.

Proposition 1: Management perceptions of the fairness of the new compensation system will differ depending on the extent of their involvement in determining the compensation system

The analysis of this proposition in Chapter 5 using the methodology described in 6.2.1 identified several involvement-related factors that could be regarded as predictors of perceptions of fairness. The predictors that were identified by examining the research outcomes presented in Table 1, Chapter 5 are:

- *Involvement in decisions regarding how one is remunerated*

Involvement in how one is remunerated is regarded as critical. According to Bowey (1997) involvement ensures that employees are committed to the new system. Hawk (1995) indicates that involvement in decisions about how one is paid brings about a greater quality of acceptance of the change. The literature base therefore supports this outcome.

A further predictor of fairness, namely consultation regarding how one is remunerated, is also examined under this predictor, and is regarded as a sub-set thereof. Consultation should not be regarded as the surrendering of managerial prerogative: instead, it is bringing about fair process by pursuing the best ideas, whether they are put forward by individuals or groups of employees (Chan Kim and Mauborgne, 1997). This further supports the validity of this proposition.

– *Involvement in the design of the total package*

According to the literature, involving employees in the design of a total package system ensures that account is taken of employee diversity when considering the design options. This is critical in a geographically diverse operation, where options appropriate to corporate headquarters staff may not be relevant to those in other geographic locations (Gedvalis, 1997).

– *Involvement in the decision to implement total package*

Successful change efforts involve the implementers in planning and carrying out change (Roberts and Friedman, 1991). The literature further indicates that involving employees in the decision to implement a new compensation system exposes the employees to the benefits of the new system, enabling them to buy-in to the new terms (Strebel, 1996).

– *Open disclosure of administrative procedures*

The literature indicated that access to information about how the system works is critical. This is referred to by Chan Kim and Mauborgne (1997) as "expectation clarity", where the new rules following the change are communicated. This ensures that employees are aware up-front of what is expected of them and what standards are to be followed.

The literature supports the research findings for proposition 1. The proposition is therefore regarded as valid.

Proposition 2: Management perceptions of the fairness of the new compensation system will differ according to the extent to which they understand the new system

Understanding a new total package system is regarded as a key determinant of fairness (Armstrong, 1996). Employees should understand how the various parts of the system operate, and how they can be affected by these (Armstrong, 1996). This is elaborated by Chan Kim and Mauborgne (1997), who indicate that explanation of the new system ensures that those involved understand the system, and that they have confidence that the issues have been appropriately considered before implementation.

Several predictors of fairness that relate to the respondents' understanding of the total package system were identified in the analysis of the data in Table 2, Chapter 5. These were then grouped into themes, and are identified as follows:

- *Access to information to make personal choices about total package*

Access to information regarding total package at the time it was implemented to enable respondents to make personal choices about their package emerged as the strongest predictor of perceptions of fairness. This is supported by the views of Roberts and Friedman (1991) who indicate that access to information reinforces the change and ensures that employees believe that the change is real and happening. This is further reinforced by Armstrong (1991), who states that employees must have access to the relevant information to make personal choices

about the most appropriate cash:benefit mix, to ensure that the total package system meets their particular needs.

Managers who understand their compensation system are likely to be able to explain it to others. The research indicated a significant relationship between those who felt able to explain the system and perceptions that the system was fair. This means that in implementing the total package system, it is not sufficient to simply explain how it links to organisational strategy. Instead, a successful change programme must ensure that the passion and energy of employees is enlisted to support the new strategy. This is achieved through the creation of strong emotional bonds between employees and the organisations' mission (Trahan et al, 1997). This implies that employees have to truly buy in to the system to fully understand it and be able to explain it to others.

A strong negative correlation emerged between the extent to which respondents felt that their total package was unfairly inflated by the inclusion of fringe benefits also suggests that there may also have been some shortcomings in the access that employees had to information. This was further elaborated in the responses to the open ended questions where respondents indicated that they would have liked greater personal attention in the form of briefings and seminars, as well as personal consultations to better understand the system. These interventions are confirmed as being necessary by Roberts and Friedman (1991), who indicate that interactive forums are the most appropriate way of achieving employee understanding. This is preferred over broad-based organisational memoranda and bulletins.

- *An understanding of policies and procedures governing the operation of total package*

A significant relationship was identified between an understanding of the policies and procedures governing the operation of total package and perceptions of fairness. This outcome is supported by Armstrong (1996) who indicates that in order for any compensation system to be fair and to be *seen to be fair*, the system must be transparent. Further, employees need to know how the system operates and how they personally can be affected by the system in order for it to be perceived as fair.

- *Successful contextualisation of the change*

The research showed that where managers perceive that there is too much other change occurring at the time that a total package system is implemented, they are less likely to perceive the system as fair. Armstrong (1996) notes that the introduction of a new compensation system requires considerable management of the effects of change on affected employees. Trahan et al (1997) elaborate, stating that for broad based organisational change to be successful, the change must be dealt with in terms of the macro-level driving factors of change, as well as the organisation's internal structure. Where a number of other significant changes are taking place in the organisation, both at the macro- and micro level, it is important to situate the change to the compensation system within the broader change process, to enable managers to fully understand the whole change programme. Doing so will result in managers having a greater understanding of the change to the compensation system, and will lead to the increased potential that the system will be regarded as fair.

These factors all indicate that respondents' understanding of the total package system is critical if the total package system is to be perceived as fair. Based on the discussion above, it is apparent that the theory supports the proposition that managers who understand the new total package compensation system are more likely to perceive it as fair.

Proposition 3: Management perceptions of the fairness of the new compensation scheme will differ according to their length of service in the organisation

The introduction of a new managerial compensation system represents a fundamental change in the way in which the relationship between the employer and its management is managed (Armstrong, 1996). Where this change represents a dramatic departure from the way in which the organisation is accustomed to managing, longer serving managers are likely to perceive that their status is threatened (Drucker, 1988). This is greatly exacerbated by changes in the way organisations are resourced (McKinsey and Company, 1997), where middle management layers are under threat.

It was upon the basis of this theory that Proposition 3 was posited. The research found that status-related issues did affect management perceptions of the fairness of the total package system. These issues related particularly to the effect of performance on fringe benefits and the extent to which total package diminishes the manager's status and standing amongst peers. Of interest, however, is that length of service was found to have no significant effect on these perceptions, or on the perceptions of the total package system as fair.

This finding is perhaps attributable to the age distribution of respondents, as shown in Figure 2. The modal age of respondents was 36 years, and the distribution of ages was right skewed, indicating a greater proportion of younger managers in the sample. Many of these managers may fall into the category defined by Healy (1998) as the Generation X-ers, who

are likely to be more at ease with the changed employee value proposition that total package compensation systems represent. They are likely to be more comfortable with greater self-management of compensation, and of the relationship between themselves and the organisation. This is influenced by the fact that they may not be bound to a hierarchical management style that equates status with hierarchical level. Rather, they would equate the level of compensation to the level of contribution that the manager makes (Armstrong, 1996).

The research findings (Table 3, Chapter 5) are not congruent with the indications provided by the theory base that length of service will be a predictor of perceptions of the fairness of a new compensation system. The proposition is accordingly not supported for the purpose of this research.

Summary: Predictors of Fairness

The interpretation of the 3 propositions that examined perceptions of fairness of the compensation system has revealed the following items that predict fairness:

Employee Involvement in decisions regarding individual remuneration and in the design and implement of the compensation system. Disclosure of the administrative procedures governing the system is also critical.

Employee understanding of the system, facilitated by access to information that informs personal choice about remuneration. Understanding the policies and procedures, as well as how the changing compensation system forms part of the more macro-organisational change process are also predictors of perceptions of fairness.

Length of service was found to have no significant impact on perceptions of the fairness of the compensation system.

These outcomes are important from a management perspective, in that employers will need to ensure employee involvement in the design and implementation of a total package system. This will, in turn, facilitate employee understanding of the system. These are critical factors if the system is to be perceived by employees as being fair.

6.2.3. Equity

Equity is achieved when employees are appropriately rewarded in relation to colleagues and in relation to the value of their individual contribution (Armstrong, 1996). By its very nature, the process of allocating rewards requires a measure of discrimination between those who make extra effort and those who do not. It is important, however, that pay should be perceived by managers to match the level of work and the capacity of the individual to do it (Jacques, 1961). Equity is, therefore, always a comparative process (Auxillium West, 1997). The spread of responses to the direct question on equity are presented below:

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The total package approach to managerial compensation is equitable	7%	29%	27%	36%	1%

The spread of responses to this question indicate a considerable division in managers' perceptions of the equity of the system. Whilst managers may perceive the system as fair (see 6.2.2), they appear to regard the equity of the system somewhat less favourably. This could be because fairness involves an individual perspective, whereas equity requires a comparative view of one's circumstances in relation to those of others.

Equity: Analysis of the Research Propositions

Two research propositions were posited in terms of the perceptions of the equity of the total package system.

Proposition 4: Management perceptions of the equity of the new compensation system will differ according to the extent to which it is regarded as rewarding them for individual efforts

Rewarding managers for their individual efforts is a major thrust of the “new pay” philosophy advanced by Lawler (1990). In terms of this philosophy, people should be paid in accordance with their value in the market, and in relation to their knowledge, skill and overall contribution (Armstrong, 1996).

The research identifies three individual-related predictors of management perceptions of the equity of the new total package system (derived from Table 5, Chapter 5). These are discussed in relation to the theory base presented in Chapter 2.

- *Total package providing a positive indication about an individual's worth to the organisation*

The strongest relationship identified in the research under this proposition was that between perceptions of equity and the extent to which package provides the individual manager with a positive indication of his/her value to the organisation. The importance of this is confirmed in the literature, with compensation being regarded as an element of organisational communication, which should convey the right messages about organisational values, performance expectations and standards (Schuster and Zingheim, 1992). It therefore follows that if employees are acting in accordance with the organisation's values, and are performing in terms of the required standards, then pay should give positive indications of individual value to the organisation.

Pay is regarded as having a symbolic component. In signalling who and what in organisations are valued, compensation helps to reflect and create organisational culture (Pfeffer, 1998). Managers'

perceptions that their compensation gives them a positive indication of their value to the organisation and its emergence as a predictor of perceptions of equity therefore suggests that managers are becoming more favourably disposed to the new employee value proposition, and the changed organisational culture that this represents.

– *Ensuring tax efficiency in the implementation of the total package system*

High taxation levels remain a problem in South Africa, with the bulk of the tax burden falling on the middle and upper income earners (Preece, 1998). It is therefore understandable that management level employees will seek tax relief through planning opportunities that may arise in their compensation. Indeed, Armstrong and Murlis (1994) identify enhanced tax planning opportunities as a desired outcome of any compensation system. This therefore supports the identification of tax efficiency in the research as a predictor of perceptions of equity.

The emergence of tax efficiency as a predictor of perceptions of the equity of the total package system is regarded as a *negative* outcome. This is because many of the tax planning advantages identified by respondents are not permitted in terms of the Income Tax Act (Urquhart, 1997), or are contrary to practice notes or rulings issued by the Commissioner for Inland Revenue. These factors are beyond the control of employers and poses an ethical dilemma for the planners of compensation systems: either one complies with the tax legislation and risks having the compensation system perceived as inequitable, or one enters into illegal practices. Clearly the former option is the only one available to organisations, which are at risk of penalties and interest on unpaid employee's tax should these practices be discovered by the Revenue authorities.

This outcome points to an important issue about the understanding that respondents have of the total package, as discussed under proposition 3. Taxation is such a critical determinant of take-home pay and it is critical that the education process regarding any new total package system should include presentations on the relevant tax legislation.

- *Making compensation dependent on individual contribution to business results*

In signalling what is important in organisations, top management must ensure that the messages sent by a pay system are intended (Pfeffer, 1998). Although a weak relationship was found to exist in the research between perceptions of the equity of the system and the extent to which it rewards individual contribution to business result, the relationship was statistically significant. The identification of individual contribution to business results as a predictor of perceptions of equity is accordingly regarded as positive, as it suggests a link between individual performance and reward. This also confirms Armstrong's (1996) views that equity is achieved when managers are appropriately rewarded in accordance with the value of their contribution.

The literature supports the finding of the research in terms of individually-related predictors of the equity of a total package compensation system. Proposition 4 is therefore regarded as valid for the purposes of this research.

Proposition 5: Management perceptions of the equity of the new compensation system will differ according to the extent to which managers regard their compensation as determined by their contribution in relation to that of others

Equity involves a comparative process (Armstrong, 1996), which takes place in relation both to the relative value of the individual's contribution (Jacques, 1961) and the extent to which they perceive themselves as being equitably treated in the application of the system (Armstrong, 1996). Proposition 5 sought to identify the predictors of equity that were related to this comparative process. These are summarised from Table 6, Chapter 5:

– *Uniform application of total package policies and procedures*

The research showed that uniform application of total package policies and procedures was the strongest predictor of perceptions of the equity of the total package system. Although Jacques (1961) indicates that knowledge about standards is unconsciously shared amongst the employee population, with employees knowing what is expected of them, it is regarded as critical that this is made evident through the clarification of the expectations (Chan Kim and Mauborgne, 1997). This is referred to by Armstrong (1996) as consistency. He indicates that any pay system should facilitate consistent decisions about individual pay levels, and that this should be facilitated by policies that are accessible to line management. These policies may enable flexibility around how pay is delivered, but there must be consistency around the outcome. This implies that policies and procedures should be uniformly applied in terms of the final outcome, which supports the research findings.

– *Ensuring personal responsibility for own pay*

Armstrong and Murlis (1994) identify greater responsibility by employees for management of their own remuneration as a desired outcome of any compensation system. This responsibility is manifested in a number of ways. It relates to the self-management of the compensation mix (Armstrong, 1996), in that total package provides an opportunity to structure compensation to meet lifestyle requirements (Armstrong, 1991).

This confirms the findings of the research, in that significant relationships were identified between perceptions of the equity of the system and:

- the flexibility to make choices about compensation that is provided by total package
- the extent to which changes to contribution have a direct impact on total package.

This may not appear to be related to the comparative process. Improvements in overall total package levels will, however, allow managers greater scope for structuring compensation to meet their lifestyle requirements.

– *Comparative pay for comparative contribution at the same level*

A significant relationship emerged in the research between perceptions of the equity of the total package system and perceptions of comparability of compensation for similar levels of contribution. This finding is supported by Armstrong's (1996) that equity will be achieved when employees are rewarded in relation to their colleagues and in accordance with the value of their contribution.

The literature supports the finding of the research in terms of the comparison-related predictors of the equity of a total package

compensation system. Proposition 5 is accordingly regarded as valid for the purposes of this research.

Summary: Predictors of Equity

Two major areas that predict perceptions of the equity of a total package compensation system are identified in the analysis of the propositions regarding equity. These are:

Reward for individual effort. This includes ensuring that the compensation system provides a positive indication of the manager's worth to the organisation, and that compensation is dependent on individual contribution to business results. Ensuring tax efficiency in the design of the system also predicts perceptions of the equity of the compensation system.

Broad comparability of reward for equal effort. This includes ensuring that total package policies and procedures are uniformly applied and that individuals have personal responsibility for their own pay. Ensuring that there is comparative pay for comparative contribution is also critical.

Equity is an important consideration in the design and implementation of a total package compensation system. This is not to say that all managers across an organisation at a similar level should receive similar levels of pay, as this fails to take account of the pay differentials that apply to different professions or types of work. What is critical, however, is that managers performing a similar type of work in a functional area and at the similar level should be remunerated within a similar pay range. The major differentiator in terms of pay should be the extent to which some managers make a greater overall contribution to the success of the business than others.

6.2.4. Efficacy

The world of work is changing from a hierarchical structure to flatter, more devolved structures (Kanter, 1989), with a changed employee value proposition (Drucker, 1988; Reich, 1991). The emphasis of work is also changing, with a greater focus emerging on how people do their work (competencies, skills and behaviours) rather than on tasks (Towers Perrin, 1996). Within this context, it is critical that compensation systems facilitate employee motivation and align employees behind the achievement of organisational objectives (Armstrong and Murlis, 1994). The distribution of responses to the direct question dealing with the perceptions of the total package system's efficacy is presented below:

	SD	D	N	A	SA
Total package is an effective means of aligning management effort in the achievement of organisational objectives	1%	21%	28%	44%	6%

Efficacy: Analysis of the Research Propositions

The extent to which total package system is regarded as effective is influenced by the achievement of these two objectives. Propositions 6 and 7 explored this issue in terms of the extent to which perceptions of the motivational impact of the system and reward for contribution to organisational success predict perceptions of equity.

Proposition 6: Management perceptions of the efficacy of the new compensation system will differ according to the extent that it is regarded as motivating them to improve their individual performance

As the demographics of staff complements in organisations change, the notion of motivation to improve individual performance becomes more critical. This is because of the advent of the Generation X-ers who join the workforce with very different expectations of their career paths within the organisation. They perceive that they work for themselves rather than for the organisation, and the notion of loyalty becomes less

important (Healy, 1998). Motivation to improve individual performance becomes critical in this context.

The research identified a number of motivation-related predictors of perceptions of total package efficacy (Table 7, Chapter 5). These are:

– *The motivational effects of total package*

The strongest relationship identified in the research under this proposition was between the perception that total package motivates the improvement of individual performance and the extent to which total package was an effective means of aligning management efforts. This led the researcher to consider the origins of the motivational effect of total package.

Walleye and Szilagyi (1982) describe how compensation can act as a motivator. It is an instrument that provides a valued outcome and also provides employees with an indication of their value to the organisation. It further serves as a tangible means of recognition, which can provide positive motivation (Flude, 1992). These factors are regarded as being influenced by several of the key consequences of implementing the total package system, which have been identified in the discussion of preceding propositions. In summary, total package is regarded as motivating the improvement of individual performance on the basis of the following:

- It allows employees to structure their compensation to meet their own lifestyle requirements (Armstrong, 1996)
- This enables employees to meet real needs, rather than those assumed by the organisation, therefore the employees desire the reward (Bowey, 1997)
- The growth of the reward base (that is, total package) leads to greater capacity to realise lifestyle requirements, and provides a strong signal about the manager's value to the organisation (Schuster and Zingheim, 1992).

Employees who are motivated by the compensation system are more likely to perform at a higher level since they will strive for the rewards of the improved performance (Biesheuvel, 1982). Provided that contribution towards organisational objectives has been built into individual performance standards, improved individual performance will contribute to the organisational objectives (Lawler, 1990). It follows that these managers will be more focused on the achievement of organisational objectives in order to obtain the rewards. The theory base therefore supports this particular research finding.

- *The relationship between changes to contribution and changes to compensation*

A key feature of expectancy theory is that there must be a clear link between extra effort and extra reward (Armstrong and Murlis, 1994). This supports the findings of the research, which showed that where managers were positive about the extent to which they were paid for performance, they were more likely to regard the system as an effective means of aligning management effort in the achievement of organisational objectives. The factors that define perceptions of pay for performance were all found to significantly relate to perceptions of total package efficacy.

Bowey (1997) refers to pay for performance as “reinforcement”, where employees are aware of the employer’s interest in performance and therefore learn how to earn the desired rewards. She adds that this is a critical factor in retaining employees in organisations. The finding that pay for performance is a predictor of total package efficacy is accordingly supported by the literature.

The literature supports the research findings in terms of the individual motivation related predictors of the efficacy of a total package compensation system. Proposition 6 is accordingly regarded as valid.

Proposition 7: Management perceptions of the efficacy of the new compensation system will differ according to the extent to which they identify the system as rewarding the achievement of business objectives

There is an increase in emphasis placed by organisations on overall contribution to organisational success (Ulrich, 1998). In order to reward the achievement of business objectives, pay systems must also flow from overall business strategy (Lawler, 1990). Several themes emerged in the research regarding total package and reward of the achievement of business objectives. These are derived from Table 8, Chapter 5.

– *Linking compensation to business performance*

Significant relationships were found in the research between perceptions of total package efficacy and the extent to which business success determines compensation levels. This related to both overall company results and unit-specific results.

The importance of linking compensation to business results is confirmed by Pascale et al (1997). They indicate that a line of sight needs to be created between overall strategy and individual performance, by “building an intricate understanding of the business” (p136). Roberts and Friedman also indicate that employee performance objectives should be heavily weighted with contribution to organisation strategy, as this keeps employees focused on the critical success factors of the business.

Rewarding *behaviours* that are in line with the achievement of organisation strategy was the strongest predictor of the efficacy of the total package system. This finding is supported by Roberts and Friedman (1991) who indicate that in any change process (such as the introduction of a total package system), it must be ensured that the appropriate behaviours are encouraged. This also ensures that

the correct messages regarding the importance of corporate performance are being sent via the compensation system (Pfeffer, 1998).

– *Securing top management buy-in and support for the system*

Top management support for and interest in the compensation system and how it affects employees related to the extent to which managers perceived the system as aligning management efforts. In this regard, a stronger relationship emerged between total package efficacy and the extent of Chief Executive interest in the way in which employees are remunerated.

This outcome is supported by Roberts and Friedman (1991) who indicate that top management must demonstrate their commitment to the change by maintaining a sense of urgency and by focusing on continuous improvement. Top management also need to model the behaviours and priorities needed by others to ensure that the change is supported. It follows that if top management is indifferent to the system, managers will find it difficult to make the link between the total package system and its capacity to align management efforts behind corporate strategy.

Strebel (1996) elaborates further, indicating that top management must buy into and support the new compensation system, as they will need to define and market the benefits of the new system to their subordinate managers. Where there is little true buy-in and support from top management, total package can become nothing more than a pay delivery and administration method, rather than a strategic lever in aligning management efforts behind organisational performance. Top management buy-in and support is therefore a key predictor of total package efficacy.

The outcomes of the research related to proposition are confirmed by the literature. Proposition 7 is therefore regarded as valid for the purpose of this research.

Summary: Predictors of Efficacy

The interpretation of the research identifies two major areas that predict perceptions of the efficacy of a total package compensation system. These are:

Total package as a motivator, in terms of ensuring the motivation to improve individual performance by delivering rewards that are desirable to managers. These will make the extra effort required to achieve the reward worthwhile. Further, consistent extra effort should be accompanied by a commensurate increase in compensation. This broadly refers to an aspect of true pay for performance.

Reinforcement of the achievement of business objectives by ensuring that compensation is linked to business goals, and that top management visibly support the introduction of the total package compensation system.

Compensation should meet both individual and corporate needs. It is therefore critical that there is alignment of purpose in terms of individual and business goals. In this regard, it is critical in the design of a total package compensation system that the behaviours for which individual managers receive rewards are the same behaviours that bring about increased competitive advantage to the company. There must therefore be alignment between the setting of business goals and individual goals.

6.3. CONCLUSION

A reward strategy represents a plan of action for the way that an organisation directs and invests its resources to reinforce desired

behaviours. It provides a framework for determining how and where to invest reinforcement dollars (Wilson, 1995).

Total package is a reward programme that forms part of an overall strategy, and it is critical in implementing and maintaining the total package system that the programme is supportive of overall organisational objectives. Effectively designed reward programmes can also support, if not lead, change efforts in organisations (Wilson, 1995).

This chapter has identified the predictors of the fairness, equity and efficacy of a total package remuneration system. These predictors warrant careful consideration by remuneration professionals, to ensure that the introduction of a total package systems supports rather than confounds the achievement of organisational objectives.

The conclusions that can be drawn from this study, as well as the identification of recommendations and further research are outlined in Chapter 7.

CHAPTER 7. CONCLUSIONS AND RECOMMENDATIONS

7.1. INTRODUCTION

This chapter consolidates the findings of the research into a number of critical learning points for consideration by both the compensation professionals and executive management who may have a role in the implementation of total package systems in their organisations. These will be used to create a process model for use in implementing a total package compensation system. A number of recommendations based on this model are presented, to ensure that the process of implementation of the system and the system itself facilitate the achievement of business objectives. In the last section of this chapter, the research conclusions will be outlined. This will bring the research study to closure.

7.2. SIGNIFICANT LEARNING POINTS FROM THE STUDY

This research appears to have confirmed the theory and assumptions surrounding the introduction of a new compensation system in such a way that it is perceived as fair, equitable and as reinforcing the achievement of business objectives. This is of particular value, in that there is not a great deal of literature available on the introduction of a total package compensation systems. It is, therefore, regarded as positive that the general principles applicable to the introduction of a new compensation system can be generalised to the introduction of a total package system.

Numerous South African companies have introduced total package compensation systems (JCI/Old Mutual, 1997), and many more are currently considering this as an approach to managerial compensation for the future. This research is therefore useful, in that it can highlight for both the compensation professionals and the line executives of

these organisations the issues to consider in implementing a new compensation system. The learning points are:

Synergy between organisational needs and individual needs

The literature identifies that a key consideration in implementing a total compensation system from an organisational perspective is that the system should ensure value for the employer's money (Marmer Solomon, 1998). This enables employers to define the real cost of employment (Armstrong and Murlis, 1994). This needs to be balanced with the individual manager's desire for flexibility to meet lifestyle requirements, tax efficiency and control over choices regarding remuneration. These factors emerge in the research data as being critical in ensuring that the total package system is positively perceived in terms of fairness, equity and consistency.

Total package provides this opportunity, although there are statutory requirements, most notably the Income Tax Act, which regulate the extent of the flexibility and tax efficiency available to managers. This particular issue, of what is legally permitted and what is not relates to the next learning point identified. The data seems to indicate a low degree of knowledge amongst managers in respect of this particular aspect.

Top Management Support as the Driver of Change

Top management set the strategic direction for the organisation. Reward is a key lever in aligning employees behind the achievement of organisational objectives, and can be a catalyst in the change process by bringing about significant culture change. Accordingly, top management must visibly and actively support the introduction of the total package system, to ensure that managers perceive it as part of the organisation's overall strategy. Failure to achieve this may result in the total package system being perceived

as nothing more than an administrative pay delivery system, rather than as a strategic imperative that is designed to motivate managers and facilitate the achievement of business objectives. The importance of visible and sustained top management support for the compensation system is confirmed in the data.

The Criticality of Employee Involvement

Managers as employees of the organisation are key stakeholders in the introduction of the total package compensation system. Aside from the legislative requirements imposed by the Labour Relations Act (1995) regarding consultation about changes to terms and conditions of employment, there are sound business reasons for doing so.

Involving managers in the decision to implement package enable the organisation to secure employee buy-in, and to consider possible suggestions about what should be included in the total package design. This ensures that the options meet real, rather than assumed needs of the managers concerned. The data confirms a link between employee involvement in the design and implementation of the system. Involvement is a predictor of perceptions of fairness, but the data goes beyond this, showing that it facilitates the inclusion of relevant compensation choices in the total package compensation mix.

Involvement ensures that managers are able to understand how the change to the compensation system is linked to the overall business strategy of the organisation. This gives managers the opportunity to modify their behaviours to ensure that these support the achievement of business objectives, as managers will be aware of the organisation's expectations in this regard. This is also greatly assisted by effective communication programmes. In this regard, the data shows that linking the level of compensation to the

achievement of individual and business performance is a predictor of the efficacy of the system.

The Importance of Effective Communication

The data identified a critical need for communication with managers before, during and after the implementation of the total package compensation system. This facilitates managerial understanding of the system, which ensures that these managers are more likely to buy-in to the introduction of the system. It also ensures that they will take responsibility for their compensation, as a result of understanding what is expected of them.

A critical factor in the communication process is a clear description of the roles of all stakeholders in the total package system. Whilst there is often considerable attention on what the respective roles of employees and individual managers are, there does not appear to be considerable emphasis on the role of government. This is regarded as a significant omission, because changes to legislation can have a material impact on managers' take-home income. A major area of influence in this regard is tax legislation. It is accordingly regarded as critical that an overview of the tax implications of the various options provided under total package is provided to managers to enable them to consider these options effectively, since the data shows a lack of knowledge in this area amongst managers. Responsibility for tax structuring and for the choice of options must, however, rest with managers, possibly under the advice of independent tax advisors. The importance of independent tax consultants was also confirmed in the data.

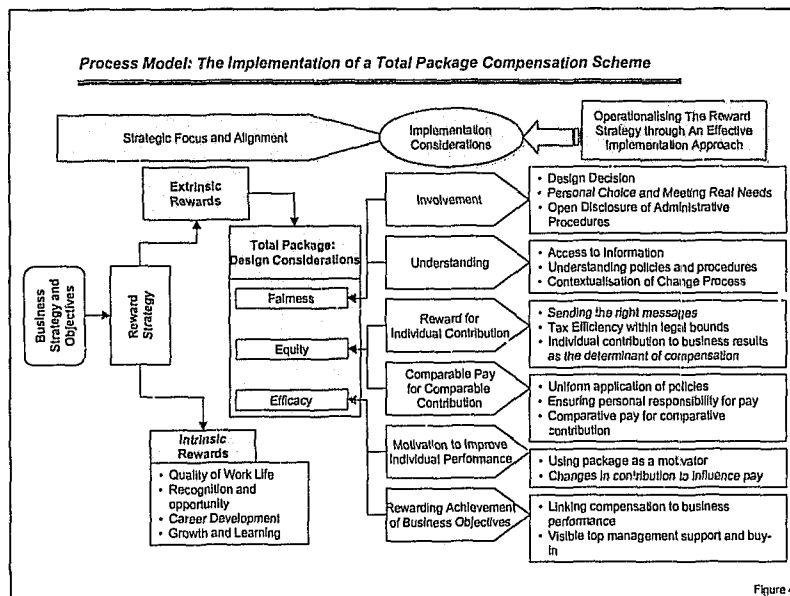
Linking Compensation to Business Results

Total package must be linked to business results. This highlights the need to identify key performance areas in terms of business

objectives, and to then reward appropriately the achievement of these. This ensures the alignment of organisational intellectual capacity with key strategic deliverables. In this way, the organisation sends strong messages about the types of behaviour that are valued, and adequately rewards this behaviour. It also ensures that the organisation retains focus, as the internal management systems are sufficiently synergised to enable delivery around key business objectives.

7.3. PROCESS MODEL

The research finding and the identification of the key learning points have led to the creation of the following process model for the implementation of a total package compensation system:



The model was derived by examining the introduction of a total package system from two perspectives: what it should seek to achieve, and how it should be implemented. The issues represented on the left of the model provide guidance on linking the compensation system to the overall mission and vision of the organisation via the mechanism of the organisation's reward strategy. The reward

strategy should focus on extrinsic rewards, as well as intrinsic rewards, to ensure the introduction of a total rewards philosophy that acknowledges that there is considerably more to the world of work than the salary that managers draw. Since the research study focused on the extrinsic elements of the compensation system, these were expanded to examine the design considerations for those seeking to introduce a total package compensation system, namely fairness, equity and efficacy.

Executives and compensation specialists can facilitate the realisation of these design considerations by ensuring that the total package system is properly introduced into the organisation. This is achieved through careful consideration of the implementation considerations outlined in the centre of the model. These factors were initially identified in the literature review conducted for the study, and were confirmed in the analysis of the research data. The various implementation considerations will determine the extent to which the managers or employees to whom the total package compensation system applies perceive the system as fair, equitable and as facilitating alignment of management or employee effort behind organisational objectives.

In order to ensure that the compensation system is favourably perceived, it is critical that the reward strategy is operationalised through the effective implementation of the total package compensation system. The research data highlighted a number of interventions or approaches that should accompany the design and introduction of the total package system. These are highlighted down the right of the model, and are the actual process issues that the implementation team should consider implementing when introducing a total package compensation system, since they ensure that the implementation considerations are actually realised in practice.

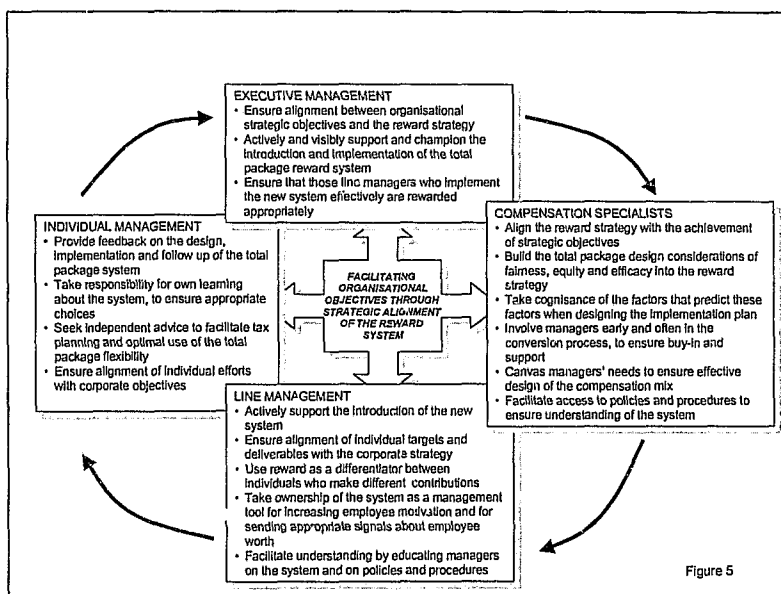
The model facilitates the introduction of a total package compensation system in a manner that ensures that the needs of both the organisation and the individual managers are taken into account. This enables the system to meet both the strategic objectives as set out in the reward strategy, and the individuals' objectives around pay such as greater flexibility. Accordingly, the model enables the achievement of a key objective of any compensation system: organisational and employee alignment (Armstrong and Murlis, 1991).

7.4. RECOMMENDATIONS

The implementation of a total package system is a process that involves a number of stakeholders within the organisation. These include:

- Executive Management
- Compensation Specialists
- Line Management, including Human Resources Generalists
- The Individual Managers

Each of these has a critical role to play in the implementation and sustenance of the total package system. Accordingly, a number of recommendations are posed to assist these stakeholders in the process of implementing total package. These are diagrammatically represented in Figure 5.



These recommendations are derived from the research data and relate to the entire process of introducing a total package compensation system, right from the strategic decision through design and implementation, to the follow-up on the effectiveness and ongoing relevance of the system, or parts of the system. The recommendations provide an indication of the accountabilities of the various stakeholders, as well as how they may best execute these accountabilities to ensure that the introduction of the total package compensation system facilitate the achievement of business objectives. Failure to achieve this will result in the total package system becoming nothing more than a pay delivery system, without any tangible link to the overall reward strategy, and beyond that, to the strategic objectives of the organisation. Should this occur, it represents a lost opportunity in terms of harnessing the transformation capacity of compensation and reward in the achievement of business objectives.

7.5. FUTURE RESEARCH

Previous research has been conducted in South Africa in the field of compensation. It is, however, a critical area of intellectual capital management in organisations, and one that is serviced by a relatively small group of compensation specialists. There are also certain specifically South African issues such as legislative and corporate governance requirements that mean that international compensation theory may not always be relevant. It would therefore be of considerable value if the body of knowledge regarding compensation and more specifically total package was broadened through research. Several prospects for additional research have been identified, with a view to prompting further exploration into various aspects of total package compensation.

This study focused on management perceptions of a total package system. Total package, whilst becoming the most prominent, is not the only remuneration system currently in use in South Africa. Many companies still use the traditional base salary plus add-on benefits approach; others employ a flexible compensation model which offers compensation choices within parameters more rigidly designed than those applicable to total package. A limited number offer a cash package approach, where the employee takes care of all benefits. It may be of some interest to do a similar exploration to this research study, but on a comparative basis across the various compensation systems. This will enable the determination of what predicts perceptions of equity, fairness and efficacy of the respective systems, and may provide useful overall guidelines for compensation professionals in this regard. A variation on this could be a comparative study of perceptions of managers of the relative fairness of the respective compensation systems.

This study was conducted from the individual managers' perspective, examining what predicts their perceptions of fairness equity and

consistency. There is scope for research of a similar nature, but from the employers' point of view. This will provide compensation specialists and executives with a different perspective of the issues related to the introduction of total package, and will ensure that the employers' position is fully considered in the design and implementation of total package systems.

This research expressly excluded the notion of variable or incentive compensation from the terms of reference used in the study. Variable compensation plans are, however, becoming increasingly common both in South Africa and globally. Research into the link between variable compensation schemes and employee motivation and performance will add significantly to the body of knowledge available in the compensation field, by expanding beyond total package to the concept of "total remuneration". Given that variable compensation plans place pay at risk in the event of non-performance, but provide significant opportunity for considerable growth in compensation levels if performance is outstanding, it will be of value to ascertain whether these are successful in increasing (and sustaining) employee motivation.

The issue of equity was examined in this study, and the notion of equal pay for equal contribution was alluded to. This is referred to as "internal equity", which has been a guiding philosophy of compensation design for decades. This study discussed internal equity within the context of comparison with peers in a similar area, however internal equity is often applied in a far broader sense. The notion of internal equity *within organisations* is becoming increasingly irrelevant in compensation design, because as organisations globalise and diversify, market demands place a higher premium on certain competencies. This results in higher pay for employees possessing those competencies, even though they may be adding similar value to the organisation as an employee in another discipline.

It may be of interest to explore the link between internal equity and employee motivation within large, multi-disciplinary organisations.

Research into these areas will assist to expand the body of local knowledge available to compensation professionals. This is regarded as essential given the key role that compensation plays in leveraging performance for the achievement of organisational objectives.

7.6. CONCLUSION

This research represents the only empirical study into managers' perceptions of a total package system in South Africa to date. It was conducted using a large, representative sample and it is believed that the results and findings can be generalised to managers in other organisations who have recently converted to a total package system.

The research adapted a generic theory base that is applicable to the design and implementation of compensation systems, making it specific to the design and implementation of a total package system. This has added to the available compensation knowledge base, and has provided South African compensation specialists with a local study from which to learn. The study therefore adds value to remuneration practice in South Africa, and will be of use to line management and to compensation specialists as the process model and subsequent recommendations may provide guidance on the design and implementation of the total package compensation system. The research also underscores the need for continuous review of the system to ensure that its various components remain relevant.

The study set out to answer the question: "Are total package compensation systems perceived to facilitate the alignment of employees behind organisational objectives, and further, are they perceived as a motivating factor to employees to improve and sustain high levels of performance?" The question has been answered by identifying the conditions under which this is likely to occur, in terms of

the equity, fairness and efficacy of the total package system. This provides useful pointers for the designers of compensation systems, enabling them to consider what total package compensation design criteria need to be in place to facilitate the achievement of business objectives.

The research outcomes are relevant to South African management, in that compensation is a key strategic lever in improving individual and organisational performance. The research has therefore fulfilled the objectives identified in Chapter 1 of this study.

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APPENDIX 1: LETTER TO RESPONDENTS

Dear Colleague

MANAGERS' PERCEPTIONS OF THE BANK'S TOTAL PACKAGE REMUNERATION SYSTEM

Approximately two years ago, the bank introduced the total package remuneration system for all managers, replacing the previous approach which consisted of a basic salary plus additional fringe benefits. The introduction of total package was met with mixed reactions by managers, with some favouring it whilst others would have preferred a return to the previous approach.

I am conducting research into Managers' Perceptions of the Bank's Total Package Remuneration System. This is being done as part of the course requirements for the Degree of Master of Management in Human Resources, for which I am registered at the Wits Business School, University of the Witwatersrand. The research is being conducted for the purpose of writing a research dissertation on the topic.

The bank is both aware of and supports the research as a means of ascertaining how managers perceive the total package system. A copy of the final report will be presented to the bank for its consideration.

I will be gathering data for the research by means of a questionnaire, which is being administered to a sample of 300 managers within the Bank. I have attached a copy of the questionnaire, which I would be most grateful if you could complete and return to me via the internal mail. A self-addressed envelope is provided for this purpose. Completing the questionnaire should take no longer than 15 minutes of your time, and I would appreciate if it could be returned to me by 16 October 1998.

Your name was randomly selected from a list of all managers within the Bank. There are no identifying codes or numbers on the questionnaire that has been provided to you, and the confidentiality of your responses is therefore guaranteed. Accordingly, please do not write your name or personnel number anywhere on the questionnaire.

There is no way that you can be individually identified by your responses to the questions. I would therefore ask you to be as honest as possible in your answers.

Thank you in advance for taking the time to complete and return the questionnaire.

CLINTON RODGERS
Remuneration

APPENDIX 2: RESEARCH QUESTIONNAIRE

QUESTIONNAIRE: MANAGERS' PERCEPTIONS OF THE BANK'S TOTAL PACKAGE REMUNERATION SYSTEM					
Please read the instructions provided for each section before answering the questions that follow.					
Section 1. Demographics					
1 Business Unit					
2 Age (Years)					
3 Length of service with the organisation (years)					
4 Length of service as a manager (years)					
For each of the following questions, please place a cross over the number that most represents your opinion. Please mark only ONE answer per question					
Section 2. Introducing a New Reward System					
Please consider how the bank went about introducing the total package approach to the remuneration of managers and answer the following:					
1=Strongly disagree 2=Disagree 3=Neutral 4= Agree 5 =Strongly Agree					
	SD	D	N	A	SA
1 I was involved in the decision to implement the total package system	1	2	3	4	5
2 I received enough information at the time total package was implemented to enable me to make personal choices about my total package	1	2	3	4	5
3 The bank's total package approach to managerial compensation is fair	1	2	3	4	5
4 I would be able to explain to a manager from another organisation how the bank's total package remuneration system works	1	2	3	4	5
5 There was too much other change in the organisation at the time total package was introduced for me to fully understand the change to total package	1	2	3	4	5
6 I believe that top management supported the introduction of the total package system	1	2	3	4	5
7 I was not consulted about the changes in the way I am remunerated	1	2	3	4	5
8 I understand the <u>policies and procedures</u> that govern how total package operates	1	2	3	4	5

9 I think the bank should have introduced the total package compensation system in the following way:					
Section 3. Current Compensation System					
Please consider the Bank's total package remuneration system <i>as it applies to you</i> , and place a cross over the number most representing your opinion of each question:					
1=Strongly disagree 2=Disagree 3=Neutral 4= Agree 5 =Strongly Agree					
	SD	D	N	A	SA
1 The Group Chief Executive takes an interest in the way in which employees are remunerated	1	2	3	4	5
2 My level of compensation is influenced by Group performance	1	2	3	4	5
3 My level of compensation is determined by my Business Unit's performance	1	2	3	4	5
4 My level of compensation is determined by my individual contribution to Group and Business Unit performance	1	2	3	4	5
5 Total package rewards behaviours that are in line with the achievement of the organisation's strategy	1	2	3	4	5
6 Status, as determined by my management level in the organisation, is important to me	1	2	3	4	5
7 The bank's total package approach to remuneration negatively affects my status and standing amongst my peers	1	2	3	4	5
8 I believe that the bank's total package policies and procedures are uniformly applied to all managers across the organisation	1	2	3	4	5
9 The bank's total package approach to managerial compensation is equitable	1	2	3	4	5
10 The administrative procedures used to determine my total package and increases are not openly disclosed.	1	2	3	4	5
11 I am not involved in the design of my total package	1	2	3	4	5
12 I believe that managers at different levels should be distinguished by the type of fringe benefits available to them	1	2	3	4	5
13 Total package is an effective means of aligning management effort in the achievement of organisational objectives	1	2	3	4	5
14 Fringe benefits should not be negatively impacted by my level of performance	1	2	3	4	5
15 I believe that the bank's total package compensation system allows for sufficient differentiation between managers with different levels of performance	1	2	3	4	5

16	The bank's approach to total package gives me the flexibility to structure my remuneration to meet my individual lifestyle requirements	1	2	3	4	5
17	I feel removed from decisions regarding how I am remunerated	1	2	3	4	5
18	The bank's current approach to total package ensures that managers take individual responsibility for their own pay	1	2	3	4	5
19	I think that the bank should have retained its previous approach to managerial compensation (i.e. base salary and additional fringe benefits)	1	2	3	4	5
20	My total package is inaccurate as it is unfairly inflated by the inclusion of various fringe benefits previously provided for by the bank	1	2	3	4	5
21	The bank does all it can to ensure that my total package is tax efficient	1	2	3	4	5
22	I would make the following changes to the bank's total package compensation system if I were the Group Chief Executive					

Section 4. Compensation and Motivation

Consider your own total package and answer the following:

1=Strongly disagree

2=Disagree

3=Neutral

4= Agree

5 =Strongly Agree

SD D N A SA

1	The flexibility of my total package allows me to make choices regarding different aspects of my compensation	1	2	3	4	5
2	Changes in my contribution to organisational success have a direct effect on my total package	1	2	3	4	5
3	My total package gives me a positive indication about my worth to the organisation	1	2	3	4	5
4	The bank's total package approach currently puts too much pressure on me to perform	1	2	3	4	5
5	I believe that my total package compares well with people at my level of management who make the same contribution that I do	1	2	3	4	5
6	The bank's current total package approach motivates me to improve my performance	1	2	3	4	5

Thank you for taking the time to complete this questionnaire.

Please place the completed questionnaire into the envelope provided, and place it in the Internal Mail for return

APPENDIX 3: MODAL VALUES OF QUESTIONNAIRE RESPONSES

KEY
SD= Strongly Disagree
D = Disagree
N = Neutral
A = Agree
SA= Strongly Agree

Section 2. Introducing a New Reward System		SD	D	N	A	SA
1	I was involved in the decision to implement the total package system	63%	26%	6%	3%	2%
2	I received enough information at the time total package was implemented to enable me to make personal choices about my total package	9%	25%	17%	45%	3%
3	The bank's total package approach to managerial compensation is fair	4%	20%	27%	47%	1%
4	I would be able to explain to a manager from another organisation how the bank's total package remuneration system works	11%	22%	19%	45%	4%
5	There was too much other change in the organisation at the time total package was introduced for me to fully understand the change to total package	9%	40%	13%	30%	2%
6	I believe that top management supported the introduction of the total package system	1%	3%	24%	55%	17%
7	I was not consulted about the changes in the way I am remunerated	4%	19%	11%	40%	27%
8	I understand the policies and procedures that govern how total package operates	7%	34%	19%	39%	2%
Section 3. Current Compensation System						
1	The Group Chief Executive takes an interest in the way in which employees are remunerated	5%	19%	36%	35%	6%
2	My level of compensation is influenced by Group performance	4%	17%	8%	60%	11%
3	My level of compensation is determined by my Business Unit's performance	6%	19%	13%	51%	12%
4	My level of compensation is determined by my individual contribution to Group and Business Unit performance	6%	16%	12%	53%	13%
5	Total package rewards behaviours that are in line with the achievement of the organisation's strategy	4%	22%	28%	43%	4%
6	Status, as determined by my management level in the organisation, is important to me	4%	19%	18%	45%	15%
7	The bank's total package approach to remuneration negatively affects my status and standing amongst my peers	8%	46%	24%	16%	6%
8	I believe that the bank's total package policies and procedures are uniformly applied to all managers across the organisation	6%	25%	25%	43%	2%
9	The bank's total package approach to managerial compensation is equitable	7%	29%	27%	36%	1%
10	The administrative procedures used to determine my total package and increases are not openly disclosed.	3%	18%	14%	43%	23%
11	I am not involved in the design of my total package	8%	36%	17%	25%	14%
12	I believe that managers at different levels should be distinguished by the type of fringe benefits available to them	5%	24%	17%	40%	14%
13	Total package is an effective means of aligning management effort in the achievement of organisational objectives	1%	21%	28%	44%	6%
14	Fringe benefits should not be negatively impacted by my level of performance	4%	27%	19%	41%	9%
15	I believe that the bank's total package compensation system allows for sufficient differentiation between managers with different levels of performance	9%	29%	22%	38%	2%
16	The bank's approach to total package gives me the flexibility to structure my remuneration to meet my individual lifestyle requirements	1%	25%	24%	46%	5%
17	I feel removed from decisions regarding how I am remunerated	1%	26%	19%	39%	14%
18	The bank's current approach to total package ensures that managers take individual responsibility for their own pay	3%	31%	20%	43%	4%

	SD	D	N	A	SA
19 I think that the bank should have retained its previous approach to managerial compensation (i.e. base salary and additional fringe benefits)	14%	39%	27%	14%	6%
20 My total package is inaccurate as it is unfairly inflated by the inclusion of various fringe benefits previously provided for by the bank	3%	25%	24%	31%	18%
21 The bank does all it can to ensure that my total package is tax efficient	92%	31%	21%	16%	1%
Section 4. Compensation and Motivation	SD	D	N	A	SA
1 The flexibility of my total package allows me to make choices regarding different aspects of my compensation	2%	19%	20%	57%	2%
2 Changes in my contribution to organisational success have a direct effect on my total package	6%	29%	18%	47%	1%
3 My total package gives me a positive indication about my worth to the organisation	10%	30%	19%	39%	2%
4 The bank's total package approach currently puts too much pressure on me to perform	9%	54%	26%	9%	1%
5 I believe that my total package compares well with people at my level of management who make the same contribution that I do	12%	29%	37%	22%	1%
6 The bank's current total package approach motivates me to improve my performance	10%	35%	25%	29%	1%

Author Rodgers C B

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